

# Internal Revenue Service

FY 2016

President's Budget

February 2, 2015



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# Internal Revenue Service

## Section 1 – Purpose

### 1A – Mission Statement

Provide America’s taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

### 1.1 – Appropriation Detail Table by Appropriation and Budget Activity

Dollars in Thousands

Internal Revenue Service Resources	FY 2014 Actuals		FY 2015 Enacted		FY 2016 Request		Change FY 2015 to FY 2016 Request		% Change FY 2015 to FY 2016 Request	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>										
<b>Taxpayer Services</b>	<b>28,535</b>	<b>\$2,145,195</b>	<b>28,274</b>	<b>\$2,156,554</b>	<b>31,285</b>	<b>\$2,408,803</b>	<b>3,011</b>	<b>\$252,249</b>	<b>10.65%</b>	<b>11.70%</b>
Pre-Filing Taxpayer Assistance and Education	5,219	595,168	5,373	626,510	5,813	682,753	440	56,243	8.19%	8.98%
Filing and Account Services	23,316	1,550,027	22,901	1,530,044	25,472	1,726,050	2,571	196,006	11.23%	12.81%
<b>Enforcement</b>	<b>42,119</b>	<b>\$4,914,497</b>	<b>40,564</b>	<b>\$4,860,000</b>	<b>44,800</b>	<b>\$5,399,832</b>	<b>4,236</b>	<b>\$539,832</b>	<b>10.44%</b>	<b>11.11%</b>
Investigations	3,581	601,740	3,425	602,298	3,931	713,282	506	110,984	14.77%	18.43%
Exam and Collections	37,409	4,154,342	36,104	4,104,453	39,692	4,513,376	3,588	408,923	9.94%	9.96%
Regulatory	1,129	158,415	1,035	153,249	1,177	173,174	142	19,925	13.72%	13.00%
<b>Operations Support</b>	<b>11,652</b>	<b>\$3,722,599</b>	<b>12,043</b>	<b>\$3,638,446</b>	<b>13,863</b>	<b>\$4,743,258</b>	<b>1,820</b>	<b>\$1,104,812</b>	<b>15.11%</b>	<b>30.36%</b>
Infrastructure		845,558		829,389		973,521		144,132		17.38%
Shared Services and Support	5,097	1,127,931	5,209	1,143,864	5,553	1,274,194	344	130,330	6.60%	11.39%
Information Services	6,555	1,749,110	6,834	1,665,193	8,310	2,495,543	1,476	830,350	21.60%	49.87%
<b>Business Systems Modernization</b>	<b>337</b>	<b>\$145,235</b>	<b>398</b>	<b>\$290,000</b>	<b>576</b>	<b>\$379,178</b>	<b>178</b>	<b>\$89,178</b>	<b>44.72%</b>	<b>30.75%</b>
<b>Subtotal New Appropriated Resources</b>	<b>82,643</b>	<b>\$10,927,526</b>	<b>81,279</b>	<b>\$10,945,000</b>	<b>90,524</b>	<b>\$12,931,071</b>	<b>9,245</b>	<b>\$1,986,071</b>	<b>11.37%</b>	<b>18.15%</b>
<b>Other Resources:</b>										
Reimbursables	619	97,840	730	119,000	768	127,000	38	8,000	5.21%	6.72%
Offsetting Collections - Non Reimbursables		31,073		33,100		33,075		(25)		-0.08%
User Fees <sup>1</sup>	1,151	419,145	191	462,360	191	450,360		(12,000)		-2.60%
Recovery from Prior Years		3,297								
Unobligated Balances from Prior Years <sup>1</sup>	339	241,022		408,926		385,763		(23,163)		-5.66%
Transfers In/Out <sup>2</sup>		17		7,561		(5,000)		(12,561)		-166.13%
Resources from Other Accounts	9		3		3					
<b>Subtotal Other Resources</b>	<b>2,118</b>	<b>\$792,394</b>	<b>924</b>	<b>\$1,030,947</b>	<b>962</b>	<b>\$991,198</b>	<b>38</b>	<b>(\$39,749)</b>	<b>4.11%</b>	<b>-3.86%</b>
<b>Total Budgetary Resources</b>	<b>84,761</b>	<b>\$11,719,920</b>	<b>82,203</b>	<b>\$11,975,947</b>	<b>91,486</b>	<b>\$13,922,269</b>	<b>9,283</b>	<b>\$1,946,322</b>	<b>11.29%</b>	<b>16.25%</b>

<sup>1</sup> FTE funded by User Fees and Unobligated Balances from Prior Years are included in the direct civilian full-time equivalent employment line of the President's Appendix.

<sup>2</sup> Resources from Transfers In/Out include FY 2014 transfers between IRS and the Office of National Drug Control Policy (ONDCP) High Intensity Drug Trafficking Area (HIDTA) Program (net transfer \$17K), FY 2015 transfers between IRS and Spectrum (net transfer \$7.6M), and an FY 2016 transfer out to the Alcohol and Tobacco Tax and Trade Bureau (TTB) (\$5M).

### 1B - Vision, Priorities, and Context

The IRS is one of the best investments in the federal government. Resources invested in the IRS lead to significant revenue increases for the nation. This unique role is vital to keep the nation’s economy strong and the federal government functioning. The IRS provides a broad range of benefits to the American people. Its dedicated staff supports the nation’s tax administration system by providing taxpayer service to help people understand and meet their tax responsibilities while ensuring enforcement of the tax laws.

The IRS is committed to performing its core responsibilities on behalf of the American taxpayers and to preserving the essential fairness and integrity of the nation’s tax system. The IRS will fund infrastructure and technology improvements, invest in its workforce, and realize operational efficiencies through improved and streamlined internal processes. Major policy, legislative, economic, socio-demographic and technological challenges impact the way in which the IRS operates, but the organization is committed to meeting its responsibilities while continuing to embrace these challenges and the opportunities they provide to improve the taxpayer experience and effectively enforce the tax law.

There is no more critical challenge at the IRS than that of delivering a smooth filing season for the millions of American taxpayers. IRS employees, including temporary and seasonal

staff, deliver an effective and timely filing season to reduce taxpayer burden and encourage voluntary compliance with the tax laws. This tremendous accomplishment is achieved each year as a result of the dedication, talent, and experience of IRS employees. While the IRS continues to respond to new requirements and rapid changes, many of the organization's innovative and far-reaching programs face the risk of delay or cancellation without adequate funding.

Over the last several years, the IRS has experienced significant budget reductions that are creating serious obstacles to the ability to fulfill its mission. Fortunately, the IRS has been able to execute a successful filing season, despite these cuts, but this success is often at the expense of other important but less visible activities. Any deterioration in taxpayer services and enforcement creates long-term risk for the U.S. tax system, which is based on voluntary compliance. A one percent drop in the voluntary compliance rate is estimated to cost the government \$30 billion a year.

The IRS continues to focus on strengthening the public's confidence with our effective administration of the nation's tax system. The IRS has been engaged in a methodical, thorough, and persistent effort to identify, design, and implement management reforms that will benefit IRS programs and operations. The IRS mission is complemented by a vision for the IRS that describes the longer-term outcomes that it seeks to achieve by fulfilling the IRS mission.

#### **IRS Vision**

*We will uphold the integrity of our nation's tax system and preserve the public trust through our talented workforce, innovative technology, and collaborative partnerships.*

The IRS touches virtually every American and generates 93 percent of the funding that supports the government's operations. For more than a century, the IRS has helped fund national priorities ranging from education to defense, but never before has tax administration required such a wide set of skills and technological capabilities. The IRS must keep pace with evolving business models and an expanding global economy, and must stay ahead of schemes to defraud the government and the American taxpayers, all while providing new, secure digital options that the population of taxpayers expects in order to help them meet their tax obligations.

Efforts are underway to provide taxpayers with more interactive tools and online tax information on IRS.gov, as well as to provide more resources for those looking for forms, publications, and answers to basic questions on the web. Enhanced web applications will improve taxpayers' online experience, provide secure digital communications, and add more interactive capabilities to existing web self-service products. These innovations will help the IRS better manage its limited resources by moving millions of people from phones onto the web, while giving them the ability to confidently take care of their tax obligations quickly and securely. Although taxpayer use of online channels is increasing, millions of people still prefer to interact with the IRS by phone, mail, or by visiting IRS walk-in sites, so investments

must be made to preserve and bolster these modes of communication. Online services will allow for more immediate identification of tax return anomalies so that taxpayers can correct them without prolonged follow-up contact or burdensome audits.

### **IRS Strategic Plan 2014–2017**

The *IRS Strategic Plan fiscal year (FY) 2014–2017* guides program and budget decisions and supports the Department of the Treasury (Treasury) *FY 2014 to 2017 Strategic Plan* and the Agency Priority Goal of “increasing self-service options for taxpayers”.

The *IRS Strategic Plan FY 2014–2017* recognizes the evolving scope and increasing complexity of tax administration, the expanding global tax environment and changing business models, the increasing prevalence of refund fraud and identity theft, the need to meet taxpayer expectations to digitally interact in a secure manner, the growing use of tax preparation assistance, the need to sustain a skilled and talented workforce, and the needs of an increasingly diverse U.S. population.

The IRS strategic goals provide a central direction for the attainment of its mission and vision. Its strategic foundation for organizational excellence supplements the strategic goals and describes the internal initiatives required to support taxpayer-facing actions.

#### **IRS Strategic Goals**

Deliver high quality and timely service to reduce taxpayer burden and encourage voluntary compliance.

Effectively enforce the law to ensure compliance with tax responsibilities and combat fraud.

#### **IRS Strategic Foundation**

Invest in our workforce and the foundational capabilities necessary to achieve our mission and deliver high performance for taxpayers and stakeholders.

Each strategic goal is outcome-based and supported by several objectives. The strategic objectives to deliver high quality and timely service to reduce taxpayer burden and encourage voluntary compliance are:

- Design tailored service approaches with a focus on digital customer service to meet taxpayer needs, preferences, and compliance behaviors in order to facilitate voluntary compliance;
- Deliver clear and focused outreach, communications, and education programs to assist taxpayer understanding of tax responsibilities and awareness of emerging tax laws;
- Provide timely assistance through a seamless, multichannel service environment to encourage taxpayers to meet their tax obligations and accurately resolve their issues;

- Strengthen refund fraud prevention and provide prompt assistance to support victims of identity theft;
- Reduce taxpayer burden and increase return accuracy at filing through timely and efficient tax administration processing;
- Improve service delivery and support effective tax administration by fostering strong relationships with our tax community and government partners; and
- Enhance the quality of tax services by strengthening the outreach, education, and tools provided to the tax professional community.

The strategic objectives to effectively enforce the law to ensure compliance with tax responsibilities and combat fraud are:

- Enforce domestic and international compliance by strengthening expertise, adopting innovative approaches, and streamlining procedures;
- Deter and promptly resolve noncompliance by protecting revenue from refund fraud and ensuring appropriate revenue collection;
- Build and maintain public trust by anticipating and addressing the tax-exempt sector's need for a clear understanding of its tax law responsibilities;
- Identify trends, detect high-risk areas of noncompliance, and prioritize enforcement approaches by applying research and advanced analytics;
- Address noncompliance by improving data, information, and knowledge sharing with tax community and government partners; and
- Improve compliance and reduce the risk of fraud through strong partnerships with the tax professional community.

The IRS strategic foundation consists of the following objectives:

- Be the best place to work in government by building a highly talented, diverse workforce and cultivating an inclusive and collaborative environment;
- Ensure a secure environment that protects the safety of our people and security of our facilities;
- Implement and maintain a robust enterprise risk management program that identifies emerging risks and mitigates them before they impact performance;
- Realize operational efficiencies and effectively manage costs by improving enterprise-wide resource allocation and streamlining processes;
- Invest in innovative, secure technology needed to protect taxpayer data and support taxpayer, partner, and IRS business needs; and
- Implement enterprise-wide analytics and research capabilities to make timely, informed decisions.



## Treasury Strategic and Agency Priority Goals

The IRS FY 2016 Budget Request supports the following Department of the Treasury Strategic and Agency Priority Goals:

- **Treasury Strategic Goal:** Fairly and effectively reform and modernize federal financial management, accounting, and tax systems.
- **Objective:** Pursue tax reform, implement the Patient Protection and Affordable Care Act (ACA, Public Law 111-148) and Foreign Account Tax Compliance Act (FATCA, Public Law 111-147), and improve the execution of the tax code.
- **Agency Priority Goal: Increasing Self-Service Options for Taxpayers:** Introduce self-service and electronic-service taxpayer options to enable taxpayers to securely authenticate, view and print tax records online, pay outstanding debts, enter into installment agreements, establish a power of attorney, get tax law information, and easily access all parts of IRS.gov.

## FY 2016 Priorities

The IRS collects the revenue to fund the government and administers the nation's tax laws. In FY 2014, the IRS processed 199 million tax returns and collected \$3.1 trillion in taxes (gross receipts before tax refunds), 93 percent of federal government receipts. Through both taxpayer service and enforcement programs that protect the flow of revenue to the government, the IRS remains committed to making the tax law easier to access and understand and to improving voluntary compliance and reducing the tax gap, the difference between taxes owed and taxes paid on time. Taxpayer service supports taxpayers by helping them understand their obligations under the law, correctly file their returns, and pay taxes in a timely manner. It also protects the trillions of dollars in revenue that taxpayers pay voluntarily each year into the Treasury. Enforcement pursues those who evade or misrepresent their tax responsibility; the IRS collected \$57.1 billion in enforcement revenue in FY 2014.

Without additional resources in FY 2016, millions of taxpayers will continue to see longer wait times on the phone to get basic questions answered and to resolve tax issues. The demand for taxpayer services is expected to increase in FY 2016 as the IRS continues to implement and administer tax-related provisions of major legislation, including the FATCA and the ACA. Without any increase in resources, this increased demand will further erode the IRS's ability to provide the level of services that the public has a right to expect. Without an increase, enforcement activities must be reduced. This will result in billions of dollars in potential enforcement revenue going uncollected.

The IRS FY 2016 Budget Request of \$12.9 billion will provide the funding to meet the increased demand for taxpayer services and strengthen compliance by increasing the number of enforcement personnel in key areas, such as refund fraud and international tax compliance. The FY 2016 Budget includes a \$667 million program integrity cap adjustment for new investments in expanding and improving the effectiveness and efficiency of the IRS's and TTB's overall tax enforcement program. The activities and new initiatives funded out of the cap adjustments through FY 2025 will generate \$60 billion in additional revenue over 10

years and will cost \$19 billion for an estimated net savings of \$41 billion. The Budget also includes investments in high-priority programs affected by the staffing reductions to ensure that the IRS continues to deliver its vital mission.

In the Budget, the IRS seeks additional funding for:

- **Taxpayer Service** to improve telephone level of service (LOS); address increased customer service demand for ACA support; deliver enhanced service options to taxpayers; and increase service for low-income taxpayers and taxpayers in need of hardship relief;
- **Enforcement** to improve compliance through the implementation of FATCA, ACA, and Information Return Document Matching (IRDM) of merchant payment card and third party reimbursements and basis reporting; protect revenue by reducing the instances of refund fraud, including tax-related identity theft; restore eroding exam and collection enforcement programs; expand criminal investigation capabilities; and address compliance issues in the tax-exempt sector;
- **Infrastructure** to sustain critical IT infrastructure; address physical infrastructure projects related to health and safety concerns at IRS facilities; and maintain the integrity of revenue financial systems; and
- **Business Systems Modernization** to invest in new IT capabilities for the future, such as expanding online self-service applications on IRS.gov which improve the taxpayer experience. These include the Get Transcript tool which allows taxpayers instantaneous access to their tax records; IRS Direct Pay, which provides a secure, no-fee electronic option to make and schedule tax payments; and re-launch of IRS2Go, which provides access to *Where's My Refund?* and other popular online features from mobile devices. BSM will also be used to develop a shared platform for case management to improve capabilities across the IRS and for other investments.

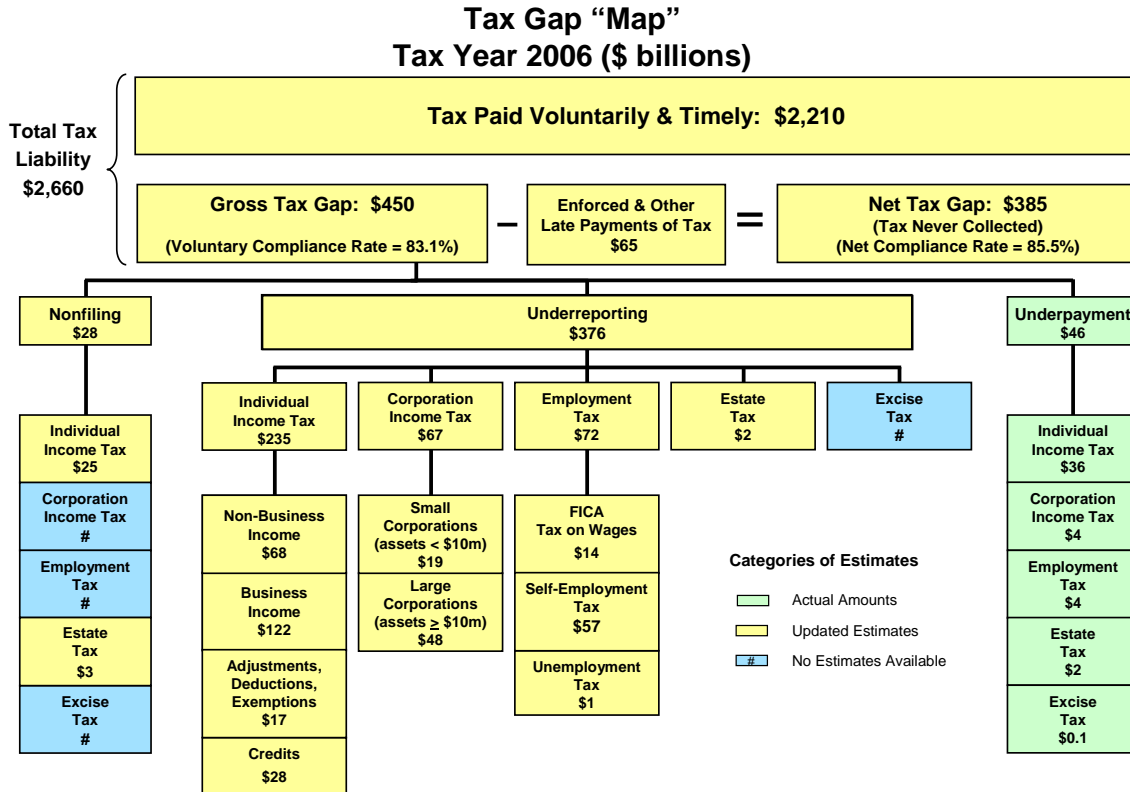
## Reducing the Tax Gap

Investments in IRS enforcement programs have yielded significant increases in enforcement revenue. Enforcement revenue was \$57.1 billion in FY 2014, for a total IRS-wide ROI of \$5.1 to \$1. The ROI estimate does not include the revenue effect of the indirect deterrence value of these investments and other IRS enforcement programs, which is conservatively estimated to be at least three times the direct revenue impact.

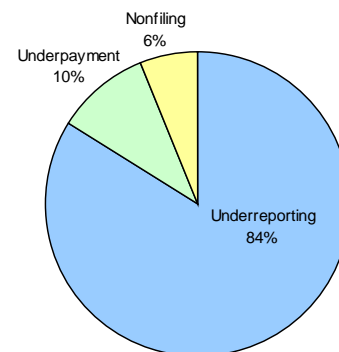
In FY 2012, the IRS released updated estimates of the difference between taxes owed and taxes paid on a timely basis—the “tax gap.” The IRS estimated that taxpayers underpaid by \$385 billion in 2006, net of late payments and IRS enforcement activities (see *Tax Gap Map for Tax Year 2006*). The voluntary compliance rate—the percentage of total tax revenue paid on time—for tax year 2006 was 83.1 percent. This rate is statistically unchanged from tax year 2001.

The three components of the tax gap are:

- **Underreporting** – Not reporting the full tax liability on a timely-filed return;
- **Nonfiling** – Not filing required returns on time; and
- **Underpayment** – Not timely paying the full amount of tax reported on a timely-filed return.



Underreporting tax liability (\$376 billion) comprises 84 percent of the gross tax gap (\$450 billion). The remainder is divided between nonfiling (\$28 billion, 6 percent) and underpayment (\$46 billion, 10 percent). The IRS remains committed to finding ways to increase compliance and reduce the tax gap, while minimizing the burden on the vast majority of taxpayers who pay their taxes accurately and on time.



### Taxpayer Service and Enforcement Programs Complement Each Other

The IRS serves individuals, businesses, and tax-exempt entities. The system of voluntary tax compliance is most effective when the IRS is able to provide excellent taxpayer service for

those who are trying to meet their obligations under the law and provide a robust and fair enforcement program for those who fail to comply with their responsibilities to their fellow citizens. Most taxpayers comply with the law by filing returns and paying their taxes on time, but some do not comply because they do not understand their obligations under the complex tax laws. Noncompliance can stem from a wide range of causes, including lack of knowledge and complexity of the tax code.

## **Taxpayer Service**

Providing taxpayers top-quality service and helping them understand and meet their tax obligations remain top priorities for the IRS. The IRS strives to deliver high quality and timely service to taxpayers and stakeholders. Although the IRS had significant accomplishments serving taxpayers in FY 2014, budget constraints forced the IRS to focus on its top priorities and reduce funding in many areas.

The IRS process for programming and testing systems was delayed by a month in October 2013 due to the lapse in federal appropriations. Despite this delay and significant resource constraints, the IRS achieved the following results through September 2014:

- Posted 137.9 million individual returns and issued more than 114.8 million refunds totaling \$315.6 billion;
- Achieved a 64.4 percent LOS, although average wait times increased to almost 20 minutes;
- Answered 23.1 million assistor calls;
- Achieved accuracy rates of 95.0 percent for tax law questions and 96.2 percent for account questions received via the telephone; and
- Direct deposited more than \$244.8 billion in refunds.

The number of individual and business returns filed electronically (e-file) continues to grow. Quicker refunds and a more efficient way for taxpayers to file accurate returns, coupled with innovative technology, such as home computer filing, contributed to the increase in e-file returns. FY 2014 results through September 30, 2014 included:

- Individual returns electronically filed increased to 84.1 percent of filings, an increase of 1.9 percent;
- Business returns filed electronically increased to 43.1 percent of filings, an increase of 7.2 percent;
- Home-computer filing increased to almost 48.0 million tax returns, an increase of 6.0 percent; and
- Tax professional use of e-file increased by 1.2 percent, to 77.8 million returns.

The IRS continued to enhance digital self-service options by increasing the amount of tax information and services available to taxpayers through IRS.gov and the mobile app, IRS2Go.

The IRS developed and launched new web and mobile tools allowing taxpayers and third parties to transact with the IRS, including:

- **Get Transcript** provides a current digital display and print of an individual's tax record across five transcript types using enterprise-wide authentication. Since the January 2014 launch, more than 18.6 million transcripts have been generated through this application, which represents more than 79 percent of all transcript requests during that time period.
- **IRS2Go** provides a "Where's my Refund" tracker and locator for voluntary tax assistance on a re-engineered mobile tool. The IRS2Go mobile application has been downloaded more than 5.4 million times since its release.
- **Direct Pay** is the first payment application in which an individual taxpayer can make a payment fully electronically without paying a fee. Payment scheduling and payment lookup features have been added. Direct Pay has collected \$2.7 billion since its November 2013 launch.
- **e-Authentication** provides secure access to IRS online tools and applications. Since the January 2014 launch, more than 5.8 million knowledge-based authentications have occurred.
- **Payment Mix Comparison Tool** allows preparers, on behalf of the business taxpayer community, to compare the portion of gross receipts from credit/debit card receipts the business plans to report to results of similar businesses from prior years. This tool will encourage accurate reporting by payment recipients according to Form 1099-K, *Payment Card and Third Party Network Transactions*, and help close the tax gap.
- **Online Payment Agreement (OPA) improvements** provide the taxpayer the ability to submit an application for an installment agreement fully online. Since implementation, In-Business Trust Fund taxpayers (i.e. taxpayers that owe trust fund taxes and are still doing business) who owe \$25,000 or less are now able to use the OPA webpage to enter into installment agreements with the IRS. Other enhancements included revisions to the design of the OPA webpage, making it easier for the online user to navigate the site and establish payment agreements.

The FY 2014 *Service Approach* identified in the IRS Strategic Plan allowed the IRS to reserve person-to-person service for those who had issues that only the IRS could resolve (e.g. assisting taxpayers who have received a notice). Savings from these initiatives were reinvested into improving service on the phones and at walk-in sites. It allowed the IRS to use the right mix of technology, employees, and IRS partners to best serve customers in the face of changing resources. Comprehensive engagement and communication efforts have helped employees and taxpayers migrate towards alternative self-service channels.

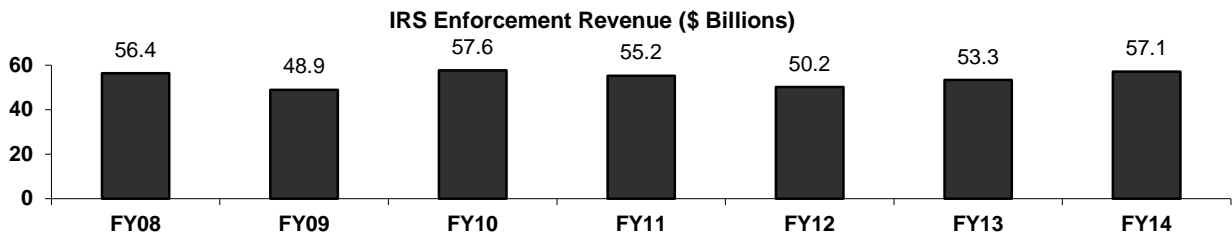
The IRS continues to improve and expand its outreach and educational services through partnerships with state taxing authorities, volunteer groups, and other organizations. Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites provided free tax assistance for the elderly, disabled, and limited English proficient individuals and families. More than 3.6 million tax returns were filed at VITA and TCE sites,

representing a 7.4 percent increase over last year. These returns maintained a 92.2 percent accuracy rate.

The Budget includes an additional \$342.4 million to improve customer service to meet taxpayer demand and continue delivering services to taxpayers.

## Enforcement

Enforcement of the tax law is an integral part of the IRS effort to enhance voluntary compliance, especially as tax administration becomes increasingly complex. The IRS has maintained a balanced and effective enforcement program despite many challenges, collecting more than \$50 billion in enforcement revenue in FY 2014, the fifth year in a row. In FY 2014, the IRS collected more than \$57.1 billion, a 7 percent increase from FY 2013 through the same period. It is important to note, however, that a variety of factors impact enforcement revenue collections, including changes in tax policy and the health of the macroeconomy. Thus, this trend should not be interpreted to suggest that budget cuts have not reduced IRS's enforcement capabilities. In fact, the individual examination coverage rate has steadily declined from 1.11 percent in FY 2010 to 0.86 percent in FY 2014. If IRS enforcement funding had remained at FY 2010 levels, FY 2014 collections would have been even higher than what was possible with current resources.



The continued budget constraints in FY 2014 have resulted in the delivery of key enforcement programs below FY 2013 levels. Through September 2014, total individual audits fell 11.5 percent to 1.2 million, while audits of high-income individuals declined 7.3 percent compared to 2013. Small business return audits dropped 2.6 percent, corporate audits fell 20.5 percent, while Tax Exempt and Government Entities (TE/GE) compliance contacts fell more than 17.4 percent.

The IRS Criminal Investigation (CI) program investigates potential criminal violations of the Internal Revenue Code and related financial crimes such as money laundering, currency violations, tax-related identity theft fraud, and terrorist financing that adversely affect tax administration. Highlights of IRS CI's Enforcement performance through FY 2014, compared to FY 2013 during the same period, include:

- Completing 4,606 criminal investigations, a decrease of 17.1 percent;
- Achieving a conviction rate of 93.4 percent, similar to FY 2013;

- Maintaining a Department of Justice acceptance rate of 93.1 percent with a U.S. Attorney acceptance rate of 90.5 percent, which compares favorably with other federal law enforcement agencies; and
- Obtaining 3,110 convictions, similar to last year.

The IRS made major changes to the offshore voluntary compliance programs, providing new options to help taxpayers residing overseas or in the United States who had unreported foreign financial accounts. The changes included:

- Eliminating a requirement that the taxpayer have \$1,500 or less of unpaid tax per year.
- Eliminating the required risk questionnaire.
- Requiring the taxpayer to certify that previous failures to comply were due to non-willful conduct.

The IRS implemented several improvements to the Offshore Voluntary Disclosure Program (OVDP) by:

- Requiring additional information from taxpayers applying to the program.
- Eliminating the existing reduced penalty percentage for certain non-willful taxpayers in light of the expansion of the streamlined procedures.
- Requiring taxpayers to submit all account statements and pay the offshore penalty at the time of the OVDP application.
- Enabling taxpayers to submit voluminous records electronically rather than on paper.

The IRS streamlined the determination process for tax-exempt status applications. When an application cannot be completed on its initial merit, the applicant is directed to provide additional information and sign attestations guaranteeing truthfulness. The IRS also:

- Piloted a pre-classification process to improve the content of information request letters through the use of standardized questions for particular issues; and
- Created Form 1023-EZ, a simplified two-page version of the 26 page Form 1023, *Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code*.

As a result of these efforts, at the end of FY 2014, the IRS closed over 117,500 exempt organization determination , a 121 percent increase from FY 2013. In addition, the bureau reduced the open inventory of applications to 22,759 cases, a 65 percent decrease from the previous year.

The IRS made significant process changes to address concerns about applications for tax-exempt status (civic leagues, social welfare organizations, or local associations of employees) under Section 501(c)(4):

- Established a process documenting reasons why applications are selected for further review;

- Developed training and workshops identifying issue advocacy versus political campaign intervention and identifying applications for review of political campaign intervention activities;
- Established processing guidelines for applications involving potentially significant campaign intervention; and
- Created a formal process for IRS determinations personnel to request assistance from technical experts.

### ***Implementation of the Foreign Account Tax Compliance Act (FATCA)***

FATCA was enacted in March 2010 as part of the Hiring Incentives to Restore Employment (HIRE) Act (P.L. 111-147) to improve tax compliance for foreign accounts and cross-border transactions. The program represents an effort to reduce tax evasion by creating transparency and accountability in offshore financial transactions. The Act provides the IRS with a new tool to enforce international tax laws involving individual and business taxpayers, by requiring taxpayers and foreign financial institutions to disclose certain information regarding U.S. taxpayer accounts to avoid withholding on certain payments.

FATCA aims to ensure that offshore investment activities are properly captured for tax administration purposes by instituting reporting requirements for foreign financial institutions. Third party reporting will promote greater transparency into U.S. taxpayer accounts and enable increased identification of non-compliant taxpayers.

FY 2014 accomplishments include:

- Deployed the FATCA Foreign Financial Institutions (FFI) Registration System to the public;
- Established the concept of Global Intermediary Identification Numbers (GIINs) – a new international numbering scheme developed by the IRS to implement a standardized worldwide residence-based information reporting; and approved and assigned GIINs to over 120,000 financial institutions to date;
- Deployed the IRS FFI List Search and Download Tool;
- Identified requirements and awarded a contract to a third party vendor to develop the International Data Exchange Service (IDES);
- Identified requirements and currently working on development of the International Compliance Management Model (ICMM) – a system to manage FATCA submissions processing, storage, and notification;
- Identified requirements for new Chapter 3 and Chapter 4 withholding compliance and refund fraud detection capabilities;
- Developed a FATCA Compliance Strategy; and
- Developed and shared resources to assist taxpayers, financial institutions, and Host Country Tax Administrations with FATCA implementation (e.g., FATCA News and Information List, FAQs, user videos, and user guides).



## ***Implementation of the Tax-related Provisions of the ACA***

The ACA represents the largest and most complex set of tax law changes in more than 20 years, with more than 40 provisions amending the tax laws.

During FY 2014, IRS continued implementation of the ACA and outreach activities to ensure that taxpayers were aware of the new tax provisions. The IRS continued its work with the group of organizations set up to facilitate the purchase of health insurance in each state on the requirements and procedures for safeguarding federal tax information used in the Exchange (IRC 6103 (1)(21)), *Disclosure of Return Information to Carry Out Eligibility Requirements for Health Insurance Affordability Programs*). Also, IRS collaborated with the Department of Health and Human Services (HHS) on outreach and IT deployment relating to the insurance market reforms and health insurance exchange system. In addition, the IRS issued 33 items of published guidance on ACA Provisions, including final regulations on the Branded Prescription Drug Fee, the Premium Tax Credit (PTC), the Insurance Provider Fee, additional Medicare tax, net investment income tax, the employer responsibility provision, information reporting regulations for insurers and employers, disclosure of tax data to marketplaces, the individual responsibility provision, the Patient-Centered Outcomes Research Trust Fund Fee, the medical device excise tax, and various guidance from Treasury, HHS, and Department of Labor on plan content and procedures.

IRS issued proposed regulations on the small business health care tax credit (2014 phase), information reporting regulations for marketplaces, additional proposed regulations for net investment income tax, and coverage for certain preventive services. The IRS launched the Income and Family Size Verification process in time for the marketplace Open Enrollment in October 2013 (IRS ACA Release 3.0) and the Insurer Provider Fee in March 2014 (IRS ACA Release 4.1).

The development and deployment of these releases involved new and innovative software development processes and technology, close cooperation with outside agencies, and highly visible, public-facing activities that were crucial for the successful stand-up and operation of the Health Insurance Marketplaces.

## ***Progress Made on Tax-Related Identity (ID) Theft***

In calendar year 2014 (through November), the IRS prevented 1.7 million potential ID theft cases worth \$10.3 billion from being paid out in fraudulent refunds.

- The IRS sent suspicious refunds for verification, which prevented revenue loss and developed and improved ID theft filters based on analytical models, schemes identified by Criminal Investigation (CI), and data validation.
- Enhanced ID theft filters focus on multiple tax returns filed using the same address and/or bank account. These filters alone allowed the IRS to stop over 533,000 fraudulent returns with associated refunds of \$3.2 billion in calendar year 2014.

The IRS also held an eAuthentication and Identity Protection Summit to develop a strategy and implementation roadmap to significantly deter identity theft, reducing fraud and the need for victim assistance.

IRS examiners conducted 250 compliance visits to money services businesses nationwide (29 states and Puerto Rico) in relation to the Bank Secrecy Act. The highest percentage of the visits occurred in the states of Florida and Georgia, which are known high-risk areas for refund fraud and ID theft. These compliance visits help ensure check-cashing facilities are not, knowingly or unknowingly, facilitating refund fraud and ID theft. In addition, the IRS had more than 900 check-cashing operations under examination across the country and looked for indicators of ID theft as part of its examination efforts.

The IRS launched the Identity Protection Personal Identification Number (IP PIN) application in January 2014, allowing taxpayers with an IP PIN to retrieve their PIN online. Taxpayers previously had to call the IRS to replace a lost or misplaced IP PIN. The new application allows taxpayers to quickly file their tax return with manual verification. Since implementation of the IP PIN web application, the IRS has generated nearly 119,000 IP PINs. Additionally, taxpayers from three high-risk identity theft areas—Florida, Georgia, and Washington, D.C.—that used the Electronic Filing Personal Identification Number (EFP) voluntarily opted into a pilot to receive an IP PIN.

Fraudulent attempts to obtain taxpayer information through false IRS websites and other electronic methods continued to occur. In FY 2014, the IRS Cybersecurity Computer Security Incident Response Center (CSIRC) identified, mitigated, and responded to more than 1,600 cyber incidents, blocked the internet address of more than 3,750 malicious external websites, and issued nearly 700 advisories and bulletins to prevent access to malicious or compromised sites. The IRS also shut down over 1,200 sites, including approximately 300 schemes related to “Get Your Refund,” within a median of 0.5 hours for domestic sites and 10.4 hours for international sites.

### ***Program Integrity Cap Adjustment***

In addition to the base appropriations request of \$12.3 billion, the FY 2016 Budget proposes a \$667 million cap adjustment to fund new and continuing investments in expanding and improving the effectiveness and efficiency of the IRS’s and TTB’s overall tax enforcement program. The proposed new FY 2016 enforcement initiatives will yield additional revenue discussed below. New investments are also proposed beyond FY 2016, with cap adjustments through FY 2020 and sustained with additional adjustments through 2025. The activities and new initiatives funded out of the cap adjustments through FY 2025 will generate approximately \$60 billion in additional revenue over 10 years and will cost about \$19 billion for an estimated net savings of \$41 billion. Notably, the ROI is likely understated because it only includes amounts received; it does not reflect the effect enhanced enforcement has on deterring non-compliance. This deterrent effect helps to ensure the continued payment of over \$3 trillion in taxes paid each year without direct enforcement measures.

**Return on Investment (ROI) for FY 2016 Enforcement Initiatives**

Enforcement efforts increase revenue by encouraging voluntary compliance for those taxpayers who seek to avoid meeting their tax obligations under the law. Resources for traditional revenue-producing compliance programs yield direct, measurable results through high ROI enforcement activities such as examination and collection.

The Budget includes \$166.1 million to implement enacted legislation and merchant card and basis matching (traditional revenue-producing portion), with an additional \$425.6 million for IRS enforcement revenue-producing initiatives funded through the program integrity cap adjustment discussed above. Of this amount, \$5 million will be transferred to TTB, with the remaining \$420.6 million going towards traditional revenue-producing initiatives. \$96.9 million is included to protect revenue, \$90.5 million of which is also funded through a program integrity cap adjustment. The cap adjustment also includes a \$36.8 million revenue-enhancing initiative, as well as \$315.2 million for other compliance-related initiatives in the Operations Support account (see Section 4.7, Summary of Program Integrity Cap Adjustment).

**FY 2016 Revenue-Producing Initiatives**

The FY 2016 traditional revenue-producing initiatives not included in the program integrity cap adjustment are estimated to produce \$658.4 million in additional annual enforcement revenue, achieving an FY 2018 ROI of \$4.1 to \$1.0.

The \$420.6 million requested for the IRS FY 2016 traditional new revenue-producing enforcement initiatives funded through the program integrity cap adjustment is estimated to generate \$2,798.9 million in additional annual enforcement revenue, achieving an FY 2018 ROI of \$6.4 to \$1.0.

**Return on Investment for IRS FY 2016 Revenue-Producing Enforcement Initiatives**

Dollars in Millions						
	First Year (FY 2016)			Full Performance (FY 2018)		
	Cost	Revenue	ROI	Cost	Revenue	ROI
<b>FY 2016 Revenue Producing Enforcement Initiatives</b>	<b>\$586.7</b>	<b>\$1,117.9</b>	<b>1.9</b>	<b>\$595.0</b>	<b>\$3,457.3</b>	<b>5.8</b>
<b>Revenue-Producing Enforcement Initiatives to Implement Enacted Legislation</b>	<b>\$166.1</b>	<b>\$256.5</b>	<b>1.5</b>	<b>\$160.4</b>	<b>\$658.4</b>	<b>4.1</b>
Implement Foreign Account Tax Compliance Act (FATCA)	71.0	67.7	1.0	66.6	155.1	2.3
Implement Merchant Card and Basis Matching	34.3	124.2	3.6	29.0	321.6	11.1
Address Impact of Affordable Care Act (ACA) Statutory Requirements	60.8	64.6	1.1	64.8	181.7	2.8
<b>Cap Adjustment Enforcement Initiatives</b>	<b>\$420.6</b>	<b>\$861.4</b>	<b>2.0</b>	<b>\$434.6</b>	<b>\$2,798.9</b>	<b>6.4</b>
<b>Immediate and Directly Measurable Revenue-Producing Initiatives</b>	<b>\$333.1</b>	<b>\$861.4</b>	<b>2.6</b>	<b>\$352.8</b>	<b>\$2,798.9</b>	<b>7.9</b>
Address International and Offshore Compliance Issues	40.7	49.3	1.2	43.1	159.6	3.7
Increase Audit Coverage	150.7	397.5	2.6	158.5	1,266.7	8.0
Enhance Collection Coverage	122.8	345.9	2.8	131.2	1,179.7	9.0
Improve Audit Coverage of Large Partnerships	16.2	44.5	2.7	16.9	129.1	7.6
Prevent Identity Theft and Refund Fraud	2.7	24.2	9.0	3.1	63.8	20.6
<b>Strategic Revenue-Producing Initiatives (which do not have immediately measurable ROI, but clear long-term revenue effects)</b>	<b>\$87.5</b>	<b>\$0.0</b>	<b>0.0</b>	<b>\$81.8</b>	<b>\$0.0</b>	<b>0.0</b>
Address Compliance Risks in the Tax-Exempt Sector	23.5	0.0	0.0	24.6	0.0	0.0
Pursue Fraud Referrals, Employment Tax, and Abusive Tax Schemes	17.2	0.0	0.0	16.2	0.0	0.0
Enhance Investigations of Transnational Organized Crime	42.5	0.0	0.0	35.9	0.0	0.0
Ensure Ethical Standards of Conduct for Practitioners	4.3	0.0	0.0	5.1	0.0	0.0

### ***FY 2016 Revenue-Protecting Initiatives***

In addition to the traditional revenue-producing initiatives, IRS activities to prevent the issuance of fraudulent returns related to identify theft will allow the IRS to identify and resolve issues prior to issuing a taxpayer’s refund. While this number is not currently included in the IRS’s traditional ROI calculations, investment in these activities is projected to protect more than \$1 billion in revenue at a lower cost than the downstream enforcement actions, and achieve an FY 2018 ROI of \$12.5 to \$1.0.

### **FY 2016 Revenue-Protecting Enforcement Initiatives**

Dollars in Millions						
	First Year (FY 2016)			Full Performance (FY 2018)		
	Cost	Revenue	ROI	Cost	Revenue	ROI
Revenue Protecting Initiatives <i>(which protect taxpayer information, prevents identity theft, and results in long-term revenue protection)</i>	\$96.9	\$446.5	4.6	\$98.2	\$1,231.9	12.5
Revenue Protecting Initiatives to Implement Enacted Legislation	\$6.4	\$28.4	4.4	\$7.3	\$88.7	12.2
Address Impact of ACA Statutory Requirements (revenue-protecting portion)	6.4	28.4	4.4	7.3	88.7	12.2
Cap Adjustment Revenue Protecting Initiative	\$90.5	\$418.1	4.6	\$90.9	\$1,143.2	12.6
Increase Audit Coverage (revenue-protecting portion)	11.1	35.4	3.2	12.7	112.1	8.8
Prevent Identity Theft and Refund Fraud	79.4	382.7	4.8	78.2	1,031.1	13.2

### ***FY 2016 Revenue-Enhancing Initiative***

Improved technology also increases revenue collection by providing better case selection, issue identification, and enforcement case treatment. This technology allows the IRS to adapt quickly to changing taxpayer compliance behavior. While this number is not currently included in the IRS’s traditional ROI calculations, the FY 2016 revenue-enhancing initiatives are expected to increase revenue by \$75.4 million from technology investments that will analyze compliance data more efficiently and provide better case selection, issue identification, and treatment selection, achieving an FY 2018 revenue enhancement ROI of \$1.8 to \$1.0.

### **FY 2016 Revenue-Enhancing Initiative**

Dollars in Millions						
	First Year (FY 2016)			Full Performance (FY 2018)		
	Cost	Revenue	ROI	Cost	Revenue	ROI
Cap Adjustment Revenue-Enhancing Initiative <i>(which leverages technology to improve case selection and analysis)</i>	\$39.1	\$0.0	0.0	\$41.4	\$75.4	1.8
Leverage Data to Improve Case Selection	39.1	0.0	0.0	41.4	75.4	1.8

### **Business Systems Modernization**

The IRS modernization efforts continued in FY 2014:

- **Customer Account Data Engine 2 (CADE 2)** – The CADE 2 program allows daily processing of the tax system. CADE 2 had a smooth filing season launch in January 2014 and continues to demonstrate integration into Filing Season operations and standard incident management processes. The project recently met criteria that provide a high level of confidence in the readiness and accuracy of the system’s performance, operational processes, and data quality. In FY 2014, CADE 2 received

more than 140.1 million returns and issued over 113.2 million refunds, totaling \$300.7 billion.

- **Modernized e-File (MeF)** - MeF receives and processes all tax returns submitted electronically. For Filing Season 2014, a new MeF release was deployed on January 31 and has performed successfully in production. In FY 2014, taxpayers submitted more than 231.4 million individual and business returns (includes both federal and state submissions) through MeF.

The Budget includes an increase of \$92 million for BSM activities and support in order to continue implementing advanced information technology systems, processes, and tools to improve productivity. This request provides funding to expand the capabilities of the CADE 2 relational database and address the financial material weakness; enhance the taxpayer's online experience and provide secure digital communications; complete the design, development, testing, and deployment of various estate and gift tax forms for electronic acceptance; increase fraud detection, resolution, and prevention through use of the Return Review Program; and implement a new enterprise case management solution.

## **Section 2 – Budget Adjustments and Appropriations Language**

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The IRS Budget Request for FY 2016 is \$12,931,071,000 in direct appropriations and 90,524 FTE. This is an increase of \$1,986,071,000, or 18.15 percent, and 9,245 FTE more than the FY 2015 Enacted level of \$10,945,000,000 and 81,279 FTE.

## 2.1 – Budget Adjustments Table

Dollars in Thousands

Internal Revenue Service	FTE	Amount
<b>FY 2015 Enacted</b>	<b>81,279</b>	<b>\$10,945,000</b>
<b>Changes to Base:</b>		
<b>Maintaining Current Levels (MCLs):</b>		<b>\$200,677</b>
Pay Annualization		21,002
Pay Raise (1.3%)		82,112
Non-Pay		48,710
FERS Contribution Increase		29,553
Federal Employees Health Benefits (FEHB) Program Modification		19,300
<b>Efficiencies/Savings:</b>	<b>(61)</b>	<b>(\$18,431)</b>
Increase e-File Savings	(46)	(2,406)
HCTC Program Termination	(15)	(16,025)
<b>Reinvestments:</b>		<b>\$16,025</b>
Expand Telecom Infrastructure to Handle Increased Demand		16,025
<b>Subtotal FY 2016 Changes to Base</b>	<b>(61)</b>	<b>\$198,271</b>
<b>FY 2016 Current Services (Base)</b>	<b>81,218</b>	<b>\$11,143,271</b>
<b>Program Changes:</b>		
<b>Before Cap Adjustment Program Increases:</b>		
Improve Taxpayer Services	2,970	301,523
Leverage New Technologies to Advance the IRS Mission	178	91,573
Implement Information Technology (IT) Changes to Deliver Tax Credits and Other Requirements	818	305,645
Improve Upfront Identification and Resolution of Identity Theft Returns	193	18,884
Implement Foreign Account Tax Compliance Act (FAT CA)	461	71,005
Sustain Critical Information Technology (IT) Infrastructure	157	188,514
Address Impact of Affordable Care Act (ACA) Statutory Requirements	483	67,206
Enhance Service Options for Taxpayers	54	16,243
Restore Staffing for Essential Support Programs	152	19,938
Increase Service for Low-Income Taxpayers and Taxpayers in Need of Hardship Relief	27	5,719
Implement Merchant Card and Basis Matching	322	34,253
<b>Subtotal FY 2016 Before Cap Adjustment Program Increases</b>	<b>5,815</b>	<b>\$1,120,503</b>
<b>Total FY 2016 Request Before Cap Adjustment</b>	<b>87,033</b>	<b>\$12,263,774</b>
<b>Cap Adjustment Program Increases:</b>		
<b>Enforcement Initiatives:</b>		
Prevent Identity Theft and Refund Fraud	420	82,162
Increase Audit Coverage	1,099	161,809
Improve Audit Coverage of Large Partnerships	107	16,249
Address International and Offshore Compliance Issues	238	40,657
Enhance Collection Coverage	1,034	122,830
Leverage Data to Improve Case Selection	59	39,060
Address Compliance Risks in the Tax-Exempt Sector	159	23,462
Pursue Employment Tax and Abusive Tax Schemes	52	17,186
Enhance Investigations of Transnational Organized Crime (TOC)	194	42,528
Ensure Ethical Standards of Conduct for Practitioners	28	4,280
<b>Subtotal Enforcement Initiatives</b>	<b>3,390</b>	<b>\$550,223</b>
<b>Infrastructure Initiatives:</b>		
Consolidate and Modernize IRS Facilities	74	85,456
Maintain Integrity of Revenue Financial Systems	7	12,162
Implement Agency Wide Shared Services Priorities	9	10,992
Implement Federal Investigative Standards	11	3,464
<b>Subtotal Infrastructure Initiatives</b>	<b>101</b>	<b>\$112,074</b>
<b>Alcohol and Tobacco Tax and Trade Bureau Program Integrity Transfer:</b>		
Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities		5,000
<b>Subtotal Alcohol and Tobacco Tax and Trade Bureau Program Integrity Transfer Initiative</b>		<b>\$5,000</b>
<b>Subtotal FY 2016 Cap Adjustment</b>	<b>3,491</b>	<b>\$667,297</b>
<b>Subtotal FY 2016 Program Increases</b>	<b>9,306</b>	<b>\$1,787,800</b>
<b>Total FY 2016 Budget Request<sup>1</sup></b>	<b>90,524</b>	<b>\$12,931,071</b>
Dollar/FTE Change FY 2016 Budget Request over FY 2015 Enacted	9,245	\$1,986,071
Percent Change FY 2016 Budget Request over FY 2015 Enacted	11.37%	18.15%

<sup>1</sup>FTE include those funded with newly appropriated resources only. FTE funded by User Fees and Unobligated Balances from Prior Years are included in the direct civilian full-time equivalent employment line of the President's Appendix, but are not shown in the table above.

## Initiative Labor Costing Methodology

The IRS uses a variety of methods to calculate the cost of its initiatives. Costs for initiatives that require labor funding are calculated by converting the workload to the number and type of staff (e.g., Revenue Agents, Revenue Officers, or Special Agents) needed to deliver targeted performance goals. Once the number of full-time equivalents (FTE) and type of staff are determined, the cost of the FTE is estimated using a Unit Cost Rate (UCR) calculator, a tool for projecting FTE salary and non-salary support costs and/or savings. The UCR calculator fully costs the salary, benefits, and support costs needed for each FTE.

The FY 2016 initiative FTE were estimated assuming a January 1 hire date except for front-line positions in Submission Processing and Account Management and Assistance – Electronic/Correspondence Assistance, which were estimated assuming an October 1 hire date. The primary function of the Submission Processing and Account Management and Assistance taxpayer service programs is to provide service to taxpayers during the filing season. These programs manage their workload using staff hours, not FTE. They are not as dependent on the traditional hiring and training process that is experienced in other IRS programs because they have a large existing seasonal workforce that is available to work additional hours as resources become available. To fully fund the FTE requested in the FY 2016 Budget Request estimated using a January 1 hire date, the IRS will require an additional \$164.7 million and 1,651 FTE for annualization in FY 2017.

### 2A – Budget Increases and Decreases Description

**Maintaining Current Levels (MCLs).....+\$200,677,000 / 0 FTE**

Pay Annualization +\$21,002,000 / 0 FTE

Funds are requested for annualization of the January 2015 pay raise.

Pay Raise +\$82,112,000 / 0 FTE

Funds are requested for the proposed January 2016 pay raise.

Non-Pay +\$48,710,000 / 0 FTE

Funds are requested for inflation adjustments in non-labor costs such as travel, contracts, rent, supplies, and equipment.

FERS Contribution Increase +\$29,553,000 / 0 FTE

Funds are requested for increases in agency contributions to the Federal Employee Retirement System based on updated actuarial estimates.

Federal Employees Health Benefits (FEHB) Program Modification +\$19,300,000 / 0 FTE

Funds are requested to meet a new Office of Personnel Management (OPM) guidance to modify eligibility for coverage under the FEHB Program to certain temporary, seasonal, and/or intermittent employees.

**Efficiencies and Savings.....-\$18,431,000 / -61 FTE**

Increase e-File Savings -\$2,406,000 / -46 FTE

These savings are a result of reduced paper returns. The IRS projects a total of 1,026,100 fewer returns filed on paper (525,100 individual and 501,000 business returns).



HCTC Program Termination -\$16,025,000 / -15 FTE

The Health Coverage Tax Credit (HCTC) program was terminated January 1, 2014, in accordance with the Trade Adjustment Assistance Extension Act of 2011 (Public Law 112-40).

**Reinvestment..... +\$16,025,000 / 0 FTE**

Expand Telecom Infrastructure to Handle Increased Demand +\$16,025,000 / +0 FTE

This reinvestment expands the Customer Service Representative (CSR) toll-free call center telecommunication infrastructure to allow the IRS to answer the additional telephone calls expected to result from implementation of the ACA. The requested funding covers expanded telecommunications infrastructure and equipment, hardware costs for high-speed internet connections, and encryption technology.

Position Type/Other Costs	FTE	Positions	\$000
<b>Expand Telecom Infrastructure to Handle Increased Demand</b>			<b>\$16,025</b>
Equipment and Infrastructure			15,327
Hardware and Software			698
<b>Total</b>			<b>\$16,025</b>

**Total Program Increases.....+\$1,787,800,000 / +9,306 FTE**  
**Before Cap Adjustment Program Increases .....+\$1,120,503,000 / +5,815 FTE**

Improve Taxpayer Services +\$301,523,000 / +2,970 FTE

Funds requested to Improve Taxpayer Services will allow the IRS to:

- Increase the CSR telephone LOS to 80 percent to handle an anticipated increase in demand due in part to the ACA implementation;
- Meet the projected increased demand for taxpayer face-to-face assistance and outreach resulting from ACA implementation and improve the effectiveness and efficiency of service responses;
- Expand staffing to assist with managing the ACA submission processing workload and provide advanced technology to electronically receive amended returns; and
- Increase outreach and communications activities, including the development of educational programs and the modernization of tax product development, publishing, and taxpayer letters.

Position Type/Other Costs	FTE	Positions	\$000
<b>Increase Taxpayer Level of Service (LOS) to 80%</b>	<b>2,115.50</b>	<b>2,130</b>	<b>\$185,704</b>
<b>Traditional Demand</b>	<b>1,501.00</b>	<b>1,501</b>	<b>\$121,333</b>
Customer Service Representative (CSR)	963.00	963	82,336
CSR - Seasonal	405.00	405	27,215
Manager and Analyst	133.00	133	11,782
<b>Affordable Care Act (ACA) Demand</b>	<b>607.00</b>	<b>619</b>	<b>\$48,263</b>
Customer Service Representative (CSR)	295.00	295	25,418
CSR - Seasonal	257.00	257	17,216
Manager and Analyst	17.00	17	1,501
Joint Operations Center	38.00	50	4,128
<b>Authentication Retention (AR) Technology</b>			<b>\$6,277</b>
<b>IT Equipment for CSR Telework</b>	<b>7.50</b>	<b>10</b>	<b>\$4,720</b>
<b>Customer Callback (formerly Virtual Hold)</b>			<b>\$3,327</b>
<b>Computer Telephone Integration (CTI) Technology</b>			<b>\$1,784</b>
<b>Maintain &amp; Improve the Taxpayer Experience</b>	<b>346.00</b>	<b>474</b>	<b>\$32,901</b>
<b>ACA Field Assistance and Outreach</b>	<b>284.50</b>	<b>384</b>	<b>\$27,403</b>
Individual Taxpayer Advisory Specialist (ITAS)	146.25	182	13,670
ITAS - Seasonal	96.00	146	8,779
Manager and Analyst	42.25	56	4,954
<b>e-File Authentication</b>	<b>55.50</b>	<b>82</b>	<b>\$4,837</b>
Analyst - Seasonal	42.00	64	3,289
Manager and Analyst	13.50	18	1,548
<b>Enhance Quality and Effectiveness of Services Provided to Taxpayers</b>	<b>6.00</b>	<b>8</b>	<b>\$661</b>
Program Analyst	4.50	6	430
Business Modernization Office (BMO) Analyst	1.50	2	231
<b>Maintain &amp; Improve Return and Notice Processing</b>	<b>297.75</b>	<b>301</b>	<b>\$24,456</b>
<b>AMS Acceptance of 1040X Amended Returns</b>			<b>\$4,108</b>
<b>ACA Submission Processing</b>	<b>288.00</b>	<b>288</b>	<b>\$16,986</b>
Tax Examiner - Seasonal	143.00	143	8,227
Data Transcriber - Seasonal	120.00	120	7,056
Manager - Seasonal	14.00	14	826
Support Staff	11.00	11	877
<b>Address Quality Initiative (AQI)</b>	<b>9.75</b>	<b>13</b>	<b>\$3,362</b>
<b>Improve Communications and Outreach</b>	<b>150.75</b>	<b>201</b>	<b>\$49,574</b>
<b>ACA Stakeholder Liaison &amp; Communication</b>	<b>12.00</b>	<b>16</b>	<b>\$1,550</b>
Tax Technician	5.25	7	752
Analyst	6.75	9	798
<b>Computer Assisted Publishing System NexGen</b>	<b>95.25</b>	<b>127</b>	<b>\$33,180</b>
<b>CRX System Replacement</b>	<b>20.25</b>	<b>27</b>	<b>\$11,548</b>
<b>IT Specialists</b>	<b>23.25</b>	<b>31</b>	<b>\$3,296</b>
<b>Other Direct Costs</b>	<b>60.00</b>	<b>80</b>	<b>\$8,888</b>
<b>ACA Program Management Office</b>			<b>\$1,700</b>
<b>ACA Taxpayer Advocacy Specialist</b>	<b>46.50</b>	<b>62</b>	<b>\$5,557</b>
<b>ACA HR Specialist</b>	<b>2.25</b>	<b>3</b>	<b>\$289</b>
<b>Taxpayer Advocacy Specialist</b>	<b>11.25</b>	<b>15</b>	<b>\$1,342</b>
<b>Total</b>	<b>2,970.00</b>	<b>3,186</b>	<b>\$301,524</b>

Increase Taxpayer Level of Service (LOS) to 80 Percent (+\$185.7 million / + 2,115.5 FTE)

The IRS projects that the CSR Telephone LOS will be 38 percent in FY 2015 and will reach 56 percent in FY 2016 with supplemental funding from projected user fee receipts. This initiative will fund additional staff to help increase CSR Telephone LOS to 80 percent in FY 2016.

- Traditional Demand (+\$121.3 million / +1,501 FTE)

These resources will allow the IRS to answer a greater number of taxpayer telephone calls. The IRS plans to continue to maximize self-service options, increase efficiencies across existing service delivery channels, and expand the use of more innovative technologies to address the increasing demand for services. The FY 2016 projected telephone call demand is 43.8 million calls, an increase of 20 percent from FY 2014.

- ACA-related Taxpayer Demand (+\$48.3 million / +607 FTE)

The IRS receives more phone calls whenever the tax code becomes more complex. For example, the LOS measure dropped from over 82 percent in FY 2007 to 53 percent in FY 2008 largely due to the increase in calls stemming from the payments provided by the Economic Stimulus Act of 2008. Similarly, the IRS expects approximately 5.9 million more phone calls associated with the ACA in FY 2016, an increase of 13.5 percent. Although use of self-service options is increasing, customer demand for CSR-assisted phone services will likely continue to remain high based on growth trends.

The IRS Joint Operations Center (JOC) provides service, support, and technology to achieve necessary service levels for all telephone, correspondence, and electronic media inquiries. Additional staff is requested to address the expected increase in ACA-related demand, including producing announcements, telephone routing, and scripting changes; and tracking and reporting the status of ACA-related telephone performance.

- Authentication Retention (AR) Technology (+\$6.3 million / 0 FTE)

This technology will allow taxpayers to provide identifying information to the IRS only once per call to authenticate or verify their identity, while still protecting taxpayer privacy. Decreasing the number of times a CSR has to authenticate callers will reduce taxpayer burden, the risk of identity theft and fraud, and the overall time a taxpayer spends on the phone with the IRS. AR technology creates a seamless taxpayer experience during interactions with assistors and is estimated to benefit more than 31 million callers annually. AR technology will allow the IRS to actively address the Treasury Inspector General Tax Administration (TIGTA) finding that telephone authentication practices need improvement to prevent unauthorized disclosures.

- IT Equipment for CSR Telework (+\$4.7 million / +7.5 FTE)

Funds are requested for IT equipment to allow CSRs to telework. The IRS does not have the physical space capacity to reach the 80 percent CSR LOS. This investment will allow a 3:1 desk-sharing ratio by enabling telework, which will provide more space for new hires. Telework lays the groundwork for reducing leased space and related facility costs in the future.

- Customer Callback (CC) (+\$3.3 million / 0 FTE)

CC technology will allow taxpayers to choose how they interact with IRS toll-free services while waiting to speak with a CSR. Currently, taxpayers remain in the queue to hear announcements of estimated wait time. Investing in this technology will provide taxpayers with the option of remaining on hold or scheduling a callback. This will allow the IRS call sites to operate more efficiently, save telephone resources, and greatly improve the taxpayer experience with the IRS.

The CC technology

- Reduces circuitry and port costs, estimated to save \$1.5 million to \$1.9 million annually;
  - Improves customer satisfaction by reducing taxpayer burden;
  - Increases employee satisfaction; and
  - Reduces the number of abandoned calls.
- Computer Telephone Integration (CTI) (+\$1.8 million / 0 FTE)

This technology provides online screen displays of taxpayer account-related data. CTI, which is dependent upon AR implementation, and performs basic taxpayer-related research to provide the CSR with current account information to improve response time for taxpayer inquiries.

#### Maintain and Improve the Taxpayer Experience (+\$32.9 million / +346 FTE)

To maintain and improve the taxpayer experience, the IRS requests additional funds to handle the increasing demand for taxpayer services related to implementation of the ACA, provide additional support for eAuthentication assistance, and to research taxpayer behaviors in order to provide better tools to respond to taxpayer inquiries.

- ACA Field Assistance and Outreach (+\$27.4 million / + 284.5 FTE)

In FY 2015, taxpayers will file the first tax returns that will include the reconciliation of the PTC, granting individual exemptions from health insurance coverage requirements, and the assessment of individual responsibility payments. In addition, beginning in FY 2016, new information reporting will be required for certain employers and health insurance providers.

Starting in FY 2016, the IRS will send ACA compliance-related notices to taxpayers, which will create growing demand for face-to-face services. This initiative will provide permanent staff at up to 120 Taxpayer Assistance Center (TAC) locations that have historically had greater than 1,000 annual account notice questions and seasonal staff at up to 90 locations that have historically had greater than 500 annual notice questions. Resources for face-to-face assistance will mitigate the expected increase in taxpayer wait time and reduce repeat visits to TACs.

- Taxpayer eAuthentication Assistance (+\$4.8 million / +55.5 FTE)

The eAuthentication (eAuth) application improves the taxpayer experience by providing taxpayers access to online self-service options such as Identity Protection Personal Identification Number and Get Transcript. Both applications launched in

FY 2014. While these online self-service applications reduce the number of taxpayer phone calls, the IRS has found there is still a need to provide taxpayers with assistance in creating and managing their eAuth online account. Currently, the IRS provides limited services to taxpayers to disable or enable their eAuth account in the case of identity theft. In the future, eAuth will provide more capabilities to assist taxpayers that are having difficulties with their online accounts.

While the IRS currently provides support to taxpayers for eAuth, an increase in resources is requested to handle the additional 300,000 calls expected from expanded use of online services. The IRS estimates eAuth-enabled online applications will generate an additional 1,000,000 taxpayer inquiries for support by FY 2016. The IRS also plans to provide a taxpayer self-service model with Frequently Asked Questions to handle 70 percent of the inquiries.

- Enhance Quality and Effectiveness of Services Provided to Taxpayers (+\$0.7 million / +6 FTE)

Additional funds in this initiative support enhanced service to taxpayers. The IRS will conduct qualitative research to understand taxpayer behaviors related to compliance and taxpayer comprehension of new tax laws. The data collected will be used to help formulate appropriate service responses. These resources also will support the design of enhancements to the Account Management System (AMS) to provide CSRs better tools to respond to taxpayer inquiries.

#### Maintain and Improve Return and Notice Processing (+\$24.5 million / +297.75 FTE)

The ACA is expected to generate additional correspondence in FY 2016 which will need to be processed. This initiative provides funds to maintain and improve return and notice processing by adding 288 submission processing FTE to handle the increased demand from the ACA, updating the Account Management System to electronically accept amended returns, and improving the delivery of IRS correspondence. Without these resources, the IRS will be unable to process the anticipated correspondence demand, generating even more taxpayer correspondence and phone calls and leading to significant overage and impacts to other paper programs.

- Account Management System (AMS) Acceptance of Individual Amended Returns (+\$4.1 million / 0 FTE)

This initiative provides funds to enhance the AMS to electronically receive Form 1040X from Modernized e-File (MeF), resulting in more efficient tax return processing and improved taxpayer service. In 2014, the IRS processed 3.6 million paper amended returns. The IRS plans to begin accepting electronic amended returns in Tax Year 2016/Processing Year 2017.

This enhanced AMS functionality will allow the IRS to receive tax data from MeF so that Form 1040X inventories can be routed and worked. This new capability will enhance business controls and create a virtual interface to all account and case information.

Benefits include:

- Faster and more effective toll-free service because more information will be readily available to CSRs;
- Better fraud and identity theft detection for Form 1040X.
- Automated case processing, resulting in fewer manual actions;
- Increased identification of potential issues, resulting in increased revenue collection or prevention of revenue loss;
- Reduced costs by eliminating redundant data stores and applications; and
- Reduced time to route cases by immediately identifying and forwarding cases meeting relevant criteria to the appropriate area;
- Submission Processing (+\$16.9 million / +288 FTE)

The IRS requires additional staff to handle the submission processing workload related to processing ACA-related returns. The increase in return volume is expected because some taxpayers who do not currently file a return because they do not meet the filing threshold will qualify for the PTC and will be required to file a return. This initiative will provide resources to process new and revised forms, including expanded transcription requirements and increased error resolution effective in the 2015 filing season. The IRS expects that the new forms will require a significant amount of transcription. Because the new forms are both unfamiliar and complex, the IRS anticipates that more taxpayers will make computational errors or inadvertently omit information. This will result in tax examiners spending additional time reviewing some tax returns for accuracy, and in some cases, corresponding with the taxpayers for clarification.

- Address Quality Initiative (AQI) (+\$3.4 million / +13 FTE)

The AQI is an effort to improve the delivery of IRS correspondence through process and system improvements that enhance the address data the IRS receives and uses. It includes evaluation of incoming data for conformity with United States Postal Service (USPS) and foreign postal address requirements; use of more USPS non-delivery and address change data; and enhanced processing and validation of foreign addresses.

This project will consist of a series of modules that will modify systems to better accommodate addresses, change processing, and their quality indicators. Currently, the IRS has a nearly 10 percent undelivered mail rate, which is much higher than commercial mailers. The Treasury Inspector General for Tax Administration (TIGTA) estimated that undelivered mail increases IRS costs by \$57.9 million annually in their May 14, 2010, report titled “Current Practices Are Preventing a Reduction in the Volume of Undeliverable Mail”.

Currently, most undelivered mail is returned to an IRS campus, where it is destroyed without further action. The AQI project will allow the IRS to automate follow-up actions, reduce subsequent non-delivery and handling, and cut costs significantly. It also provides the IRS with additional means to detect identity theft through non delivery of correspondence and quality improvement of addresses.

## Improve Communications and Outreach (+\$49.6 million / +150.75 FTE)

This initiative funds increased outreach and communications activities, including the development of educational programs and the modernization of tax product development, publishing, and taxpayer letters.

- Stakeholder Liaison and Communication (+\$1.5 million / +12 FTE)

Stakeholder liaison tax analysts and technicians will support ACA by researching customer needs, developing and managing educational programs, establishing partnerships with stakeholder groups, and disseminating tax information to taxpayers and the general public through a variety of media, including publications and mailings, websites, broadcasting, and advertising.

- Implement Computer Assisted Publishing System (CAPS) NexGen Project (+\$33.2 million / +95.25 FTE)

The IRS operates one of the largest publishing programs in the federal government. It is responsible for creating, updating, publishing, and distributing more than 1,200 tax forms, instructions, and publications used by taxpayers to fulfill their tax obligations. In addition, the IRS publishes and distributes internally the more than 12,000 products used to administer the nation's tax system. To meet these responsibilities, the IRS utilizes CAPS to support its content creation, publishing, and distribution processes.

- Replacement of the Correspondex System (CRX) (+\$11.5 million / +20.25 FTE)

The CRX system is used by IRS employees to issue letters to taxpayers. The system is decades old and creates an antiquated letter that allows for virtually no customization, such as bolding, italics, or use of IRS letterhead. Revising CRX letters is time-consuming and arduous, and makes timely communication difficult in the face of tax law changes. The resulting communications do not meet modern standards in design, format, and effectiveness and have had their legitimacy questioned by taxpayers due to the sub-standard quality of the letters produced.

The new system will create letters that will match the professional appearance already in place for computer-generated notices. The system also will provide the following features:

- An easy to use, web-based user interface;
  - Easy to maintain templates;
  - Shared content that allows updates to the text flow through to all letters that use the content; and
  - A new archiving capability that stores the content and template for each letter issued, which will allow users to retrieve a letter by taxpayer identification number.
- IT Specialists (+\$3.3 million / +23.25 FTE)

**Other Direct Costs (+\$8.9 million / +60 FTE)**

*Dollars in Millions*

<b>IRS Activity</b>	<b>Cost</b>	<b>FTE</b>	<b>Positions</b>	<b>Explanation</b>
Taxpayer Advocate Service (TAS)	\$1.3	11.25	15	TAS expects to receive about 1,194 additional cases resulting from abandoned Affordable Care Act (ACA) calls related to this initiative and will need 15 positions (11.25 FTEs) to work the additional cases.
Human Capital Office	\$0.3	2.25	3	Handle the increase in front-line positions related to the ACA and the expectation that new managerial positions will be created. Labor Relations support begins in the first year and continues throughout a manager's career, as needed. One Labor Relations Specialist supports 49 managers.
ACA Program Management Office	\$1.7			Funding will allow the Project Management Office (PMO) to continue contractual support services and provide oversight of ACA implementation activities focusing on individual and information returns processing, customer service, outreach, and development of guidance.
Taxpayer Advocate Service (TAS)	\$5.6	46.50	62	Handle additional case receipts.
<b>Total</b>	<b>\$8.9</b>	<b>60.00</b>	<b>80</b>	



Leverage New Technologies to Advance the IRS Mission +\$91,573,000 / +178 FTE

The IRS is requesting an increase in the Business Systems Modernization appropriation of \$91.6 million and 178 FTE (\$3.6 million is funded in the Operations Support appropriation to fund corporate costs related to the new hires) to:

- Implement an Enterprise Case Management (ECM) solution for performing standard case management functions across the IRS;
- Expand the capabilities of the CADE 2 relational database and address financial material weakness;
- Enhance the taxpayer’s online experience and provide secure digital communications;
- Complete the design, development, testing, and deployment of various Estate and Gift tax forms for electronic acceptance; and
- Increase fraud detection, resolution, and prevention through use of the Return Review Program.

**FY 2016 BSM Project Activities**

Dollars in Thousands

Business Systems Modernization	FY 2014 Enacted	FY 2015 Enacted	FY 2016 President's Budget Request	Change FY 2015 to FY 2016 President's Budget Request
<b>CADE 2 (Taxpayer Account Database)</b> Continue the design and development of applications that will modernize core tax processing application architecture, address financial material weakness, and expand capabilities in leveraging the CADE 2 relational database as the authoritative source of individual taxpayer data.	119,000	100,000	115,000	15,000
<b>Enterprise Case Management</b> The Enterprise Case Management system will provide an enterprise-wide solution that uses Commercial Off-the Shelf (COTS) products, common services and custom code to perform case management functions on a standard infrastructure platform.	0	2,000	25,000	23,000
<b>Modernized e-File</b> Fund the physical design, development, testing, and deployment of Release 10, Form 1040-NR (U.S. Nonresident Alien Income Tax Return) and Form 1040-NR-EZ (U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents); the physical design, development, testing and deployment of Release 11, Form 706 (U.S. Estate Tax Return), Form 706NA (U.S. Estate (and Generation-Skipping Transfer) Tax Return), Form 708 (U.S. Return for Gifts and Bequests Received From Expatriates) and Form 709 (U.S. Gift (and Generation - Skipping Transfer) Tax Return); and the initial requirements and design phases of Release 12, the implementation of technical improvements and assorted forms to be chosen by MeF's Business partner.	9,148	28,500	27,700	-800
<b>Return Review Program</b> Provide leading-edge technologies to advance IRS effectiveness in detecting, addressing, and preventing tax refund fraud and protecting US Treasury revenue.	43,475	38,475	47,000	8,525
<b>Web Applications (formerly: Enhance Online Services)</b> Lead the IRS transition to the future digital government and define the long-term vision. Provide an enhanced taxpayer experience, a broad range of self-service and innovative options, build internal capability, and strengthen the operating model.	10,000	12,500	18,000	5,500
<b>Architecture, Integration, and Management</b> Provide system engineering management capabilities, including systems strategy, architecture, and engineering capabilities, across IT Infrastructure, Business Applications, Data Management, and IT Security. Provide portfolio control and management processes and tools, including governance, enterprise lifecycle support, tiered program management, and configuration/change management.	25,054	28,900	31,000	2,100
<b>Core Infrastructure</b> Provide shared infrastructure that leverages reusable engineering design patterns and best practices for standardized, virtual, and secure environments. These environments allow multiple BSM projects to develop, test, deploy, operate, and monitor in a common approach.	24,600	15,465	19,000	3,535
<b>Management Reserve</b>	1,701	4,284	5,000	716
<b>Subtotal Capital Investments</b>	<b>\$232,978</b>	<b>\$230,124</b>	<b>\$287,700</b>	<b>57,576</b>
<b>Labor</b> <sup>1</sup>	78,774	58,870	87,496	29,240
<b>Support</b>	1,186	1,006	3,982	2,362
<b>Total BSM</b>	<b>\$312,938</b>	<b>\$290,000</b>	<b>\$379,178</b>	<b>\$89,178</b>

<sup>1</sup> FY 2016 labor includes \$1.2M in MCLs and excludes \$3.6M in corporate costs which are reflected in the Operations Support appropriation.

The FY 2016 BSM request of \$379.2 million and 576 FTE reflects a zero-based budget and the following project activity chart displays the full funding request. It will allow the IRS to continue leveraging new technologies to develop critical information technology systems needed to support the IRS's taxpayer service and enforcement programs.

#### CADE 2 (\$115.0 million)

In FY 2015, the IRS will continue to focus on the next transition state of the CADE 2 modernized relational database, building a long-term CADE 2 database annual conversion capability and process for use in Filing Season 2016 and beyond. This Transition State 2 (TS2) capability will allow the IRS to capture and apply all Individual Master File (IMF) annual conversion changes to the CADE 2 database in preparation for the new processing year while retaining the CADE 2 database historical taxpayer data for more effective administration of the tax system.

Additionally, the IRS will continue to make progress in modernizing its core taxpayer account processing systems. Design efforts will be based on the TS2 Release Plan, improving taxpayer account processing by leveraging the CADE 2 database to build a solid data foundation for the future, and achieving long-term viability for the systems by modernizing the architectures and programming languages.

In FY 2016, the IRS will:

- Begin development of an early capability for the CADE 2 database to become the authoritative source of individual taxpayer account data for the GAO audit of the custodial financial statements, by modifying existing financial reports to take into account the increased level of detail and accuracy of data in the CADE 2 database.
  - Enhancing accuracy of financial calculations and reporting through Obligation Line Items, Penalty & Interest by assessment and credit-to-debit allocations will improve availability of current account data. This will increase service accuracy and consistency to taxpayers, and will provide improved reporting for better compliance and issue resolution.
  - Establishing an interface to CADE 2 data to be used for refund generation. This will improve the IRS' ability to collect the correct amount of taxes and reduce erroneous refunds.
- Establish the foundation for a modernized tax processing engine by modernizing core taxpayer account processing functions that are currently performed by the Individual Master File (i.e. posting, financial settlement, and account analysis services), enhancing taxpayer account processing, and achieving long-term viability for the systems.
- Continue the development of a data distribution framework for CADE 2 information. Establish technical components to provide CADE 2 data to downstream compliance, analytics, and reporting systems via modernized Data Distribution Services (DDS). Embedding good information management practices such as reducing duplications in data and establishing common data definitions that can be used across all systems, as well as

modernizing data access methods to allow CADE 2 files to be shared quickly and efficiently with other systems that need CADE 2 data to perform their functions.

- Enhancing CADE 2 to the Integrated Production Model (IPM) interface and data model will improve performance in using CADE 2 for data analytics and enable additional reporting capabilities (initial DDS).
- Establishing interfaces from CADE 2 to the Integrated Data Retrieval System (IDRS) allows the IRS to use CADE 2 expanded data for enhanced customer service activities in IDRS and improved case management functions.

#### Enterprise Case Management (ECM) (\$25.0 million)

The Enterprise Case Management (ECM) solution will address the need to modernize, upgrade, and consolidate multiple aging IRS case management systems. The ECM will develop an enterprise solution for performing case management functions using a common infrastructure platform for multiple projects to share. Implementation of the solution will provide the IRS with a consistently efficient approach to case management across all business units.

This investment will fund the Project Management Office, the strategy development and planning activities required to develop the multi-year roadmap, the upgrade of existing applications to the most current software version, and prototypes to demonstrate ability to reuse enterprise case management capabilities. It will also fund the infrastructure for the development of common services and project migrations, the development of the common services, and migration of select projects to the enterprise solution.

#### Modernized e-File (MeF) (\$27.7 million)

MeF serves as the primary external point of interaction for all electronic tax filings. It validates and stores tax return data, allowing authorized IRS users the ability to view tax return data securely online. Electronic access to tax return data improves taxpayer service by significantly reducing the handling and mailing of paper returns.

Significant work continues to expand and improve MeF capabilities for taxpayers. MeF Release 9 was deployed as planned in January 2014 implemented Form 94X, *Employment/Unemployment Tax* and Form 1041, *U.S. Income Tax Return for Estates and Trusts*, onto the MeF platform. It also enabled the passing of information from MeF directly to the Return Review Program (RRP) for fraud detection processing.

In FY 2015 the IRS will complete Milestone 4a (physical design), Milestone 4b (development, testing), and Milestone 5 (deployment) of Release 10, which will implement Form 1040-NR, *U.S. Nonresident Alien Income Tax Return*, and Form 1040-NR-EZ, *U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents*. The FY 2015 request also will fund Milestone 2 (requirements definition) and Milestone 3 (logic design) of Release 11, described below will also be completed.

The FY 2016 request for MeF will fund the Milestone 4a (physical design), Milestone 4b (development and testing), and Milestone 5 (deployment) of Release 11, which will implement Form 706, *U.S. Estate Tax return*, Form 706NA, *U.S. Estate and Generation-Skipping Transfer Tax Return*, Form 708, *U.S. Return for Gifts and Bequests Received From Expatriates*, and Form 709, *U.S. Gift and Generation-Skipping Transfer Tax Return*. The FY 2016 request will also fund Milestone 2 (requirements definition) and Milestone 3 (logical design) of Release 12, the implementation of Form 1065X, *Amended Return Administrative Adjustment Request (AAR) of Partnership Income*; Form 2848, *Power of Attorney and Declaration of Representative*; Form 8609, *Low-Income Housing Credit Allocation and Certification*, as well as the consolidation of multiple Forms 1120 (Corporate Returns into a single form).

Adding Forms 1040-NR, 1040-NR-EZ, 706, 706NA, 708, and 709 to the MeF will provide the following:

- Extensive error checking to improve the accuracy of the tax return;
- Sophisticated math error validation checking, which increases the likelihood that tax returns will be processed successfully;
- Ability to attach all necessary documents supporting the data onto tax returns;
- Capability to provide a justification to the taxpayer or trading partner when the IRS rejects the tax return;
- Form receipt acknowledgments provided to transmitters within minutes during non-peak days (within two hours during peak days), instead of 24-48 hours under the legacy system;
- Expanded availability of electronic filing, beyond the traditional legacy e-file shutdown dates;
- Ability to e-file the current and two prior tax years; and
- Ability to e-file a balance-due return and, at the same time, authorize an electronic funds withdrawal from the taxpayer's bank account.

Productivity and IRS efficiency gains include:

- Improving Customer Service – Once MeF processes 1040-NR, 1040-NR-EZ, 706, 706NA, 708, and 709 forms, IRS Customer Service Representatives (CSRs) will have access to all of the information included on each form. This will allow CSRs to provide responses to taxpayers more quickly by viewing the most current 1040-NR, 1040-NR-EZ, 706, 706NA, 708, and 709 data online, eliminating the need for back-end rekeying and data entry.
- Enhancing Compliance and Enforcement Operations – Online capabilities and 100 percent data access to 1040-NR, 1040-NR-EZ, 706, 706NA, 708, and 709 forms will enhance compliance and enforcement activities by allowing access to taxpayer data in a timely and accurate manner.

- Enhancing the Production Volumes – Returns submitted through the MeF encounter fewer processing errors than do paper returns.
- Implementing Modernized Data Standards – MeF uses the widely accepted, industry-standard Extensible Markup Language (XML) format for identifying, storing, and transmitting data. XML provides improved data accuracy and protection of taxpayer information. MeF provides more information to correct taxpayers' returns, including expanded error code explanations that pinpoint the location of errors.

#### Return Review Program (\$47.0 million)

The Return Review Program (RRP) delivers an integrated and unified system that enhances IRS capabilities to detect, resolve, and prevent criminal and civil tax noncompliance, including identity theft. The RRP allows analysis and support of complex case processing requirements for compliance and criminal investigation programs during prosecution, revenue protection, accounts management, and taxpayer communications processes. The RRP implementation occurs in multiple transition states (TS). Additional features include:

- Enhanced automatic identification of fraudulent and erroneous returns – using increasingly sophisticated models through entity-based research;
- Discernible flexibility and scalability to support changing business needs;
- Strategic identification of theft trends and detection;
- In-line processing capabilities – applies rules and scoring in several anomaly areas, including identity theft and frivolous filer;
- Off-line processing capabilities that increase flexibility to implement new models or business rules to accommodate changes in process and legislation; and
- ID Theft Protection (Pilot in FY 2014) – new model leveraging new data fields that will feed manual intervention in current legacy environment.

In FY 2015, RRP plans include completion of performance testing, implementation of legislative changes, fine tuning systemic verification, improving system performance, implementing ID theft expansion, and developing an interface with EFDS in order to transmit identity theft data. RRP will provide connectivity to IRS systems to support seamless workflow, expand user capabilities, and compare new taxpayer data. The RRP will re-engineer and incorporate current business application functionality, such as the inclusion of pre-refund capability allowing early detection of issues, new treatment stream determination (e.g., a predefined sequence of remedial steps), and identification and management of Return Preparer issues. The RRP will deliver full capability for individual taxpayer returns, including off-line prevention, in-line detection, systemic verification of third party data, integrated data warehouse, Management Information System (MIS), and User Interface using the Employee User Portal (EUP).

RRP will provide the following benefits:

- Increased fraud detection (including identity theft), resolution, and prevention;
- Improved case tracking, analysis, and reporting;
- Generation of a scorecard for questionable returns, evaluating consistency and dependability;
- Reduction in the percentage of non-fraudulent refund claims frozen by the IRS;
- Establishment of capabilities to coordinate detection and resolution of criminal and civil compliance issues;
- Prevention of criminal and civil compliance issues; and
- Promotion of increased taxpayer compliance through targeted educational information and deterrent activities.

Web Applications (formerly known as Enhance Online Services) (\$18.0 million)

The FY 2016 request will lead the IRS transition to digital government. The Web Applications will enhance the taxpayer's online experience, provide secure digital communications, and add more interactive capabilities to existing web self-service products. By providing taxpayers with the opportunity to communicate digitally, the IRS estimates that it will deliver a greater level of service and achieve significant savings by reducing call center volumes, Taxpayer Assistance Center visits, and the number of forms and notices faxed or mailed.

To keep up with the ever-changing state of web and digital technology, the IRS must develop and enhance online capabilities and services for taxpayers, tax practitioners, and IRS employees.

The IRS goal is to deliver new digital communication channels and migrate service delivery from offline channels to the World Wide Web by implementing Online Account, Taxpayer Digital Communications (TDC), and Advanced Mobile projects; upgrading the eAuthentication Platform; improving integration with the authorization web service; and expanding the Third Party Application Programming Interfaces (API).

Online Account Phase 3 is a multi-phase effort that will provide single sign-on capability for taxpayers to access account-related information with links to multiple products such as Online Payment Agreement, IRS Direct Pay, and *Where's My Refund?*

Taxpayer Digital Communications will create a web-based, digital communications channel that will allow taxpayers and the IRS to communicate directly via secure messages. This solution is expected to require only a web-enabled device and an internet connection. TDC will allow the IRS and taxpayer to send both one-way and two-way secure messages and digital documents while requiring only minimal integration with IRS systems.

The IRS2Go Mobile Application will continue to evolve, allowing taxpayers to increase their use of multiple mobile digital devices such as smart phones and tablets as a primary source for accessing information and conducting business. By offering new services tailored for mobile devices, taxpayers will be able to find tax-related information and meet their filing obligations with added convenience and flexibility. Developing a framework for mobile applications to utilize IRS data allows the IRS to provide taxpayers with a new generation of faster and more feature-rich mobile applications. In FY 2016, new planned functionalities for taxpayers will include retrieving balance due, viewing tax history, making payments, and setting up Online Payment agreements directly from the IRS2Go Mobile Application.

Upgrade of the eAuthentication framework will provide more advanced tools and techniques to confirm the identity of taxpayers, which will assist in the registration of individuals, businesses, and tax professionals who wish to use the IRS online digital services. The eAuthentication upgrade will support externally-hosted applications, providing the IRS with more flexible development options and continued migration of legacy applications to the upgraded platform. The enhancements will also include automated reporting and improve user interface for mobile browsers and mobile applications.

Third Party Expansion of Application Programming Interface (API) will increase the number of tax services available to third parties and broaden the definition of third party to include other federal and state government agencies, as well as commercial tax preparers. The IRS anticipates that it will implement six to eight new capabilities in FY 2016 as well as a continued multi-year effort to provide additional services to taxpayers. Some of the services being considered include Pay-Off Amount; *Where's My Refund?* (WMR); Transcripts; First Time Home-Buyer Credit Lookup; Notices and Explanations Previously Received; Preparer Tax Identification Number (PTIN) Lookup; Calculators for Earned Income Tax Credit (EITC); and Facilitate taxpayer authorization for prior year tax information.

#### Architecture, Integration and Management (\$31.0 million)

Provides engineering management capabilities, including systems strategy, architecture, and engineering capabilities across IT Infrastructure, Business Applications, Data Management, and IT Security. Provides portfolio control and management processes and tools, including governance, enterprise lifecycle support, tiered program management, business rules and requirements, transition management, cost estimation, configuration/change management, and risk management. This program translates enterprise and project objectives into targeted, actionable investments to provide the necessary framework and direction for a cohesive, successful modernization.

#### Core Infrastructure (\$19.0 million)

This request will continue to provide mission-critical services for designing, engineering, testing, and deploying standardized, consolidated, virtual, and secure modernized development and production environments for use by BSM projects.

The IRS is modernizing taxpayer applications to take advantage of web-based technologies that allow taxpayers to communicate with the IRS through the internet using commercially

available technology. The modernized infrastructure provides a complete environment (hardware, software, processes, and management) for developing, testing, deploying, operating, and monitoring both customer and internal applications in support of business practices. This includes continuing to update the web portal environment and standardizing services, security, and operations management.

Core Infrastructure allows the IRS to develop a shared infrastructure and common business service solutions that are usable across multiple BSM projects. The core infrastructure consists of two primary program elements:

- Infrastructure Shared Services (ISS) to provide capacity planning and performance engineering services for BSM projects. This includes additional unit, integration, and testing support to increase the reliability of deployed systems; and
- Development, Integration, and Testing Environment (DITE) to engineer, install, maintain, and support the development and test environments needed for each BSM project through deployment and acceptance in the production environment.

#### Management Reserve (\$5.0 million)

This activity maintains funds not otherwise designated for specific projects to allow flexibility in responding to unexpected funding increases to projects.

#### Labor and Support (\$91.5 million / 576 FTE)

This request provides the labor and support costs associated with the development of projects within the BSM portfolio.

#### Other Direct Costs

There are no other direct costs associated with this initiative.



Implement Information Technology (IT) Changes to Deliver Tax Credits and Other Requirements +\$305,645,000 / +818 FTE

This investment will allow the IRS to continue to implement the new tax law provisions contained in the ACA. While the Department of Health and Human Services is responsible for the health care policy and insurance provisions in the legislation, the IRS administers more than 45 specific tax provisions and numerous cross-agency sections related to tax administration. Included in this investment is one of the largest refundable tax credits the IRS administers, the PTC. The investment touches all submission, fraud, and compliance tax administration processes to receive, validate, and handle individual and business tax returns. Funding this investment will provide enhanced technology infrastructure and applications support and allow necessary, major modifications to existing IRS tax administration systems.

Position Type/Other Costs	FTE	Positions	\$000
<b>Implement IT Changes to Deliver Tax Credits and Other Requirements</b>	<b>818.00</b>	<b>818</b>	<b>\$305,645</b>
IT Specialists	818.00	818	118,579
Contractual Services			187,066
<b>Total</b>	<b>818.00</b>	<b>818</b>	<b>\$305,645</b>

The IRS IT organization uses industry best practices to design, develop, deploy, and manage ACA systems. The IRS developed a multi-year release strategy to support multiple, concurrent releases. Some of these releases are operational and in production, while others are in various stages of development and testing, and are scheduled for implementation over the next several years. These releases include new technology implementation as well as modifications to the current production environment.

In addition to continuing to operate the IRS systems that support the eligibility and enrollment processes with the Insurance Marketplaces, the IRS IT organization:

- Developed and implemented new systems to support the assessment and collection of the Branded Prescription Drug Industry Fee, Insurance Provider Fee, and Hospital Insurance Tax;
- Changed the existing IT production environment to support Advanced PTC reporting; and
- Implemented updates to ACA Coverage Data Repository and Information Sharing and Reporting systems to increase data flows from the Centers for Medicare and Medicaid Services Data Hub, which supports the Insurance Marketplaces.

These activities support increased efficiencies in revenue collection, reporting, and information sharing. They also will facilitate prompt and accurate application of the PTC to eligible citizens while protecting against erroneous and potentially fraudulent tax credit claims.

A major focus for the IRS going forward is to continue to support the Insurance Marketplaces and tax compliance activities, as well as non-Marketplace provisions of the law and annual updates to ACA systems. This will include systems to support the assessment and collection of individual and Employer Shared Responsibility Payments. It also includes new technology and changes to existing systems and infrastructure to receive and process new forms/schedules or information reports from federal and state insurance marketplaces, insurance providers, and employers. This activity also will enable at-filing checks of tax

returns for reporting a PTC, leveraging third-party data from the insurance marketplaces, and validating ACA-related tax forms via the new ACA Verification Service.

To continue supporting implementation of this critical legislation, the IT organization will design, build, test, and implement systems infrastructure, new IT systems, and modified current production systems. In addition, the IT organization will implement security requirements and alternate production site capabilities, and maintain systems in operations and maintenance mode once development activities are complete.

Funding this IT initiative will allow the IRS to continue to support newly established business capabilities as well as develop and implement new capabilities including:

- Validating PTCs claimed on individual tax returns;
- Assessing and collecting penalties related to individual and employer responsibility provisions;
- Assessing and collecting the Branded Prescription Drug Industry Fee;
- Assessing and collecting the Insurance Provider Fee;
- Assessing and collecting the Hospital Insurance Tax;
- Establishing reporting requirements for federal and state Insurance marketplaces, certain large employers, and insurance issuers;
- Providing federal tax information to non-IRS entities;
- Recalculating and adjusting household income and Premium Tax Credit (PTC) for returns that are identified as having underreported income and receiving PTC;
- Recalculating the individual shared responsibility payment in the event of income changes in taxpayer returns as a result of compliance activities; and
- Expanding information returns processing and capabilities needed for compliance processing.

This initiative will fund significant revisions to existing tax administration systems and investment in building, maintaining, and operating the new infrastructure and applications technology needed to continue implementation of the ACA tax law provisions. This includes business requirements, solution architecture, solution engineering, program and project management, security management, and applications development, as well as operations and maintenance activities. Vital components of the investment include:

- Implementing new technology and modifying existing compliance systems to detect potential fraud and noncompliance activities associated with refundable credits, such as the PTC, and validating ACA-related tax forms.
- Implementing new technology and modifying existing systems to be able to calculate and assess Applicable Large Employer Shared Responsibility Payments. The IRS will develop a new IT system, ACA Compliance Management (ACM), to support this business capability.

- Maintaining and expanding repositories that store data about household-level income to help determine eligibility for and reconciliation of the PTC. Additional data will be collected and stored, including periodic data received from the federal and state insurance marketplaces that the IRS will use to validate individual claims for PTC and ACA-related information returns data.
- Preparing IT systems to support the annual open enrollment and ongoing exchange eligibility processes by providing income and family size information from recent tax returns;
- Modifying and updating tax account systems to assess and collect penalties and fees, such as the Individual and Employer Shared Responsibility Payment;
- Expanding tax account and case management systems to facilitate responses to taxpayer inquiries; and
- Updating IRS Call Center systems and processes.

#### Other Direct Costs

There are no other direct costs associated with the initiative.

Improve Upfront Identification and Resolution of Identity Theft Returns

+\$18,884,000 / +193 FTE

This initiative strengthens the integrity of the tax system by improving the IRS's ability to detect and prevent improper refunds.

Expand Identity Protection Specialized Unit (IPSU)

(+\$11.6 million / +134 FTE)

Position Type/Other Costs	FTE	Positions	\$000
<b>Expand Identity Protection Specialized Unit (IPSU)</b>	<b>134.00</b>	<b>134</b>	<b>\$11,565</b>
Customer Service Representative	134.00	134	11,565
<b>Expand External and Industry Leads</b>	<b>6.00</b>	<b>8</b>	<b>\$952</b>
Analyst	6.00	8	952
<b>Other Direct Costs</b>	<b>53.00</b>	<b>71</b>	<b>\$6,367</b>
Taxpayer Advocacy Specialist	53.00	71	6,367
<b>Total</b>	<b>193.00</b>	<b>213</b>	<b>\$18,884</b>

The prevention and resolution of identity theft cases is one of the highest priorities for the IRS. The rapid growth of tax-related identity theft has resulted in a backlog of cases, which the IRS has addressed by applying resources from other programs, including customer service. In FY 2016, the IRS projects approximately 635,000 identity theft receipts, but with current resources will only be able to close 544,000 of them. This funding will allow the IRS to close an estimated 91,000 additional identity theft cases in FY 2016 and control the backlog without applying resources from other programs. Resources will help taxpayers affected by identity theft to get their issues resolved timely and prevent them from being burdened with the same issues from year to year. Without the requested resources, the IRS anticipates growing inventory levels and increasing time to resolve victim cases.

Funds will also expand the capacity of IPSU to handle new case receipts. IPSU employees are the only employees authorized and trained to respond to IRS data loss notification inquiries. New cases in the IPSU grew from about 188,000 receipts in FY 2010 to 730,000 in FY 2014. Receipt levels are expected to remain fairly constant and in FY 2016, the IRS is projecting approximately 749,000 new IPSU receipts. New funding will allow the IRS to close an estimated 9,000 additional cases more than in FY 2014.

These funds also provide analytical support for the Return Integrity and Compliance Services (RICS) program. Additional analysts will identify, evaluate, and prevent the issuance of improper refunds; help taxpayers understand the refundable tax credits for which they are eligible; and engage taxpayers with notices and letters that are written in plain language that is easy to understand.

Expand External and Industry Leads (\$+1.0 million / 6 FTE)

The IRS External Leads staff recovers funds related to questionable refunds from external sources. Since the External Leads program was developed in 2010, lead sources (e.g., financial institutions, state agencies, and tax providers) have grown from 30 to 380. Expanding this staff will enable the IRS to increase the number of financial institutions that participate in the External Leads program each year and provide support for external leads pattern development, industry leads initiatives with the software industry, state leads, return preparer leads, and informant referrals. Additional resources also will improve efficiency in review and disposition of leads received from external sources, and increase rejected direct deposit initiatives.

The IRS Industry Leads teams research refunds identified as fraud for links and patterns and stop additional refunds associated with these patterns. The IRS projects that the External and Industry Leads teams will recover more than \$951 million in fraudulent refunds during FYs 2013 and 2014.

This initiative, in addition to the enforcement activities included in the *Prevent Refund Fraud and Identity Theft* initiative, supports the IRS’s efforts to address the growing concerns associated with refund fraud and identity theft. Funds to address the increased Taxpayer Advocate Service (TAS) workload associated with the enforcement activities in the cap adjustment of these efforts are identified in the Other Direct Costs section below.

**Other Direct Costs (+\$6.4 million / +53 FTE)**

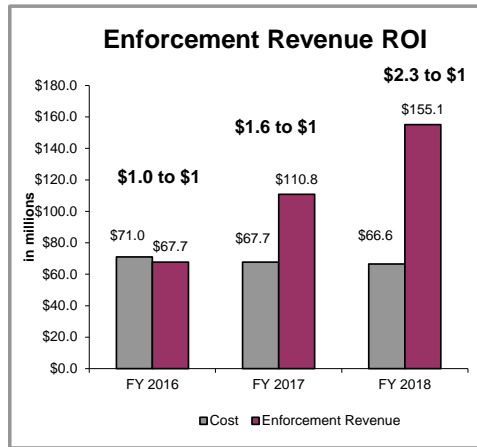
*Dollars in Millions*

IRS Activity	Cost	FTE	Positions	Explanation
Taxpayer Advocate Service (TAS)	\$6.4	53.00	71	Provide support by working new cases that arise from the Taxpayer Protection Program. TAS estimates that it will receive nearly 8,500 new cases due to the program in its Case Advocacy function. TAS will also monitor, respond, and work new cases received on the Systemic Advocacy Management System (SAMS) that identifies and corrects systemic problems in its Systemic Advocacy function.
<b>Total</b>	<b>\$6.4</b>	<b>53.00</b>	<b>71</b>	

Implement FATCA+\$71,005,000 / +461 FTE

This initiative will provide funding for enforcement staff to implement new reporting, disclosure, and withholding requirements mandated by the FATCA that were enacted in the Hiring Incentives to Restore Employment (HIRE) Act of 2010 (Public Law 111-147). This initiative is expected to produce additional annual enforcement revenue of \$155.1 million once the new hires reach full potential in FY 2018, an ROI of \$2.3 to \$1.

Position Type/Other Costs	FTE	Positions	\$000
<b>Implement Foreign Account Tax Compliance Act (FATCA)</b>	<b>321.00</b>	<b>321</b>	<b>\$38,432</b>
Revenue Agent	88.00	88	16,211
Tax Examiner	87.00	87	7,970
Analyst	126.00	126	12,015
Support Staff	20.00	20	2,236
<b>Implement IT Changes to Deliver FATCA</b>	<b>140.00</b>	<b>140</b>	<b>\$32,573</b>
IT Specialist	140.00	140	21,821
Contractual Services			10,752
<b>Total</b>	<b>461.00</b>	<b>461.00</b>	<b>\$71,005</b>



Major Activities	FY 2018 Projected Revenue and Workload		
	Revenue (\$M)	Individual Returns	Speciality Returns
Implement Foreign Account Tax Compliance Act (FATCA)	155.1	1,000	125
<b>Total</b>	<b>\$155.1</b>	<b>1,000</b>	<b>125</b>

### Implement FATCA (+\$38.4 million / +321 FTE)

This initiative will allow the IRS to address foreign withholding compliance and expand coverage of international tax return filings. FATCA seeks to improve offshore compliance by imposing new information reporting requirements on foreign financial institutions (FFIs) with respect to U.S. accounts and new withholding, documentation, and reporting requirements for payments made to certain foreign entities.

FATCA seeks to improve offshore compliance by imposing a 30 percent withholding tax on U.S. source payments to FFIs unless an institution agrees to disclose information on U.S. account holders or certifies that it does not have any U.S. customers. All FFIs that report U.S. source income must enter into an agreement with Treasury to report to the IRS all accounts of U.S. persons or the withholding tax penalty will apply. Since foreign investment information is difficult to come by, as investment flows may pass through chains of foreign intermediaries, the U.S. Qualified Intermediary program works to enforce compliance with U.S. source-based taxation laws.

Furthermore, the FFIs must comply with requests by the Treasury for additional information regarding each U.S. account and must attempt to obtain from each holder of a U.S. account a waiver of any bank secrecy law that would otherwise prevent such a report. If a waiver cannot be obtained from each holder of a U.S. account, the account will be closed. This initiative funds enforcement of these reporting requirements.

Additional resources also will provide new coverage for discrepancies identified through third party data matching and will enhance and centralize coverage for nonfiler taxpayers and for those with withholding-related issues. The funding also will allow the IRS to handle the calls/communications resulting from notices sent to taxpayers. The IRS will compile data and reports that will provide more complete background information during the initial set up of related audit case files.

Further, these resources will help the IRS address potential under withholding of U.S. source income flowing to undisclosed jurisdictions and unknown recipients offshore. The initiative will involve a systematic analysis of the process surrounding Form 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding*, to better target compliance and enforcement activities.

### Implement IT Changes to Deliver FATCA (+\$32.6 million / +140 FTE)

This initiative will fund investments in building and maintaining the technology necessary to deliver FATCA. These automated tools will reduce the response time needed to identify and resolve abusive tax-avoidance issues, provide unprecedented visibility into international tax compliance risks, and meet the legal and reporting requirements prescribed by the HIRE Act of 2010:

- *FFI Registration* allows FFIs to electronically register and sign agreements with the IRS to report on their US-held accounts as specified by FATCA;

- *International Data Exchange Service (IDES)* receives Form 8966, *FATCA Report*, and Form 1042-S/T, *Annual Withholding Tax Return for U.S. Source Income of Foreign Persons*, input from FFIs through Intergovernmental Agreements and transmits forms in XML format to the Integrated Compliance Management Model (ICMM);
- *Integrated Compliance Management Model (ICMM)* receives, processes, stores, and manages FATCA data received from various sources and creates reports to conduct data analytics for future document matching and compliance activities;
- *Refund Processing and Fraud Detection* supports the development of processes to validate and issue refund payments against withheld taxes, and to identify and prevent refund fraud;
- *Compliance Solution* supports development and implementation of strategies to use FATCA data, taxpayer filings, and third party data to identify and treat noncompliance on the part of U.S. taxpayers, participating foreign financial institutions (PFFIs)/Host Country Tax Authorities (HCTAs), U.S. withholding agents, and taxpayers requesting refunds;
- *Withholding Payment Processing (WPP)* supports the development of processes to collect withholding payments and associated reporting from U.S. withholding agents and PFFIs as required under FATCA legislative mandates; and
- *Taxpayer Reporting* captures data to facilitate the usage of FATCA data and taxpayer filings (Form 8938, *Statement of Specified Foreign Financial Assets*, Financial Crime Enforcement (FinCen) Report 114 (formerly TD F 90-22.1), *Report of Foreign Bank and Financial Accounts (FBAR)*, and others) in compliance workload identification, return selection, and execution of examinations by resolving problems encountered during filing season and enabling transcription of Form 8938 data.

#### Other Direct Costs

There are no other direct costs associated with this initiative.



*Sustain Critical Information Technology (IT) Infrastructure +\$188,514,000 / +157 FTE*

This initiative requests resources for mainframes, servers, laptops, network devices, and communication equipment to keep IRS infrastructure (hardware and software) current for existing and newly developed systems. The IRS’s IT division provides technology services and solutions that drive effective tax administration, improve service, modernize systems, and ensure the security and resiliency of IRS information systems and data. This initiative supports the 2014-2017 IRS Strategic Plan with the following strategic objective: *Invest in Innovative, Secure Technology Needed to Protect Taxpayer Data and Support Taxpayer, Partner and IRS Business Needs.*

Position Type/Other Costs	FTE	Positions	\$000
<b>Filing Season Infrastructure Refresh</b>	<b>63.00</b>	<b>84</b>	<b>\$77,450</b>
IT Specialist	63.00	84	10,307
Contractual Services			9,583
Hardware and Software			55,749
IT Equipment			1,811
<b>Mobile Workforce Infrastructure Refresh</b>	<b>58.75</b>	<b>78</b>	<b>\$68,518</b>
IT Specialist	58.75	78	9,569
Contractual Services			5,400
Hardware and Software			51,864
IT Equipment			1,685
<b>Internet Protocol Version 6 (IPv6)</b>	<b>0.75</b>	<b>1</b>	<b>\$1,595</b>
IT Specialist	0.75	1	126
Contractual Services			209
Hardware and Software			1,220
IT Equipment			40
<b>Transition to Virtual Environments</b>	<b>27.00</b>	<b>36</b>	<b>\$32,335</b>
IT Specialist	27.00	36	4,417
Contractual Services			3,985
Hardware and Software			23,180
IT Equipment			753
<b>IT Operating Platform Refresh</b>	<b>7.50</b>	<b>10</b>	<b>\$8,616</b>
IT Specialist	7.50	10	1,258
Contractual Services			1,050
Hardware and Software			6,110
IT Equipment			198
<b>Total</b>	<b>157.00</b>	<b>209</b>	<b>\$188,514</b>

For the past few years, the IRS has been faced with increased demand for IT projects and services, with significant resources going towards implementing legislative mandates, including the FATCA and the ACA, and other mission-critical priorities. This has severely restricted the IT program’s capacity in other key operational areas including sustaining infrastructure.

The IRS has a large and increasing amount of aged hardware, some of which is three to four times older than industry standards. At the beginning of FY 2015 , the total cost of aged hardware inventory that needed updating was estimated at \$482 million, representing 59 percent of the total IRS inventory. Additionally, IRS enterprise system software is on average three releases behind industry standards. Specifically, 40 percent of the software products utilized in the IRS infrastructure are two or more releases behind the most current release and of that 15 percent are greater than four releases.

The farther behind the IRS falls in maintaining the currency of hardware and software, the more problematic and expensive it becomes to sustain or upgrade. Such conditions introduce security risks, excessive system downtime, and incompatibilities across systems and programs. The current state of IRS infrastructure poses significant risk of failure. It is unknown when these failures will occur, how severe they will be, or whether they will have material impacts on tax administration during the filing season.

This initiative will allow the IRS to:

- Enhance systems security to help anticipate evolving threats;
- Increase reliability of enterprise infrastructures to support the increasing number of tax forms submitted electronically;
- Improve risk mitigation capabilities;
- Increase the use of cloud and virtual environments for productivity tools and tax-administration applications; and
- Expand use of next generation of advanced telecommunication technologies (i.e., mobile broadband, wireless, collaboration environments).

Filing Season Infrastructure Refresh (+\$77.5 million / +63 FTE)

To ensure continued filing season success, the IRS must upgrade aged, critical equipment needed to support the receipt and processing of tax returns, including:

- Four mainframes, 1,100 servers, and associated infrastructure for tax processing;
- Thirteen large print systems and 10 inserters for taxpayer notices; and
- Problem resolution tools to detect and combat non-compliance.

Mobile Workforce Infrastructure Refresh (+\$68.5 million / +58.75 FTE)

Geographically dispersed employees and a mobile workforce create unique challenges to effective task performance and the development of interpersonal relationships. This funding provides hardware and software to replace outdated technology that supports the mobile workforce, including:

- Networking infrastructure, such as mobile devices, security validation for users, VoIP (phone service through the computer network), and IRS employee laptops and desktop requirements through contracts on an as needed basis; and
- Enterprise systems software, including Lync 2013 (a unified communications platform for the IT enterprise) and SharePoint 2013 (online collaboration and secure document sharing).

Internet Protocol Version 6 (IPv6) Compliance (+\$1.6 million / +0.75 FTE)

This funding continues implementation of an OMB mandate (September 28, 2010) that requires all federal agencies to transition to IPv6. This implementation will:

- Secure communication with other federal agencies and third-party partners;
- Update public facing/external servers and services; and
- Upgrade internal client applications that communicate with public Internet servers and support enterprise networks.

### Transition to Virtual Environments (+\$32.3 million / +27 FTE)

By using outsourced managed infrastructure services with the same level of security and privacy controls as existing systems, this project will allow the IRS to replace outdated server technology. The long-term dividends of upgrading to a service delivery, cloud environment include:

- Providing IT tax processing services through a current hardware and software environment;
- The ability to deploy an information technology or telecommunications service by using predefined procedures that are carried out electronically without requiring human intervention;
- Transitioning from a proprietary software to an open source software for IRS mainframes;
- Keeping pace with new industry standards for cloud computing; and
- Increase utilization of hardware capacity.

### IT Operating Platform Refresh (+\$8.6 million / +7.5 FTE)

This investment will help refresh infrastructure that has exceeded its useful life. The following issues demonstrate the need for this refresh:

- Infrastructure is no longer operating reliably or needs an additional capability that is not available through an upgrade;
- Existing systems are being retired because of non-support or maintenance issues;
- The infrastructure is unable to support the latest release of software, growth of the current application demand, or meet the latest federal security configuration standards; and
- To meet consolidation requirements, servers with higher performance, more memory capacity, and increased input/output communication capabilities are required.

The IRS would use these funds strategically to reduce the proportion of its equipment and software that is aged and out of warranty.

### Other Direct Costs

There are no other direct costs associated with this initiative.

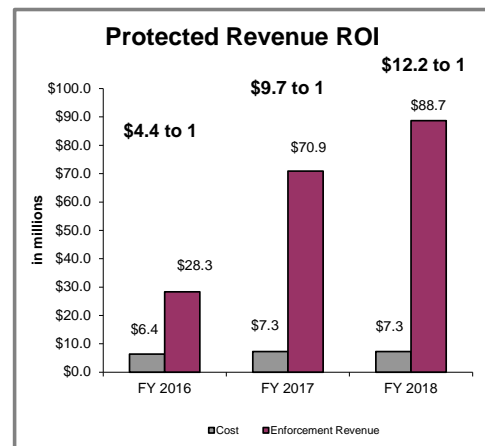
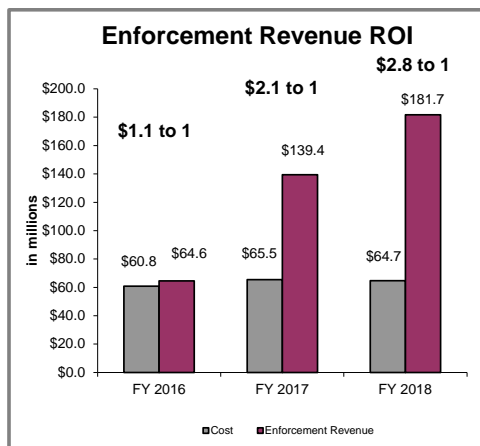
Address Impact of ACA Statutory Requirements +\$67,206,000 / +483 FTE

As tax laws change, the IRS must implement programs to ensure that taxpayers understand the new laws and address noncompliance. Funding for this initiative will promote compliance activities related to new ACA tax provisions and will:

- Administer new fees on drug manufacturers and health insurers;
- Strengthen oversight of tax-exempt hospital organizations, including refining the community benefit reviews and leveraging this data to conduct examinations;
- Expand coverage of new provisions related to the PTC, individual responsibility requirement, and large employer insurance; and
- Address new audit requirements related to the Employer Shared Responsibility Payment.

This initiative is expected to annually produce additional enforcement revenue of \$181.7 million, once the new hires reach full potential in FY 2018, an ROI of \$2.8 to \$1, and protect \$88.7 million of revenue, a protected ROI of \$12.2 to \$1.

Position Type/Other Costs	FTE	Positions	\$000
<b>Administer New Fees on Drug Manufacturers and Health Insurers</b>	<b>9.00</b>	<b>9</b>	<b>\$1,303</b>
Revenue Agent	7.00	7	1,138
Support Staff	2.00	2	165
<b>Strengthen Oversight of Exempt Hospitals</b>	<b>55.50</b>	<b>65</b>	<b>\$7,601</b>
Revenue Agent	30.75	36	4,618
Tax Law Specialist	5.00	6	901
Tax Technician	12.50	14	1,303
Support Staff	7.25	9	779
<b>Promote Compliance with Other ACA Provisions</b>	<b>302.50</b>	<b>377</b>	<b>\$32,721</b>
<b>Increase Examination Coverage</b>	<b>96.75</b>	<b>122</b>	<b>14,926</b>
Revenue Agent	70.25	88	11,616
Manager, Analyst and Support Staff	23.00	30	2,759
Communications Specialist	3.50	4	551
<b>Increase Correspondence Examination</b>	<b>172.75</b>	<b>211</b>	<b>14,851</b>
Tax Examiner	141.50	171	11,745
Manager and Support Staff	31.25	40	3,106
<b>Prevent Identity Theft and Refund Fraud</b>	<b>10.50</b>	<b>14</b>	<b>950</b>
Tax Examiner	4.50	6	414
Seasonal	4.50	6	336
Manager and Analyst	1.50	2	200
<b>Expand Collection Program Coverage</b>	<b>22.50</b>	<b>30</b>	<b>1,994</b>
Tax Examiner	22.50	30	1,994
<b>Program Management Office (PMO)</b>	<b>34.00</b>	<b>34</b>	<b>\$10,328</b>
Program Analyst	34.00	34	5,957
Contractual Services			4,371
<b>Implement Statutorily Mandated Data Protection</b>	<b>12.25</b>	<b>13</b>	<b>\$3,329</b>
Program Analyst	12.25	13	2,040
Contractual Services			1,289
<b>Other Direct Costs</b>	<b>69.75</b>	<b>82</b>	<b>\$11,924</b>
Appeals Officer	15.75	20	2,769
Attorney	46.00	52	8,279
Support Staff	5.75	7	567
HR Specialist	2.25	3	309
<b>Total</b>	<b>483.00</b>	<b>580.00</b>	<b>\$67,206</b>



FY 2018 Projected Revenue and Workload							
Major Activities	Enforcement Revenue (\$M)	Revenue Protected (\$M)	Inquiries Worked	Pre-Refund Closures	Closures	Additional Entity Closures	Hospital Community Benefit Reviews
Administer New Fees on Drug Manufacturers and Health Insurers	2.5				1,750		
Strengthen Oversight of Exempt Hospitals					1,000	5	1,000
Promoting Compliance with Other ACA Provisions							
Examination Coverage	60.2				3,876		
Correspondence Examination	67.4	88.7		38,800	26,626		
Collection Program	51.7		140,000				
<b>Total</b>	<b>\$181.7</b>	<b>\$88.7</b>	<b>140,000</b>	<b>38,800</b>	<b>33,252</b>	<b>5</b>	<b>1,000</b>

Administer New Fees on Drug Manufacturers and Health Insurers  
(+\$1.3 million / +9 FTE)

The IRS must continue to administer a new aggregate annual fee on businesses engaged in manufacturing and importing branded prescription drugs sold to specified government programs. The fee, set at \$3 billion for 2015, represents a significant new source of revenue. The IRS will receive and process information from manufacturers/importers and specific government programs (Veterans Affairs, Medicare Parts D and B, Medicaid, Department of Defense, and TriCare) to determine each manufacturer's fee assessment. Continuing administration includes IRS collection of data, computation of each entity's fee amount, and notification of payment due. In addition, the IRS must administer a new annual fee on health insurance policies and self-insured health plans based on the average number of covered lives, which is effective for policy years ending after September 30, 2012. That fee is expected to raise more than \$2.6 billion in the years 2013 to 2019 to fund the new Patient Centered Outcomes Research Institute. Further, the IRS must also continue to administer a new aggregate annual fees based on net premiums written by health insurance providers, set at \$11.3 billion for 2016.

Strengthen Oversight of Exempt Hospitals (+\$7.6 million / +55.5 FTE)

The ACA establishes new requirements for tax-exempt hospitals, which comprise a majority of the hospitals in the United States. IRS submission processing operations will need additional staff to process the newly required reports. Additionally, the IRS, in consultation with the Department of Health and Human Services, must develop and deliver a new annual report to Congress on levels of charity care in the hospital sector.

Promote Compliance with Other ACA Provisions (+\$32.7 million / +302.5 FTE)

This initiative requests resources to promote compliance with previously implemented provisions of the ACA, including modifying processes in response to filing and compliance trends in the initial processing years. Existing individual and employer compliance processes have been modified to support implementation. This initiative provides resources for additional revenue agents and tax examiners to detect fraud and identify and examine returns with the highest compliance risk, including:

- *New Tax on Net Investment Income and Additional Medicare Tax.* Filing Season 2014 marks the first processing year for a new tax on net investment income for taxpayers with

an adjusted gross income over certain thresholds (\$200,000 for individual taxpayers, \$250,000 for married taxpayers filing jointly) and an additional Medicare Tax on wages above the same thresholds was established, for which employers implemented new withholding.

- *Small Business Health Tax Credit (SBHTC) and the Indoor Tanning Excise Tax.* These resources will allow the IRS to increase audit coverage on taxpayer returns claiming the SBHTC and taxpayers who may be subject to the excise tax on indoor tanning services.
- *PTC and Individual Shared Responsibility Payments.* These resources will provide correspondence examination staff to increase examination coverage and decrease the underreporting tax gap. The additional staff will process new notices and respond to taxpayer telephone and correspondence inquiries related to provisions in the ACA, which added the new PTC in Internal Revenue Code (IRC) §36B, individual responsibility payments in IRC §5000A, and related information returns required under IRC §36B and §6055. The PTC is a potentially large refundable credit and brings increased compliance risk. The IRS requests additional resources to address erroneous claims for the credit before refunds are issued.
- *Employer Shared Responsibility Payment.* Examination Specialty Programs will administer the Employer Shared Responsibility Payment provision added by the ACA as IRC §4980H. This provision came into effect on December 31, 2014.

#### Program Management Office (+\$10.3 million / +34 FTE)

With these resources, the ACA Program Management Office (PMO) will continue to prepare the IRS to process Form 1040, *U.S. Individual Income Tax Return*, modify existing business processes to address pre-refund and post-filing compliance activities, and ensure business requirements are built in to regulations, forms, and IT systems.

#### Implement Statutorily Mandated Data Protection (+\$3.3 million / +12.25 FTE)

Disclosure of certain tax return information is necessary as part of the eligibility determination process for enrollment in a Qualified Health Plan (QHP) through an exchange (either a state-based or federally-facilitated exchange). These resources will allow the IRS to continue to administer IRC §6103, Safeguarding Federal Tax Information, for the new sharing of data with non-IRS recipients under the ACA, which will require advance inspections, data sharing agreements, and monitoring by the IRS.

This funding also will allow the IRS to provide oversight and outreach to state-based marketplaces certified by the Department of Health and Human Services (HHS), the federal marketplace administered by HHS/Centers for Medicare & Medicaid Services (CMS), and state agencies that administer Medicaid programs. It will ensure that these new state and federal agencies receiving federal tax information are appropriately protecting federal tax information within their control, as required.

**Other Direct Costs (+\$11.9 million / +69.75 FTE)**

*Dollars in Millions*

<b>IRS Activity</b>	<b>Cost</b>	<b>FTE</b>	<b>Positions</b>	<b>Explanation</b>
Appeals	\$2.8	15.75	20	Appeals case receipts will increase by new examination closures completed by initiative hires that will require adjudication in the appeals process.
Chief Counsel	\$8.8	51.75	59	Counsel will provide legal advice to identify areas of noncompliance and equitable resolutions.
Human Capital Office	\$0.3	2.25	3	Handle increased workload to hire and support staff.
<b>Total</b>	<b>\$11.9</b>	<b>69.75</b>	<b>82</b>	

Enhance Service Options for Taxpayers +\$16,243,000 / +54 FTE

The IRS is developing a customer-centric strategy (Service on Demand (SOD)) focused on improving the taxpayer experience by understanding taxpayers' wants, needs, and service channel preferences. This investment will help to design and implement new online service options and will provide project oversight and business support. By creating new digital capabilities and reducing the burden on taxpayers, SOD will change the IRS's relationship with taxpayers and allow earlier and more frequent engagement. The overall goal is to empower every person with the means to manage their tax information securely and conveniently. This initiative will improve the speed and convenience of interacting with the IRS.

Position Type/Other Costs	FTE	Positions	\$000
<b>Improve Taxpayer Experience</b>	<b>54.00</b>	<b>72</b>	<b>\$16,243</b>
Analyst	54.00	72	9,633
Contractual Services			6,610
<b>Total</b>	<b>54.00</b>	<b>72</b>	<b>\$16,243</b>

To create SOD, the IRS has made an effort to identify opportunity areas and develop recommendations to transform how the IRS and taxpayers interact throughout the return filing lifecycle (pre, at, and post). Identified high-priority opportunities will focus on six project areas:

- Online Account features will allow individual taxpayers to view their transcripts, balance due, refund status and payment history, and update their personal information;
- Taxpayer Digital Communications will streamline the process for minor return changes through the use of secure, digital self-service and increased oral statement authority;
- Third Party Services will expand indirect services through government agencies, tax preparation software, or tax preparation service providers by establishing authorized access to taxpayer information;
- Taxpayer Analytics will leverage insights gained from analyzing taxpayer behavior to develop broad, integrated communication campaigns targeted at common errors to drive desired behavior;
- Payments will provide new mobile electronic payment options; and
- Forms & Publications will upgrade all IRS forms, publications and accompanying instructions to be web-friendly, searchable, and written in plain language.

These cross-channel service changes will improve service delivery by providing new digital options to taxpayers and creating capacity for live assistance to focus on the issues where taxpayer needs are greatest due to complexity or other challenges. This initiative also will provide resources to modernize and expedite the way the IRS delivers customer service, to include:

- Improving the user experience on IRS.gov, the toll-free line, and in the Taxpayer Assistance Centers;
- Providing messaging and marketing to direct taxpayers to the best service delivery channel and products to meet their needs;



- Providing easy-to-understand, actionable information via IRS.gov;
- Providing proactive communications for status updates, outreach, and education;
- Partnering with third-party providers to develop new ways to deliver service;
- Improving service analytics to understand changes in demand and address emerging taxpayer needs; and
- Developing and implementing new digital products.

These resources will provide staff that will work closely with the IRS business units and the Information Technology office to define requirements for new online service options. This would include digital service experts that will facilitate the design, implementation, launch, and monitoring of new online self-service tools.

Funding for the information technology to implement these recommendations is requested in the initiative, *Leverage New Technologies to Advance the IRS Mission*.

#### Other Direct Costs

There are no other direct costs associated with this initiative at this time.

Restore Staffing for Essential Support Programs +\$19,938,000 / +152 FTE

This initiative will provide staffing for IRS support organizations to address base functional requirements that have been challenged by the staffing constraints experienced since FY 2011. In order to continue to provide services at an optimal level, these functions require additional staffing.

Position Type/Other Costs	FTE	Positions	\$000
<b>Provide Effective Procurement, Security and Employee Support Services</b>	<b>34.00</b>	<b>43</b>	<b>\$4,434</b>
Analyst	34.00	43	4,434
<b>Develop and Support Human Capital Management Strategies</b>	<b>78.25</b>	<b>99</b>	<b>\$10,040</b>
Analyst	78.25	99	10,040
<b>Support Research to Improve Tax Administration</b>	<b>19.25</b>	<b>25</b>	<b>\$2,609</b>
Economist/Statistician	9.50	12	1,246
IT Specialist	4.50	6	607
Analyst	4.50	6	649
Clerical	0.75	1	107
<b>Ensure Sound Financial Management</b>	<b>16.75</b>	<b>21</b>	<b>\$2,208</b>
Analyst	16.75	21	2,208
<b>Protect Taxpayer Privacy</b>	<b>3.75</b>	<b>5</b>	<b>\$647</b>
Analyst	3.75	5	647
<b>Total</b>	<b>152.00</b>	<b>193</b>	<b>\$19,938</b>

Provide Effective Procurement, Security, and Employee Support Services  
(+\$4.4 million / +34.00 FTE)

Agency Wide Shared Services (AWSS) is responsible for the overall management of Shared Services, providing payroll, facilities, physical security, travel, credit card, cross-functional administrative, and procurement support for all organizational entities within the IRS.

Since FY 2011, AWSS has seen a 26 percent reduction in staffing. Continued attrition will impact the provision of necessary support functions. Without further staffing, AWSS will be unable to provide its customers with an optimal level of support.

These resources will restore activities that have been negatively impacted by hiring constraints and will help to effectively execute requirements.

Develop and Support Human Capital Management Strategies  
(+\$10.0 million / +78.25 FTE)

The Human Capital Office (HCO) provides strategies and tools for recruiting, hiring, developing, and retaining a diverse, highly skilled and valued workforce to support the IRS. In a 2014 Enterprise Risk Management analysis, staffing and training were listed among the top human resources risks. The requested additional hires will allow HCO to continue building a highly talented, diverse workforce and cultivating an inclusive and collaborative environment.

Support Research to Improve Tax Administration (+\$2.6 million / +19.25 FTE)

Research, Analysis & Statistics (RAS) provides research, analytical, statistical, and technology services to improve tax administration for many stakeholders, including the IRS, the Treasury Office of Tax Analysis, the Joint Committee on Taxation, and the Bureau of Economic Analysis.

Since FY 2011, RAS has experienced a 15 percent decline in staffing while responsibilities have increased because of emerging issues related to FATCA, ACA, and identity theft.

Realigning resources to handle the additional responsibilities has required diverting staff from existing projects. Without additional staffing resources, RAS will be unable to provide its customers with an optimal level of support in several areas.

Ensure Sound Financial Management (+\$2.2 million / +16.75 FTE)

The Chief Financial Officer (CFO) organization ensures the delivery of sound financial management by supporting various processes and programs, including the formulation and execution of the budget, audit and A-123 oversight, cost accounting and financial reporting, and quality assurance and strategic plan activities.

Over the last several years, the CFO organization has lost nearly ten percent of its staff due to attrition and budget cuts. At current staffing levels, it is becoming increasingly difficult to successfully deliver on existing efforts and handle the additional workload related to implementing legislative requirements and mandates, including ACA and FATCA.

Protect Taxpayer Privacy (+\$0.7 million / +3.75 FTE)

Privacy, Governmental Liaison, and Disclosure (PGLD) preserves and enhances public confidence by advocating for the protection and proper use of identity information. Changes in directives from Treasury and increased contractor concerns have precipitated the need for additional staffing to focus on contractor oversight, civil liberties, and records retention.

Other Direct Costs

There are no other direct costs associated with this initiative.

Increase Service for Low-Income Taxpayers and Taxpayers in Need of Hardship Relief  
+\$5,719,000 / +27 FTE

This initiative provides support for taxpayers facing financial hardship by increasing funding for the Low Income Taxpayer Clinic (LITC) Grant Program from \$10 million to \$12 million. It also increases funding for the Taxpayer Advocate Service (TAS) by \$3.4 million to address the anticipated additional workload resulting from increased IRS enforcement activities requested in the cap adjustment of the FY 2016 Budget.

Position Type/Other Costs	FTE	Positions	\$000
<b>Expand Low Income Taxpayer Clinics</b>	<b>0.75</b>	<b>2</b>	<b>\$2,285</b>
Program Analyst	0.75	2	285
Grants			2,000
<b>Taxpayer Advocate Support to Enforcement Programs</b>	<b>26.25</b>	<b>35</b>	<b>\$3,434</b>
Taxpayer Advocacy Specialist	26.25	35	3,434
<b>Total</b>	<b>27.00</b>	<b>37</b>	<b>\$5,719</b>

Expand Low Income Taxpayer Clinics (+\$2.3 million / +0.75 FTE)

The LITC program provides matching grants to community organizations that offer tax representation and advice to low-income taxpayers and conduct education and outreach to taxpayers for whom English is a second language. In addition to grant increases, this investment will also strengthen clinic assistance and oversight to ensure federal grant funds are properly spent and accounted for by adding two new analyst positions in the LITC Program Office to increase the number of site assistance visits conducted each year.

By providing low-income and individuals who speak English as a second language taxpayers with access to legal services for free or a nominal fee, the IRS ensures that these taxpayers receive high quality representation and education about their rights and responsibilities. LITCs ensure that low-income taxpayers receive the correct outcome in disputes with the IRS and pay the correct amount of tax. LITCs also reduce taxpayer uncertainty and errors by clarifying and helping taxpayers understand their rights and responsibilities. LITCs can resolve issues early in the process and offer effective information and education through outreach efforts. Finally, LITCs are a safety net that provide low-income taxpayers with the assistance and support they need while ensuring that their rights are protected and preserved.

Taxpayer Advocate Support to Enforcement Programs (+\$3.4 million / +26.25 FTE)

This portion of the initiative funds the increased Taxpayer Advocate workload from increased enforcement activities resulting from initiatives in the FY 2016 Budget. This includes additional staff for the TAS to ensure the IRS follows appropriate procedures, does not create unnecessary taxpayer burdens, and does not compromise taxpayers' rights.

A 2007 GAO report found that overall IRS enforcement actions result in downstream Taxpayer Advocate activities. TAS expects the additional case closures resulting from the new FY 2016 enforcement initiatives to generate an increase of 2,454 TAS cases from taxpayers attempting to resolve enforcement issues.

TAS serves as the “safety net” for U.S. taxpayers – essentially the last resort (short of appeals and litigation) that prevents taxpayers from falling through the cracks of tax administration. TAS accepts cases when either (i) an IRS enforcement action is creating a financial hardship for a taxpayer or (ii) normal IRS processes are not working properly and a taxpayer is

experiencing an unreasonable delay or other challenge in resolving an IRS problem. Issues that often require TAS involvement include resolving tax-related identity theft cases, helping taxpayers get levies released in appropriate cases, and helping taxpayers obtain refunds when overly broad IRS anti-fraud filters have held up their returns.

Other Direct Costs

There are no other direct costs associated with this initiative.

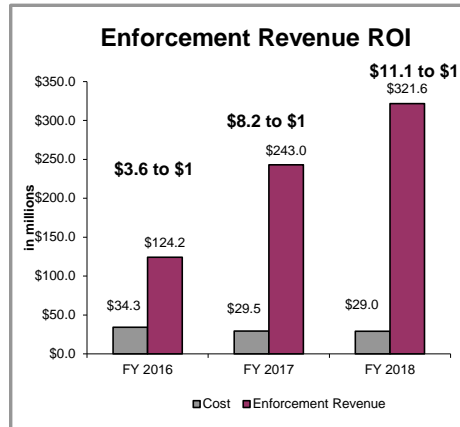
Implement Merchant Card and Basis Matching +\$34,253,000 / +322 FTE

This initiative will provide additional enforcement staff that will allow the IRS to take advantage of the reporting provisions for merchant payment card and third party reimbursements enacted in the Housing and Economic Recovery Act of 2008 (Public Law 110-289); and basis reporting on security sales enacted in the Emergency Economic Stabilization Act of 2008 (Public Law 110-343). These efforts will ensure that the IRS will be able to:

- Expand new compliance programs to ensure business and individual taxpayers meet their tax obligations;
- Investigate cases related to payment card and securities basis reporting issues and address discrepancies not suitable for resolution through the document matching verification process; and
- Address fraud and criminal violations that will be uncovered as the IRS establishes broader compliance programs.

Position Type/Other Costs	FTE	Positions	\$000
<b>Document Matching</b>	<b>120.00</b>	<b>120</b>	<b>\$10,693</b>
Tax Examiner	104.00	104	9,059
Taxpayer Advocacy Specialist	2.00	2	205
Support Staff	14.00	14	1,429
<b>Compliance Workload</b>	<b>186.00</b>	<b>186</b>	<b>\$21,513</b>
Tax Examiner	89.00	89	7,281
Revenue Agent	40.00	40	4,831
Special Agent	36.00	36	7,193
Tax Technician	18.00	18	1,942
Support Staff	3.00	3	266
<b>Other Direct Costs</b>	<b>16.00</b>	<b>16</b>	<b>\$2,047</b>
Tax Examiner - Appeals	2.00	2	177
Revenue Agent - Appeals	1.00	1	119
Appeals Officer	3.00	3	420
Attorney	6.00	6	965
Paralegal	2.00	2	194
Support Staff - Counsel	2.00	2	172
<b>Total</b>	<b>322.00</b>	<b>322</b>	<b>\$34,253</b>

This initiative is expected to produce additional annual enforcement revenue of \$321.6 million, once the new hires reach full potential in FY 2018, an ROI of \$11.1 to \$1.



Major Activities	FY 2018 Projected Revenue and Workload		
	Revenue (\$M)	Closures	Investigations Completed
Document Analysis	92.4	127,975	
Compliance Workload	229.3	104,742	66
<b>Total</b>	<b>\$321.6</b>	<b>232,717</b>	<b>66</b>

### Document Matching (+\$10.7 million / +120 FTE)

The IRS is modifying existing systems to perform new types of analysis related to merchant card payment transactions. Underreporting of gross receipts significantly contributes to the tax gap. The merchant payment card and third party reimbursements legislation enacted in the Housing and Economic Recovery Act of 2008 (Public Law 110-289) allows the IRS to identify businesses with a high likelihood of underreported gross receipts through analysis of their payment card receipts and network transactions as reported by payment card processors and third party settlement organizations.

This legislation requiring information reporting on merchant card and third party reimbursements will help reduce the tax gap in three ways:

- Provide businesses with an official year-end statement of merchant card payments and third party network transactions to avoid underreporting of income they may have overlooked;
- Provide the IRS with information to perform business income validation through document analysis; and
- Provide the IRS with information to identify businesses that evade tax obligations by not filing or by understating income.

### Compliance Workload (+\$21.5 million / +186 FTE)

Some underreporting discrepancies involving payment cards may require an examination of the return. These resources will use the following four mechanisms to help ensure that complicated transactions are properly reported for tax purposes and allow the IRS to address complex financial transactions with a focus on difficult accounting and tax law issues.

- **Correspondence Examinations**  
These funds will allow the Correspondence Examinations program to investigate complicated cases involving payment card and securities basis reporting issues and address discrepancies that cannot be reconciled in a verification process. This mechanism will ensure that transactions are reported properly for tax purposes and will help maintain adequate examination coverage of individuals and small businesses.
- **Field Examination**  
The improved data from filings allows the IRS to assess risks in taxpayer returns. The improved information will enhance the IRS's ability to allocate resources and better assess the need for audits or other compliance actions.
- **Nonfiler Examination**  
The new information reporting from payment card processors and third party settlement organizations will enhance the IRS's ability to detect business nonfilers.
- **Criminal Investigation**  
Special agents in Criminal Investigation will identify and investigate individuals and business entities with indications of fraud as a result of violations that are uncovered as

the IRS establishes broader compliance programs related to the merchant card and securities basis reporting legislation.

**Other Direct Costs (+\$2.1 million / +16 FTE)**

*Dollars in Millions*

<b>IRS Activity</b>	<b>Cost</b>	<b>FTE</b>	<b>Positions</b>	<b>Explanation</b>
Appeals	\$0.7	6.00	6	Support examination efforts on key compliance areas focused on improving voluntary compliance.
Chief Counsel	\$1.4	10.00	10	Provide advice to revenue agents, revenue officers and the Department of Justice for District Court cases, review Notices of Deficiencies and litigate cases in the Tax Court.
<b>Total</b>	<b>\$2.1</b>	<b>16.00</b>	<b>16</b>	



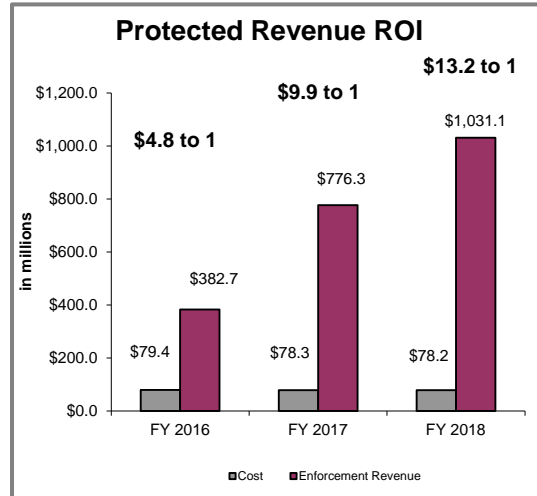
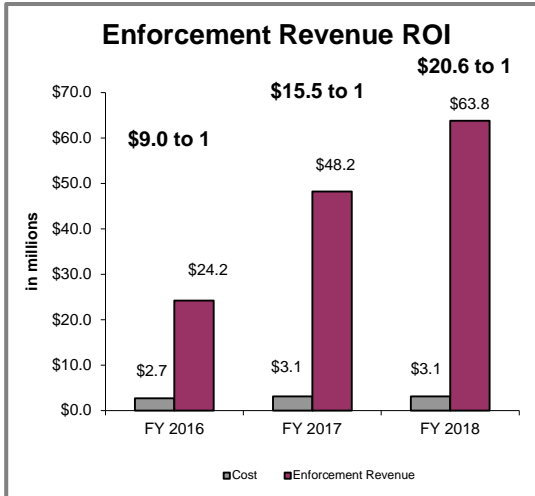
**Cap Adjustment Program Increases .....+\$667,297,000 / +3,491 FTE**  
***Prevent Identity Theft and Refund Fraud +\$82,162,000 / +420 FTE***

This initiative provides additional staffing and advanced technologies to handle the increased workload associated with identity theft and refund fraud. The resources requested will help the IRS to:

- Improve upfront identification and resolution of identity theft returns;
- Address the backlog of identity theft cases associated with pre-refund and post-refund compliance activities;
- Recover funds related to questionable refunds from external sources;
- Prevent false tax returns filed by prisoners and reduce erroneous tax refunds;
- Address identity theft and tax refund fraud by focusing on bank accounts that receive multiple Automated Clearinghouse (ACH) or tax refund check deposits, combating temporary work visa exploitation, and working with the SSA to detect and prevent the submission of fictitious wage information;
- Continue the expansion of the specialized Criminal Investigation (CI) Identity Theft Clearinghouse that processes identity theft leads; and
- Invest in information technology projects that will protect taxpayer information, help verify potentially fraudulent identity theft tax returns, and reduce erroneous payments.

This initiative is expected to produce additional annual enforcement revenue of \$63.8 million, once the new hires reach full potential in FY 2018, an ROI of \$20.6 to \$1, and protect revenue of \$1,031.1 million, a protected ROI of \$13.2 to \$1.

Position Type/Other Costs	FTE	Positions	\$000
<b>Improving The Prevention of ID Theft and Refund Fraud</b>	<b>119.25</b>	<b>165</b>	<b>\$13,580</b>
Revenue Agent	6.75	9	866
Tax Examiner	84.00	112	7,225
Analyst	12.00	22	1,585
Manager	7.50	10	951
Support Staff	1.50	2	138
Seasonal	7.50	10	559
Contractual Services			2,256
<b>Correspondence Examination and Automated Underreporter Identity Theft Teams</b>	<b>60.00</b>	<b>80</b>	<b>\$5,399</b>
Tax Examiner	51.00	68	4,461
Manager	4.50	6	487
Support Staff	4.50	6	451
<b>Prevention of False Tax Returns by Inmates</b>	<b>7.50</b>	<b>10</b>	<b>\$1,221</b>
Analyst	5.25	7	833
Disclosure Specialist	2.25	3	388
<b>Criminal Investigation Support</b>	<b>170.00</b>	<b>211</b>	<b>\$38,333</b>
Special Agent	120.50	145	30,403
Analyst	49.50	66	7,080
Contractual Services			850
<b>IT Project</b>	<b>47.25</b>	<b>63</b>	<b>\$21,052</b>
Centralized Repository	1.50	2	2,886
Dishonored Check Processing (DCP)	9.75	13	2,792
Electronic Fraud	18.00	24	2,579
Integrated Automated Technology (IAT) Tools	12.75	17	1,990
Web-based AFOIA	5.25	7	3,705
Eliminate SSN from Taxpayer Mailings			7,100
<b>Other Direct Costs</b>	<b>16.00</b>	<b>21</b>	<b>\$2,577</b>
Attorney	12.75	17	2,274
Paralegal	0.75	1	77
Support Staff - Counsel	1.50	2	130
HR Specialist	1.00	1	96
<b>Total</b>	<b>420.00</b>	<b>550</b>	<b>\$82,162</b>



FY 2018 Projected Revenue and Workload							
Major Activities	Enforcement Revenue (\$M)	Revenue Protected (\$M)	Assessments (\$000)	Fraudulent	False	Investigations Completed	Closures
				Refunds Recovered (\$000)	Returns Prevented		
Improve the Prevention of ID Theft and Refund Fraud		972.0		205,770			
Correspondence Examination and Automated Underreporter Identity Theft Teams	63.8	59.1	70,000				50,800
Prevention of False Tax Returns Filed by Inmates					108,327		
Criminal Investigations Support						280	100,000
<b>Total</b>	<b>\$63.8</b>	<b>\$1,031.1</b>	<b>\$70,000</b>	<b>\$205,770</b>	<b>108,327</b>	<b>280</b>	<b>150,800</b>

Improving the Prevention of Identity Theft and Refund Fraud  
 (+\$13.6 million / +119.25 FTE)

These resources will allow the IRS to expand programs to prevent identity theft related refund fraud, protect taxpayer identities, and assist victims of identity theft. The IRS will expand efforts to detect fraudulent refund returns and protect revenue by identifying patterns in refund return reviews and stopping additional refunds associated with the patterns identified.

- Establish IRS Campus Fraud Technical Advisors (FTAs)  
 IRS Campus FTAs and revenue agents will provide investigative leads and referrals to federal, state, and local law enforcement agencies to solve identity theft cases.
- Protect data loss and federal tax information  
 Recent legislation and data sharing agreements have added multiple state and federal agencies and exchanges that are new to receiving federal tax information. These agencies must complete the documentation required by Internal Revenue Code §6103 and protect federal tax information within their control. There is a critical need for additional staff to safeguard and effectively manage IRS information, and oversee compliance with safeguard agreements.  
 IRS operations will be improved to help protect sensitive taxpayer and IRS employee information. The IRS will continue to monitor information leaving its networks for

vulnerabilities and increase employee awareness of and accountability for protecting Personally Identifiable Information (PII). Cybersecurity tools will enhance protection of taxpayer information and reduce the risk of identity theft and harm to taxpayers. The oversight of unencrypted PII leaving the IRS will allow timely assessment of identity theft risk or other potential harm to taxpayers.

- **Implement Revenue Protection Strategy**

The IRS continues to improve its ability to stop fraud and abuse of refundable credits. The IRS will develop alternative streamlined processes that will prevent the issuance of erroneous refund payments. The new staff will identify trends, coordinate and follow leads from banks and other sources, and develop recommendations on how to address the findings (i.e., issue taxpayer notices, modify existing systems, etc.). They also will conduct case reviews to validate the potential areas of abuse and pilot the new recommended procedures. In addition, these resources will allow the IRS to expand and expedite access to third party income and withholding information during the filing season.

- **Business Support to Optimize Use of Return Review Program (RRP)**

This component will ensure that the new RRP system meets the needs of both the compliance and criminal investigation programs. The new RRP supports a cross-functional approach to coordinating and addressing criminal and civil tax noncompliance. It enables analysis and supports case processing needs during criminal prosecution, revenue protection, accounts management, and taxpayer communications.

#### Correspondence Examination and Automated Underreporter Identity Theft Teams (+\$5.4 million / +60 FTE)

The IRS will establish identity theft teams for the Correspondence Examination and Automated Underreporter (AUR) programs to reduce the impact of identity theft on taxpayers.

The Correspondence Examination and AUR programs address the tax gap by verifying individual reporting compliance through limited-scope audits and document matching reviews. The additional staff will increase examination coverage, decrease underreporting, and expand the identity theft program. Six dedicated Exam and AUR identity theft teams will address the case backlog associated with pre- and post- refund compliance activities and support resolution of future cases, resulting in nearly 50,800 closures.

#### Prevention of False Tax Returns Filed by Inmates (+\$1.2 million / +7.5 FTE)

The American Taxpayer Relief Act (ATRA) of 2012 (Public Law 112-240), Section 209, made 26 U.S.C. Section 6103(k)(10) permanent, authorizing disclosure of false tax returns and tax return information filed by inmates to the officers and employees of the federal and state prison agencies responsible for their incarceration. This allows the agencies to use the IRS information as evidence against the prisoners during administrative hearings, potentially

resulting in disciplinary actions such as loss of privileges (e.g. access to visitors), loss of “good time” credits, or administrative segregation.

By deterring inmates from filing false or fraudulent tax refunds, the risk of discipline will reduce erroneous tax refunds, instances of identity theft, and the amount of illegal funds flowing into prison systems (or funds controlled by persons outside the prison but influenced by inmates). These illegal funds have been found to promote drug trafficking and use, promote other contraband, and incite violence both inside and outside the prison.

These additional resources will allow the IRS to:

- Develop and renew memoranda of understanding with the Federal Bureau of Prisons and state corrections agencies to provide IRS information as evidence against prisoners during administrative hearings;
- Develop the case selection approach, test case leads, and select cases with the Federal Bureau of Prisons and the state corrections agencies;
- Educate the Federal Bureau of Prisons and state corrections agencies on prisoners’ tax fraud issues;
- Process the flow of the returns and return information requested by the various jurisdictions that have entered into memoranda of understanding with the IRS; and
- Facilitate the implementation of IRS safeguards with state corrections agencies, and provide ongoing review and evaluation of the implementation of safeguard standards by the various participating jurisdictions.

#### Criminal Investigation (CI) Support (+\$38.3 million / +170 FTE)

- Refund Crimes Bank Secrecy Act Review Project

The IRS will continue to use Bank Secrecy information regarding identity theft and tax refund fraud by focusing on bank accounts that receive multiple Automated Clearing House or tax refund check deposits. In 2013, 7,223 Suspicious Activity Reports (SARs) that referred to “Tax Refund Fraud” were filed. Schemes developed during the BSA pilot had an average refund loss rate of 53 percent. The average loss rate is the combined average percentage of refunds issued to perpetrator versus the total amount of refunds claimed in the refund fraud scheme. The Scheme Development Centers (SDC) will review such SARs weekly for possible development as well as to enhance and link ongoing schemes and investigations. Significant schemes developed by this project will be referred to the field office.

- Initiative to Combat Temporary Work Visa Exploitation

The IRS has seen an increase in the use of J-1 visas and other exchange visitors’ identities for filing false tax returns and serving as money mules to receive and facilitate the movement of false refunds. The SSN remains valid after the exchange visa holder exits the United States and can be utilized by criminal organizations to obtain fraudulent refunds from both within the United States and overseas. The IRS is currently collaborating with the SSA, FinCEN, and State Department to gather

identifying information for visa holders. This project will assist with revenue protection, scheme development, and investigative support.

- Social Security Administration Office of Inspector General (SSA-OIG) Referral Program

The SSA-OIG Referral Project is the result of a working relationship between SSA-OIG and IRS. SSA-OIG has been alerted of fictitious submissions of wage information to the SSA, which in turn is passed to the IRS and is loaded into IRS Information Returns Processing (IRP). The loading of fictitious IRP information undermines the IRS's ability to properly verify the accuracy of returns and can lead to refunds based upon these fictitious submissions being released. The SSA Referral Project will provide information regarding these submissions to the IRS for further investigation and for potential revenue protection. These referrals will assist in criminal investigations and assist in the identification of perpetrators of identity theft schemes as well as participants in tax fraud schemes.

- Expand Identity Theft Clearinghouse

These resources will allow the IRS to increase its participation in multi-agency task forces dedicated to tax administration and cooperation with state and local law enforcement agencies in jurisdictions where prosecutorial actions would have the greatest influence. The task forces will obtain information about criminal activity involving federal and state tax refunds to expedite prosecution by the Department of Justice while the criminal activity is still ongoing. These teams will target larger-scale crime rings for maximum compliance results and publicity. In addition, special agents will extend outreach efforts to practitioners from filing season only to year-round to provide information and address return preparer concerns.

#### IT Project (+\$21.1 million / +47.25 FTE)

- Establish Centralized Repository for Fraud

This project funds labor and technology that will enhance multiple core tax enforcement areas within IRS CI including fraud referrals, corporate fraud, employment tax, and abusive tax schemes.

The centralized repository will:

- Improve information sharing between business operating divisions and expand CI's capabilities to identify significant tax cases that ultimately help recoup lost tax revenue in areas that have experienced a decline in initiated investigations;
- Increase cost savings and standardize the accountability of the entire fraud referral process (there is currently no streamlined process); and
- Enhance overall enforcement efforts, increasing the number of convictions and facilitating restitution orders that will lead to additional assessments.

- Dishonored Check Processing (DCP)

These resources will leverage technology to improve protection of taxpayer information, enhance efficiency, and reduce erroneous refunds.

- DCP will improve the IRS's ability to efficiently process dishonored checks and prevent erroneous refunds caused by invalid payments. Currently, banks use a manual process to mail checks back to the IRS, taxpayer accounts are posted manually by the IRS, and the cases are assigned to tax examiners to research. DCP will leverage the Remittance Strategy for Paper Check Conversion system to provide a fast, systemic transfer of insufficient fund information to the IRS Dishonored Check File with no manual process involved.

- Improved Access to Social Security Administration (SSA) Data

This will fund additional IT equipment and programming support to allow the IRS to get SSA Form W-2, *Wage and Tax Statement*, and SSA Form W-3, *Transmittal of Wage and Tax Statement*, data more quickly. Getting the data more quickly will accelerate the verification of wages and withholding on potentially fraudulent tax returns and shorten the processing time for legitimate refunds.

- Integrated Automated Technology (IAT) Tools

IAT tools are desktop productivity-enhancing tools that automate certain taxpayer account processing activities. Funding for IAT technical resources support the design, development, and deployment of additional software tools to support anti-identity theft activities throughout the IRS.

IAT-developed software programs are needed to match wage and withholding information, automate additional taxpayer correspondence, and identify potential identity theft cases. These additional resources will increase IAT's capacity for technology development by approximately three software programs per year.

- Web-based Freedom of Information Act (FOIA)

The IRS processes over 66,000 annual requests for information through the FOIA and other channels and is able to complete 83 percent of the FOIA requests within the statutory period. A web-based platform will improve system stability and performance, reduce network interference, and provide the capability for additional enhancements such as a robust search and find feature that will provide additional protection against inadvertent disclosure of FTI. Automated Freedom of Information Act (AFOIA) is used for all GLDS work, including FOIA request processing, which has a 20 day statutory time frame for response. Treasury and Congress closely monitor FOIA. AFOIA is mostly compliant with 508 provisions with the exception of the document redaction functionality. Moving to a web-based product that is fully 508 compliant will ensure adherence to 508 requirements.

Due to the absence of a robust search and find feature, human error is a factor. Errors could be reduced or eliminated in some cases with a search engine. Annual TIGTA audit findings have addressed the weakness of inadvertent disclosures as well.

Additionally, the web platform will establish the foundation for taxpayers to submit, monitor, and track their requests for information online.

The funding need is immediate because degradation of performance in the current system is impacting the timely delivery of FOIA requests within statute requirements. The current system is comprised of outdated client-server based technology and does not provide for additional controls required to improve inadvertent disclosure rate. This funding is required to begin development of a web based replacement system.

- Eliminate Social Security Number (SSN) from Taxpayer Mailings

As part of an effort to eliminate and reduce the display of taxpayer SSNs on IRS notices, the IRS will continue to replace the printed SSN on notices with a 2-dimensional barcode.

These funds will provide resources for software, infrastructure, and related support to further implement the Social Security Number (SSN) Elimination and Reduction 2-Dimensional (2D) Barcoding project. This phase of the project will reduce the display of SSNs on notices requesting a payment from the taxpayer, print barcodes on additional outgoing notices, and will create a system that reads 2D barcodes in the payment processing systems. This phase will reduce the use of SSNs on 88 notice types, eliminating the use of SSNs on notices to 48 million taxpayers. Overall, this project will reduce the use of SSNs on 226 notice types, eliminating the use of SSNs on notices mailed to 120.7 million taxpayers.

The IRS is required to eliminate unnecessary collection, use, and display of SSNs within systems, programs, notices, letters, and forms to comply with the Office of Management and Budget (OMB) mandate as described in OMB M-07-16, *Safeguarding Against and Responding to the Breach of Personally Identifiable Information*. Safeguarding Personally Identifiable Information (PII) in the possession of the government is essential to ensure that the government retains the trust and confidence of the American public.

**Other Direct Costs (+\$2.6 million / +16 FTE)**

*Dollars in Millions*

IRS Activity	Cost	FTE	Positions	Explanation
Chief Counsel	\$2.5	15.00	20	Provide legal guidance throughout the course of the investigations and work with Federal and State agencies on developing memorandums of Understanding.
Human Capital Office	\$0.1	1.00	1	Handle the increase in front-line positions and the expectation that new managerial positions will be created. Labor Relations support begins in the first year and continues throughout a manager's career, as needed. One Labor Relations Specialist supports 49 managers.
<b>Total</b>	<b>\$2.6</b>	<b>16.00</b>	<b>21</b>	

Increase Audit Coverage +\$161,809,000 / +1,099 FTE

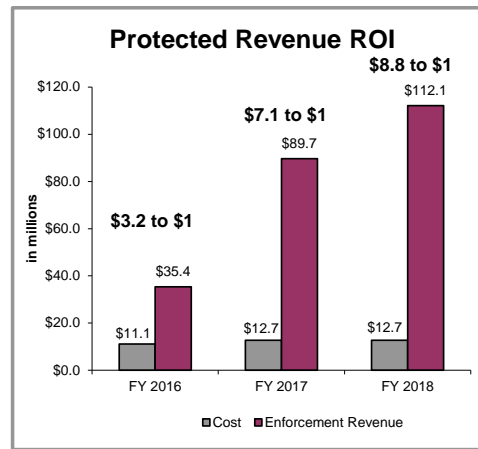
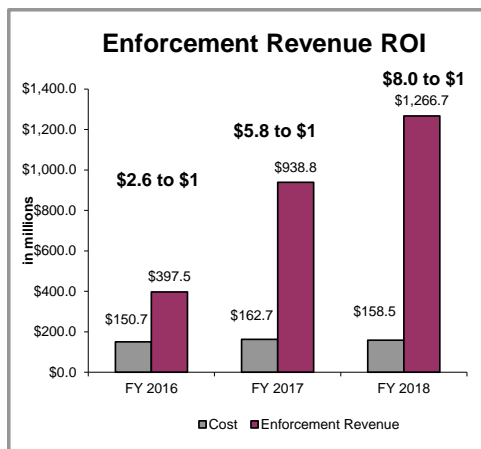
This initiative will allow the IRS to increase its examination program coverage over a broad range of compliance priorities. Tight budget constraints have eroded the examination staff available to conduct audits causing the individual audit coverage to decline below 0.9 percent. Due to growth in individual returns filed and the time required for new hires to reach full-working level, this initiative will still result in an individual coverage rate below 1.0 percent. Reduced coverage causes increased risk to the integrity of the voluntary tax compliance system. This initiative will:

- Provide additional field employees to reverse the decline in individual audit coverage;
- Expand coverage of Employment tax returns and Estate and Gift tax returns;
- Expand examinations on issues related to Individual Retirement Arrangements, Individual Tax Identification Numbers (ITINs), General Business Credit, new tax provisions, and the Questionable Refund Program;
- Increase individual and business document matching programs to identify and reduce income misreporting;
- Provide an imaging solution to support collaboration and improve exam efficiency; and
- Improve the effectiveness of the litigation program by expediting both the analysis and sharing of electronic data during the lifecycle of Tax Court cases.

Position Type/Other Costs	FTE	Positions	\$000
<b>Examination Coverage</b>	<b>516.00</b>	<b>688</b>	<b>\$65,735</b>
Revenue Agent	318.00	424	43,024
Tax Technician	167.25	223	19,688
Tax Examiner	7.50	10	622
Analyst and Support Staff	23.25	31	2,401
<b>Specialty Programs</b>	<b>33.75</b>	<b>45</b>	<b>\$5,217</b>
Revenue Agent	12.75	17	2,254
Attorney	13.50	18	2,000
Analyst and Support Staff	7.50	10	963
<b>Correspondence Examination</b>	<b>258.75</b>	<b>345</b>	<b>\$24,599</b>
Tax Examiner	213.75	285	19,376
Revenue Agent	1.50	2	224
Tax Technician	12.00	16	1,544
Manager, Analyst, Support Staff	31.50	42	3,455
<b>Automated Underreporter</b>	<b>138.75</b>	<b>185</b>	<b>\$13,264</b>
Tax Examiner	124.50	166	11,398
Analyst and Support Staff	14.25	19	1,866
<b>Address Appeals Workload</b>	<b>22.50</b>	<b>30</b>	<b>\$3,463</b>
Revenue Officer	15.00	20	2,371
Appeals Officer	7.50	10	1,092
<b>IT Projects</b>	<b>60.25</b>	<b>80</b>	<b>\$39,682</b>
Correspondence Imaging for Compliance	38.75	51	22,028
2D Barcoding	4.50	6	8,603
Implement IT Improvements for Chief Counsel	17.00	23	9,051
<b>Other Direct Costs</b>	<b>69.00</b>	<b>92</b>	<b>\$9,849</b>
Appeals Officer	18.75	25	2,742
Revenue Agent - Appeals	5.25	7	657
Tax Examiner - Appeals	3.00	4	282
Attorney	27.00	36	4,659
Paralegal	9.00	12	934
Support Staff - Counsel	5.25	7	479
HR Specialist	0.75	1	96
<b>Total</b>	<b>1,099.00</b>	<b>1,465</b>	<b>\$161,809</b>

This initiative is expected to annually produce additional enforcement revenue of \$1,266.7 million, once the new hires reach full potential in FY 2018, an ROI of \$8.0 to \$1, and protect revenue of \$112.1 million, a protected ROI of \$8.8 to \$1.





Major Activities	FY 2018 Projected Revenue and Workload			
	Enforcement Revenue (\$M)	Protected Revenue (\$M)	Pre-Refund Closures	Refund Closures
Examination Coverage	504.9			40,000
Specialty Programs	50.1			1,066
Correspondence Examination	350.8	112.1	29,880	87,480
Automated Underreporter	360.9			199,720
Address Appeals Workload				4,025
<b>Total</b>	<b>\$1,266.7</b>	<b>\$112.1</b>	<b>29,880</b>	<b>332,291</b>

Examination Coverage (+\$65.7 million / +516 FTE)

There has been a recent decline in the staffing levels of examiners conducting field audits as a result of a 17 percent decrease in funding since October 2011. This initiative will increase field examinations to reduce the individual taxpayer portion of the underreporting compliance tax gap. Additional field examination resources will allow the IRS to restore examination coverage while achieving balance across taxpayer segments. It is critical that the overall audit coverage rate for individual taxpayers does not drop below the current level. These resources will ensure that the IRS can maintain broad based coverage of the largest and most complex cases in the individual filing population.

In addition to providing resources for field examination, this initiative requests resources to hire quality review specialists to review cases and measure the accuracy of systemic computation of interest and the application, calculation, and effectiveness of civil penalties. Currently, there is no process to assess the accuracy of systemically calculated interest and civil penalties. The Government Accountability Office (GAO) has identified these deficiencies as material weaknesses in the IRS's Financial Management Controls and recommended corrective action. Additional resources for a quality measurement system will allow the IRS to implement a quality review program by hiring specialists to review cases and measure the accuracy of systemic computation of interest, as well as the application, calculation, and effectiveness of civil penalties. Implementing this quality review program will ensure the equitable and accurate administration of more than 170 civil penalties, with assessments exceeding \$30 billion annually. The results will assist the IRS in identifying

improvements to systems, policies, and frontline business operations while enhancing the accuracy of interest calculations that will support equal and fair tax treatment of taxpayers.

Specialty Programs (+\$5.2 million / +33.75 FTE)

This initiative will provide specialty tax staff to examine tax returns that address compliance issues in the Employment Tax program and the Estate and Gift Tax program.

- The Employment Tax program will address egregious underreporting of tips by employers in the food and beverage, gaming, travel and cruise, and other service industries where tipping is customary. As the service economy in the U.S. has grown in size as a percentage of GDP, the level of unreported tips continues to expand. The focus of additional workload will be on increasing voluntary tip agreements, assessing the employer's share of the Federal Insurance Contributions Act (FICA) taxes on unreported tip income, and performing compliance checks on existing agreements and industry groups. In addition, international examiners will investigate wage allocations between countries in partnership with the Global High Wealth teams to prevent arbitrary allocation and evasion schemes.
- The Estate and Gift Tax program will increase program coverage in response to recent changes in the estate and gift tax law and expanding nonfiler work. The number of gift tax returns has been impacted by legislative changes to exemption amounts resulting in increased filings of 55 percent from calendar year 2012 to 2013. Additionally, increased staff to address nonfilers is critical to achieving a higher level of voluntary compliance with estate and gift laws.

Correspondence Examination (+\$24.6 million / +258.75 FTE)

This initiative will provide correspondence examination staff to increase examination coverage, decrease the underreporting tax gap, and expand the following areas:

- **Expand Campus Examination Program**

The Campus Examination program addresses the tax gap through increased enforcement presence in priority segments of individual reporting compliance, including itemized deductions and education credits. These resources will deter more taxpayers from evading their tax obligations, and thereby support the IRS goal of increased voluntary compliance and maintaining examination coverage of individuals.

The additional staffing will allow the IRS to maintain broad exam coverage by meeting the challenges of administering new credits without reducing coverage of existing issues.
- **Address Individual Taxpayer Identification Number (ITIN) Compliance**

An ITIN is a tax processing number issued by the IRS to foreign nationals and others who have federal tax reporting or filing requirements, but do not qualify for social security numbers. Additional resources in this area will allow the IRS to:

  - Expand audit coverage on ITIN filers claiming the Advanced Child Tax Credit (ACTC) and American Opportunity Tax Credit (AOTC), which are not available for ITIN dependents residing outside the U.S.;

- Test filters in a pre-refund environment to identify ITIN noncompliant claims of these credits;
  - Address returns with new ITIN applications; and
  - Identify and address return preparers who file egregious ITIN noncompliant returns.
- Real Time Preparer Expansion – Return preparers are a critical component of tax administration and provide a unique opportunity to improve taxpayer behavior and compliance with tax laws. The Real Time Preparer program seeks to improve compliance among return preparers by completing pre-refund and post-refund audits, conducting on-site visits, and preparing warning letters to preparers.
  - Individual Retirement Account (IRA) Soft Notices – In response to Treasury Inspector General for Tax Administration (TIGTA) audit 2010-40-043, *A Service-wide Strategy is Needed to Address Growing Noncompliance with Individual Retirement Account Contribution and Distribution Requirements*, the IRS is enhancing IRA compliance efforts. The IRS initiated a soft notice pilot in December 2013 to encourage taxpayers to voluntarily correct discrepancies and increase voluntary compliance among an estimated 15 million potential cases of underreporting related to IRAs that contribute to the tax gap each year. The IRA soft notice will remind taxpayers who are over 70 and a half years of age that they must take required distributions from their IRAs or be subject to penalties.

The IRS also plans to initiate another pilot to conduct audits on individuals who have not taken the required distributions or individuals who have made excess contributions. The IRS currently does not have sufficient staffing to address the required distributions or excess contributions to IRAs. In FY 2016, the additional employees will handle the incoming mail and phone calls associated with the follow-up audits for individuals who have not complied with IRA distributions or contributions tax laws.

#### Automated Underreporter (AUR) (+\$13.3 million / +138.75 FTE)

- Automated Underreporter – The AUR program is highly successful in minimizing revenue loss through document matching of individual taxpayer account information. About 12 million taxpayers may currently misreport their income based on third-party information returns. The AUR program processes approximately 5 million taxpayer cases, leaving 7 million taxpayers whose returns may have misreported income unaddressed. There has also been an increase in complex issues, such as identity theft and bankruptcy, requiring the more experienced staff to spend increased time closing fewer cases. The expansion of program coverage is expected to increase voluntary compliance and reduce the number of taxpayers who underreport income in future tax years. AUR coverage decreased from 2.2 million returns in FY 2013 to 1.67 million returns in FY 2014. If funding is provided, the IRS estimates that AUR coverage may return to 1.9 million returns by FY 2018.
- Business Underreporter (BUR) – As a result of the Housing and Economic Recovery Act of 2008 (Public Law 110-289) and the American Taxpayer Relief Act of 2012

(Public Law 112-240), specific reporting requirements for filers of both Form 1120, *U.S. Corporation Income Tax Return*, and Form 1041, *U.S. Income Tax Return for Estates and Trusts*, were established. To support voluntary compliance with this legislation, BUR matches information returns against corporate and estate tax returns. The program was created in October 2012 and has proven to be productive in both assessing and collecting underreported tax liabilities. These resources will increase coverage and bolster voluntary compliance among business filers. Analysts will also interface with IT programmers to assist with new programming and troubleshooting to effectively and efficiently maintain the underreporter system.

#### Address Appeals Workload (+\$3.5 million / +22.5 FTE)

The Appeals function is a critical outlet for taxpayers to get an independent, second review of examination decisions without burdening the court system. Appeals must work all cases received from the compliance functions of the IRS. Over the past ten years, this workload has increased nearly 15 percent, from approximately 100,000 cases received during FY 2005, to 118,000 cases received in FY 2014, whereas the Appeals FTEs have declined by 8 percent over that same period, from 1,850 FTEs realized in FY 2005 to 1,708 FTEs realized in FY 2014.

This request for additional staffing will allow Appeals to effectively manage future inventory and avoid an increase in backlogged inventory.

#### IT Projects (+\$39.7 million / +60.25 FTE)

This initiative requests resources for the following IT projects:

- Implement Document Imaging

Document Imaging (DI) will allow all of the IRS business units to share a common, modernized infrastructure for scanning, imaging, and managing documents. DI also will allow IRS employees to collaborate and resolve compliance cases more efficiently. It will establish a common document and imaging infrastructure that can support many projects simultaneously and improve customer support. Projects that will benefit from the common document imaging infrastructure include:

- Content Management & Collaboration (CMC) – A web-based tool used by audit teams to facilitate collaboration by integrating document management, forums, calendars, and other interpersonal communication and productivity tools;
- Taxpayer Advocate Service Integrated Systems (TASIS) – A Taxpayer Advocate Service case management system that uses document imaging to facilitate collaboration within the IRS so that cases can be resolved faster for taxpayers experiencing financial hardship or burden; and
- Correspondence Imaging for Compliance (CIC) – An imaging solution that provides a central repository for imaged correspondence and stored images used by legacy compliance systems.

Further, this resource will improve the efficacy of search queries across applications, indices, and database servers by sharing server content. DI significantly reduces the

time, complexity, and costs of current document management and imaging processes, and contributes to improved customer service.

- Two Dimensional (2D) Barcode Project

The 2D Barcode project will allow the IRS to:

- Convert data from paper tax returns into electronic formats more efficiently and accurately by adding coded information to computer-generated paper returns;
- Process paper payments electronically; and
- Allow the IRS to accept and store individual amended returns electronically.

Increased data capture and faster, more accurate processing will improve audit effectiveness by ensuring examination programs have the most recent and most complete return data available. This additional data will support improved case selection approaches, improve the quality of data available to tax examiners and revenue agents, and expedite the examination process by reducing reliance on paper files.

- Implement Information Technology (IT) Improvements for Chief Counsel

This initiative will increase the effectiveness and efficiency of the Office of Chief Counsel, which represents the IRS in all matters in front of the Tax Court, by enhancing litigation support and improving external connectivity with third parties. This will improve the effectiveness of the litigation program by expediting both the analysis and sharing of electronic data during the lifecycle of Tax Court cases.

- Litigation Support Enhancement

To handle the increasing volumes of digital data, the IRS must either increase staff or invest in technology that will increase efficiencies. Investing in the Litigation Support Enhancement project will add capabilities, including predictive coding, de-duplication, email threading, and advanced filtering of data sets, which will increase efficiency during the examination and discovery processes. This project automates these processes to assist teams with managing the increasingly larger volume of data that modern litigation encompasses.

- External Connectivity

The External Connectivity project enhances the IRS's ability to communicate with external parties such as Congress, the Department of Justice (DOJ), and taxpayer representatives by improving virtual collaboration and file sharing across secure data connections with the ability to handle gigabytes of data. There is often no effective way to explain complex issues other than in a face-to-face format. To reduce travel costs and improve efficiency, the External Connectivity project enhances virtual collaboration by providing the ability of “screen sharing” with parties outside of the IRS. The IRS expects that the demand for this capability will continue to increase from external parties.

Other Direct Costs (+\$9.9 million / +69 FTE)

*Dollars in Millions*

<b>IRS Activity</b>	<b>Cost</b>	<b>FTE</b>	<b>Positions</b>	<b>Explanation</b>
Appeals	\$3.7	27.00	36	Support examination efforts on key compliance areas focused on improving voluntary compliance.
Chief Counsel	\$6.1	41.25	55	Provide support for increases in requests for legal advice, litigation assistance, and published guidance on issues raised in audits.
Human Capital Office	\$0.1	0.75	1	Handle increased workload to hire and support staff.
<b>Total</b>	<b>\$9.9</b>	<b>69.00</b>	<b>92</b>	

Improve Audit Coverage of Large Partnerships +\$16,249,000 / +107 FTE

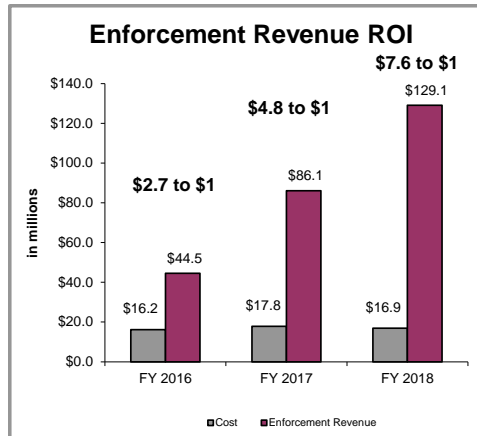
Partnership businesses continue to be the fastest growing segment of all tax returns filed. The Government Accountability Office says the number of large businesses organized as partnerships has more than tripled since FY 2002; however, only 0.8 percent were subjected to field exams, in which agents completed a thorough review of books and records.

Position Type/Other Costs	FTE	Positions	\$000
<b>Improve Identification and Coverage of Tiered Partnerships</b>	<b>49.25</b>	<b>66</b>	<b>\$9,819</b>
Revenue Agent	46.25	62	9,519
Manager	3.00	4	300
<b>Strengthen Enforcement Activities Related to TEFRA Workload</b>	<b>39.75</b>	<b>53</b>	<b>\$3,642</b>
Revenue Agent	3.50	5	559
Tax Examiner	26.50	35	2,183
Analyst	9.75	13	900
<b>Other Direct Costs</b>	<b>18.00</b>	<b>24</b>	<b>\$2,788</b>
Appeals Officer	7.50	10	1,093
Revenue Agent- Appeals	3.00	4	375
Tax Examiner- Appeals	1.50	2	141
Attorney	5.25	7	1,083
Paralegal	0.75	1	96
<b>Total</b>	<b>107.00</b>	<b>143</b>	<b>\$16,249</b>

Funding for this initiative will improve coverage by:

- Increasing the number of agents with specialized knowledge in partnership law; and
- Strengthen enforcement activities relating to flow-through entities and improve compliance by enhancing Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) procedures.

This initiative is expected to produce additional annual enforcement revenue of \$129.1 million, once the new hires reach full potential in FY 2018, an ROI of \$7.6 to \$1.



Major Activities	FY 2018 Projected Revenue (\$M)	Closures
Improve Identification and Coverage of Controlled Partnerships	129.1	261
<b>Total</b>	<b>\$129.1</b>	<b>261</b>

There is a wide variety of business organizations operating in the United States and abroad with different filing requirements. These organizations include businesses, such as sole proprietors, corporations, partnerships, and S-corporations, as well as trusts and non-profits. Partnership businesses continue to be the fastest growing segment of all tax returns filed. In calendar year (CY) 2013, approximately 3.7 million partnership returns were filed, an increase of 2.5 percent from CY 2010. This growth is projected to continue at an average rate of 2.4 percent per year, reaching 4.1 million returns filed by CY 2017.

The most significant factor affecting the growth in partnerships is the rise of limited liability companies (LLCs) filing as partnerships. Over the last 25 years, the number of pass-through LLCs rose from virtually zero to more than 600,000 in 2000, and to more than 2.1 million by 2011. Total assets reported by these LLCs have grown from zero to \$7.8 trillion and their total income has grown from zero to \$2.7 trillion over the same period. This increase corresponds to an ongoing decline in the business activity of corporations, some of which has shifted to partnerships they control.

While the number and complexity of partnership filings have increased significantly since 2000, audit coverage for this segment has remained flat. The IRS has examined an average of 0.34 percent of all partnership returns annually since 2000. With few exceptions, the percentage of partnership returns examined each year has been lower than other types of tax returns. This initiative provides resources to increase audit coverage of partnership returns.

Improve Identification and Coverage of Tiered Partnerships  
(+\$9.8 million / +49.25 FTE)

This initiative funds additional revenue agents who will work partnership cases and other flow-through returns that are part of this network of returns. This will allow the IRS to increase the number of revenue agents with specialized knowledge in partnerships and to address the inherent complexity associated with partnership tax law and administrative procedures.

Multiple layers of partnerships have increased the complexity of flow-through examinations. Subchapter K of the Internal Revenue Code provides specific rules applicable to the tax treatment of partnerships and partners. The increasing prevalence of tiered networks of partnership enterprises creates a significant challenge for the IRS in using the rules contained in Subchapter K to understand, recognize, and address risk, and treat noncompliance.

The increased complexity associated with flow-through examinations requires a disproportionate amount of time and effort. This complexity also provides an opportunity for taxpayers to pursue tax-sheltering activities and has inspired abusive transactions in recent history. This initiative will:

- Improve taxpayer compliance in high-risk related return structures comprised of tiered partnerships through issue-focused examinations by expert partnership examiners.
- Enhance IRS-wide collaboration; and



- Develop processes that allow the scoring and risk assessment of partnerships controlled by corporations and related individuals.

Strengthen Enforcement Activities Related to TEFRA Workload  
 (+\$3.6 million / +39.75 FTE)

TEFRA established unified audit rules applicable to all but certain small partnerships that meet the Small Partnership Exception. The TEFRA audit rules are complex and extensive.

Revenue agents handling partnership cases must understand both the TEFRA partnership audit rules and the normal audit rules that apply outside the partnership context. Tax shelter promoters have been known to take advantage of the complex TEFRA rules through the use of a combination of trusts, S corporations, limited liability companies, partnerships, and other entities, often arranged in complex networks, for the tax benefit of a single investor or a small group of investors. This deliberate addition of complexity can hamper IRS efforts to pursue investors in abusive transactions. While the IRS has made progress in training examiners in the TEFRA rules, maintaining TEFRA proficiency among non-specialist revenue agents is an ongoing challenge.

This initiative strengthens enforcement activities pertaining to flow-through entities by providing assistance to field examiners to identify these interrelated and tiered entities and provide notice requirements to investors within established timeframes.

Other Direct Costs (+\$2.8 million / +18 FTE)

*Dollars in Millions*

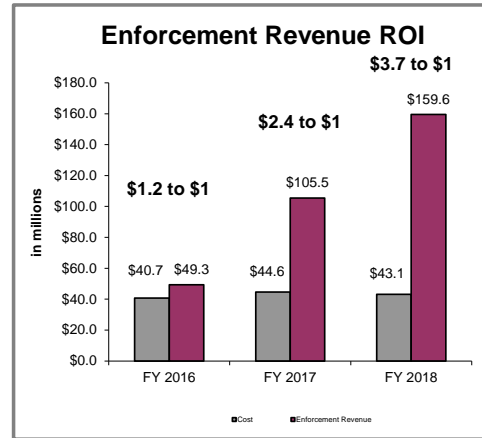
IRS Activity	Cost	FTE	Positions	Explanation
Appeals	\$1.6	12.00	16	Support examination efforts on key compliance areas focused on improving voluntary compliance.
Chief Counsel	\$1.2	6.00	8	Provide advice to revenue agents, revenue officers and the Department of Justice for District Court cases, review Notices of Deficiencies, and litigate cases in the Tax Court.
<b>Total</b>	<b>\$2.8</b>	<b>18.00</b>	<b>24</b>	

Address International and Offshore Compliance Issues +\$40,657,000 / +238 FTE

This initiative will expand coverage of entities with undisclosed offshore accounts to comply with required U.S. tax reporting. This initiative will:

- Promote voluntary compliance with U.S. laws through strategic enforcement actions directed at identifying U.S. taxpayers involved in abusive offshore tax schemes through banks, other financial institutions, and third party structures;
- Allow the IRS to expand information gathering and data analysis to identify promoters or facilitators of abusive offshore schemes; and
- Expand the pursuit of international tax and financial crimes as well as grow the IRS attaché presence.

Position Type/Other Costs	FTE	Positions	\$000
<b>Increase Offshore Compliance</b>	<b>143.75</b>	<b>179</b>	<b>\$21,193</b>
Revenue Agent	70.50	94	12,416
Tax Examiner	13.50	18	1,262
Tax Technician	8.25	11	1,063
Manager, Analyst and Support Staff	51.50	56	6,452
<b>Expand Offshore Criminal Investigation</b>	<b>36.50</b>	<b>49</b>	<b>\$8,355</b>
Special Agent	12.50	17	4,831
IT Specialist	12.00	16	1,911
Analyst	12.00	16	1,613
<b>Other Direct Costs</b>	<b>57.75</b>	<b>77</b>	<b>\$11,109</b>
Appeals Officer	9.75	13	1,716
Revenue Agent - Appeals	0.75	1	94
Tax Examiner - Appeals	0.75	1	71
Attorney	43.50	58	8,937
Paralegal	0.75	1	95
Support Staff - Counsel	2.25	3	196
<b>Total</b>	<b>238.00</b>	<b>305</b>	<b>\$40,657</b>



This initiative is expected to produce annual enforcement revenue of \$159.6 million, once the new hires reach full potential in FY 2018, an ROI of \$3.7 to \$1.

Major Activities	FY 2018 Projected Revenue and Workload			
	Revenue (\$M)	Individual Closures	Business Closures	Investigations Completed
Increase Offshore Compliance	159.6	4,100	50	
Expand Offshore Criminal Investigations				30
<b>Total</b>	<b>\$159.6</b>	<b>4,100</b>	<b>50</b>	<b>30</b>

Increase Offshore Compliance (+\$21.2 million / +143.75 FTE)

- Increased Coverage of Offshore Individual Compliance Issues

Offshore and cross-border tax issues affect a growing number of taxpayers. The additional resources in this initiative will allow the IRS to:

- Ensure proper application of treaty benefits, foreign tax credits, and foreign earned income exclusion;
- Verify withholding before the release of refund requests;
- Increase pre-refund audit coverage;
- Establish centralized classification and case building unit; and
- Increase the use of soft letters to promote voluntary compliance.

- Enhance International Compliance Efforts

This funding will allow the IRS to identify emerging offshore compliance issues and handle the increased workload from cases with international issues and offshore transactions. The additional workload from the open-ended Offshore Voluntary Disclosure Program (OVDP), additional John Doe Summonses, and expanded information reporting required by the FATCA is expected to result in increased individual and small business audits.

- Implementation of OVDP

In January 2012, the IRS reopened the previous Offshore Voluntary Disclosure Initiative (OVDI) with tightened eligibility requirements in response to strong interest from taxpayers and tax practitioners. On July 1, 2014, the IRS expanded the OVDI to allow streamlined filing of amended returns for domestic taxpayers to self-certify their non-willful actions on their previously undisclosed foreign income and pay a 5 percent penalty on the highest aggregate balance of their foreign assets. Since the program was established in 2009 through the end of FY 2014, the OVDP has resulted in the collection of more than \$6.5 billion in back taxes, interest, and penalties from more than 45,000 participants.

- Issuance of John Doe Summonses

The purpose of a John Doe summons is to investigate the tax liability of a specific unidentified taxpayer (or a group of such taxpayers). The use of John Doe summonses has avoided the restrictions imposed by the international bank secrecy rules and resulted in over 725 primary treaty cases, equating to over 3,000 returns. A John Doe summons can be served only after approval by a federal court. The IRS has seen an increase in the number of offshore voluntary disclosure filings when Treasury and/or Department of Justice announce legal actions against taxpayers after the issuance of John Doe summonses to foreign financial institutions (FFIs).

- Expanded Information Reporting under FATCA

In March 2010 FATCA legislation was enacted as part of the Hiring Incentives to Restore Employment (HIRE) Act of 2010 (Public Law 111-147). This legislation

strengthens offshore compliance efforts by creating new information reporting requirements for FFIs with respect to U.S. accounts, establishing new withholding, documentation, and reporting requirements for payments made to certain foreign entities, and requiring expanded information reporting for offshore assets held by U.S. taxpayers. Through both voluntary taxpayer identification of foreign assets and third party reporting by FFIs, the IRS expects to see an increase in the number of taxpayers with taxable offshore transactions and to identify taxpayers with previously undisclosed foreign holdings.

- Increase Timely Development of Quality Fraud Referrals

The IRS National Fraud Program ensures that areas of tax avoidance and fraud are promptly addressed and proactively identified. This program identifies and develops potential indicators for acts of fraud. These additional resources will allow technical advisors to:

- Provide technical support required as a result of the issuance of John Doe summonses;
- Address complex international issues;
- Proactively assist in developing potential fraud cases and streamline referrals to IRS Criminal Investigation (CI); and
- Provide assistance in obtaining international data and analyzing Suspicious Activity Reports (SAR) data. SARs are submitted to the Treasury by financial institutions, brokerage houses, money service businesses, casinos, and others. They provide additional information regarding suspicious movements of cash and wire transactions that are not included in a Currency Transaction Report (CTR).

#### Expand Offshore Criminal Investigations (+\$8.4 million / +36.5 FTE)

In support of the strategic goal to enforce international compliance by strengthening expertise, adopting innovative approaches, and streamlining procedures, the IRS is requesting additional resources to support efforts related to FATCA criminal non-compliance, international case development with the international law enforcement community, and overseas enforcement support.

- FATCA

Address fraud and criminal violations that will be uncovered as the IRS establishes broader withholding, document matching, and compliance programs per FATCA legislation. IRS special agents will proactively identify individuals, business entities, withholding agents, foreign financial institutions, and professional advisors that exhibit substantial and firm indications of fraud. Analysts will focus on trends and patterns of substantial criminal and willful intent to evade or avoid the payment of federal income tax obligations. The new staff will increase the criminal investigations initiated involving false claims for refunds, underreported or non-reported tax, failure to pay, conspiracy, and money laundering violations due to the new information reporting requirements.

- International Case Development

The IRS has developed a Case Development Center (CDC) prototype to support field operations by identifying and developing tax and financial criminal investigations. The CDC will house criminal investigative information regarding the Swiss Bank Program, Offshore Voluntary Disclosure Program, Professional Advisers/Intermediaries Project, and International Bank Investigations. The CDC will allow the IRS to further develop quality leads received from field special agents, attaches, FinCEN spontaneous disclosures, domestic and foreign law enforcement agencies as well as fraud referrals from IRS business units.

- Supporting the International Law Enforcement Community

The numbers of requests for training and development received by the IRS's Office of International Operations (IO) has increased. Additionally, IO has seen substantial growth in the numbers of international assistance requests from field offices and international law enforcement agencies.

The IRS has implemented and received worldwide support for an annual criminal tax symposium held in Washington DC. The attendees are representatives from countries that have similar tax systems to the United States. The symposium provides a platform for open discussion and collaboration on international enforcement strategies.

As the representative for the United States in the Organization for Economic Cooperation and Development (OECD), an organization comprised of 34 member countries, the IRS's Criminal Investigation International Operations Executive Director is the head of the Tax Crimes Task Force. The IRS is a leader in the global fight against international tax evasion by leading and supporting legislative changes and the development of international tax priorities worldwide. Within the OECD, the IRS provides assistance to developing countries regarding criminal financial investigative techniques.

- Overseas Enforcement Support

In assessing high-risk geographical areas that pose a threat to the U.S. tax and financial systems, the IRS has identified two regions, Dubai and South Africa, that are believed to be replete with activity that supports an environment suitable for U.S. taxpayers seeking to hide their assets and income offshore. The establishment of an IRS presence in both regions would provide the ability to readily identify U.S. business entities, citizens, and dual nationals engaged in tax evasion schemes using these foreign jurisdictions. Additionally, the establishment of a South African post would provide regional coverage to central and South African countries such as Republic of Namibia, Republic of Angola, Republic of the Congo, Republic of Mauritius, and Seychelles. Dubai has emerged as one of the world's premier financial centers, and has subsequently become a source of money laundering and illicit financing activity. Establishing an IRS presence will result in greater case development and prosecutions, and provide an increased deterrent effect for taxpayers who evade their U.S. tax obligations.

**Other Direct Costs (+\$11.1 million / +57.75 FTE)**

*Dollars in Millions*

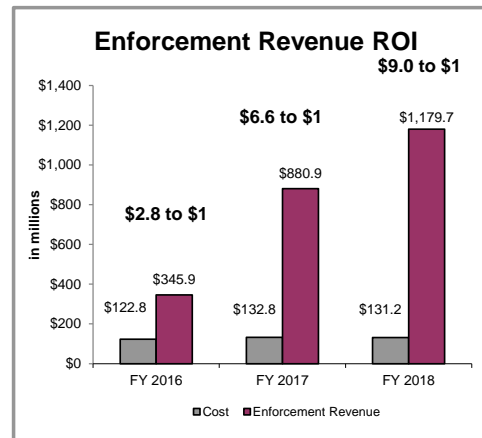
<b>IRS Activity</b>	<b>Cost</b>	<b>FTE Positions</b>		<b>Explanation</b>
Appeals	\$1.9	11.25	15	Support examination efforts on key compliance areas focused on improving voluntary compliance.
Chief Counsel	\$9.2	46.50	62	Provide support to agents working offshore cases that will require assistance in case development, especially with respect to summonses, interviews of taxpayers, and other witnesses. Also, provide support for the Report of Foreign Bank and Financial Accounts.
<b>Total</b>	<b>\$11.1</b>	<b>57.75</b>	<b>77</b>	

Enhance Collection Coverage +\$122,830,000 / +1,034 FTE

This initiative will ensure that the IRS has sufficient resources to work the collection inventory and bring taxpayers who fail to pay their tax debt into compliance. These resources will allow the IRS to address growing collection case inventories and call volumes that have resulted from reduced staffing levels in recent years. This initiative will:

- Increase coverage of the growing volume of employment tax cases among business taxpayers;
- Improve service to taxpayers calling the Automated Collection System (ACS) to resolve their account delinquencies;
- Provide resources for Campus Collection to reach out to taxpayers earlier in the collection process, thereby increasing collectability;
- Help taxpayers experiencing economic hardship to resolve their liabilities through the Offers in Compromise (OIC) program;
- Increase opportunities to expand new collection streams;
- Develop IT solutions to provide better analytic models, case routing, and case resolution tools and techniques;
- Expand the data available in the Compliance Data Warehouse (CDW); and
- Improve the capability to identify nonfilers of business returns.

Position Type/Other Costs	FTE	Positions	\$000
<b>Expand Collection Program Coverage</b>	<b>912.50</b>	<b>1,216</b>	<b>\$96,846</b>
<b>Field Collection</b>	<b>391.50</b>	<b>522</b>	<b>\$48,870</b>
Revenue Officer	347.25	463	44,766
Tax Examiner	10.50	14	875
Analyst / Support Staff	33.75	45	3,229
<b>Automated Collection Systems Operations (ACS) and Support</b>	<b>368.25</b>	<b>491</b>	<b>\$30,856</b>
Customer Service Representative	318.75	425	25,962
Tax Examiner	47.25	63	4,613
Manager	2.25	3	281
<b>Compliance Service Collection Operations (CSCO)</b>	<b>93.50</b>	<b>124</b>	<b>\$11,972</b>
Tax Examiner	86.75	115	11,224
Manager / Support Staff	6.75	9	748
<b>Centralized Offers- in-Compromise (OIC)</b>	<b>59.25</b>	<b>79</b>	<b>\$5,148</b>
Tax Examiner	45.00	60	3,749
Program Analyst / Support Staff	14.25	19	1,399
<b>Expansion of Current Collection Treatment Streams</b>	<b>46.50</b>	<b>62</b>	<b>\$5,465</b>
Tax Examiner	39.00	52	3,396
Manager	3.75	5	429
Analyst and Support Staff	3.75	5	1,640
<b>IT Projects</b>	<b>48.00</b>	<b>65</b>	<b>\$16,068</b>
Predictive Analytics for the Collection Enterprise (PACE)	36.75	50	9,640
Compliance Data Warehouse (CDW)			3,085
Business Master File Case Creation Nonfiler ID Program (BMF-CCNIP)	11.25	15	3,343
<b>Other Direct Costs</b>	<b>27.00</b>	<b>36</b>	<b>\$4,451</b>
Revenue Agent - Appeals	0.75	1	94
Revenue Officer - Appeals	12.00	16	1,897
Attorney	13.50	18	2,364
HR Specialist	0.75	1	96
<b>Total</b>	<b>1,034.00</b>	<b>1,379</b>	<b>\$122,830</b>



This initiative is expected to produce additional annual enforcement revenue of \$1,179.7 million with an ROI of \$9.0 to \$1, once the new hires reach full potential in FY 2018.

FY 2018 Projected Revenue and Workload						
Major Activities	Revenue (\$M)	Inquiries Worked	Installment Agreements	Calls Answered	Reconsideration Closures	Closures
Expand Collection Program Coverage	1,132.6	50,000	250,000	399,100	129,500	620,944
Expansion of Current Collection Treatment Streams	47.1					44,000
<b>Total</b>	<b>\$1,179.7</b>	<b>50,000</b>	<b>250,000</b>	<b>399,100</b>	<b>129,500</b>	<b>664,944</b>

Expand Collection Program Coverage (+\$96.8 million / +912.5 FTE)

This initiative will reduce the nonfiling and underpayment tax gap.

- Field Collection

Field Collection will hire additional staff to address the increase in the number and value of employment tax cases. Individual taxpayers receive credit for the taxes withheld from their paychecks, and may receive tax refunds based on those credits, even if their employer did not turn over the withheld tax to the government. From FY 2011 to FY 2013, employment tax cases increased by 8.1 percent, representing a tax obligation exceeding \$7.4 billion. There are more than one million cases with an assessed balance exceeding \$52 billion in the queue awaiting assignment, plus another 370,000 cases for which returns have not been filed.

- Automated Collection System (ACS)

The ACS call site operation is the most productive IRS program for revenue collection, but because of budget constraints, ACS staffing has decreased by approximately 25 percent since the end of FY 2011. The ACS program addresses incoming calls generated by the issuance of levies and the Predictive Dialer (PD) program, an automated system that places calls to taxpayers with delinquent return and/or unpaid tax liabilities.

As of November 2014, there were 5.0 million cases in ACS, with approximately 1.5 million needing a levy or predictive dialer action. These additional resources will allow the IRS to increase collections, close balance due cases, resolve protected inventory cases (i.e., cases that are protected from enforcement action pending research or taxpayer requests for account and adjustment actions or explanation of complex account issues to determine correct balances due), and provide more timely service to the taxpayer.

- Compliance Services Collection Operations (CSCO)

These funds will allow the IRS to expand CSCO to address nonfiling and underpayment of taxes in the notice process. New resources will address the increased balance due work and expand the following programs:

- The CSCO Automated Substitute for Return (ASFR) Program – ASFR is a compliance tool used to prepare tax returns based on income information submitted to the IRS such as W-2 wage documents, and is used to prompt the taxpayer to file a tax return. The reduced staffing levels have resulted in current inventory levels not being addressed and more than 150,000 cases becoming too old to be worked by this program.



- o Installment Agreements (IA) – IA requests increased significantly during filing season 2013 as a result of new balance due tax returns. In order to work the influx of IAs, additional overtime resources are requested to meet the cyclical work demand.
- o Withholding Compliance Program (WHC) – This automated program brings taxpayers with serious under-withholding problems into compliance by correcting their federal income tax withholding and preventing them from becoming delinquent on the payment of future taxes by issuing a letter requiring the employer to withhold a specific, appropriate amount from the taxpayer’s pay. From Tax Year 2006 to 2010, this program’s success has decreased the number of balance due returns from taxpayers in the current WHC program by 64 percent and increased returns with a zero balance or refund by 246 percent. These resources will allow the IRS to add an additional 90,000 taxpayers to the WHC program.
- Centralized Offers in Compromise (COIC)
 

The Offers in Compromise (OIC) program processes taxpayer requests to reduce or eliminate their tax liabilities because of extreme circumstances or hardship. COIC applications have increased 69 percent since FY 2008, while staffing has declined slightly. As a result, the percentage of cases closed within six months has decreased from 92 percent in December 2008 to 70 percent in September 2014. Further enhancements to the OIC program will encourage more unemployed taxpayers to file an OIC request in an effort to settle their tax debts. These resources will allow the IRS to help taxpayers experiencing hardship resolve their tax liabilities. Program success results in the expectation of a fresh start toward compliance with all future filing and payment requirements.

Expansion of Current Collection Treatment Streams (+\$5.5 million / +46.5 FTE)

Campus Collection is a correspondence and phone operation that addresses nonfiling and underpayment of taxes in the collection process. This includes:

- Campus Notice Program
 

By reaching out earlier in the collection process, Campus Collection more efficiently handles taxpayers who have received or are scheduled to receive a notice. Additional resources will allow the IRS to handle more balance due work, expand the Refund Hold program to secure delinquent returns by delaying issuance of a taxpayer income tax refund, and make more outbound calls before preparing an Automated Substitute For Return (ASFR) or to prevent installment agreement default.
- Campus State Payment Levy Program
 

The IRS requests additional staffing to explore ways to use the Bureau of the Fiscal Service (Fiscal Service) State Reciprocal Program to collect state government vendor and Medicaid payments in order to pay delinquent federal tax debt through its automated Treasury Offset Program and the Federal Payment Levy Program.

Under current tax law, the IRS can levy federally funded state vendor and Medicaid payments but limitations in the law make it inefficient.

The Fiscal Service and the IRS are working together to assess the effect on state legislation and the administrative process of centralizing the collection of state government payments to pay federal tax debts. This proposed effort would support the recent recommendation from the GAO audit, GAO-12-857, *Medicaid: Providers in Three States with Unpaid Federal Taxes Received Over \$6 Billion in Medicaid Reimbursements*, dated July 2012.

- **Campus Decedent Taxpayer Unit**

The IRS requests additional staffing to establish the Campus Decedent Taxpayer Unit. During calendar years 2011 through 2013, there were approximately 272,000 decedent accounts with total outstanding balances due at the time of death of more than \$6.6 billion. There are also approximately 185,000 new cases accrued after death, totaling another \$1.4 billion in unpaid taxes. The lack of timely action on decedent accounts has resulted in a significant loss of revenue.

In order to protect the government's interest and increase recovery of taxes owed by deceased taxpayers, the IRS needs notification of probate proceedings before estate assets are distributed to pay other creditors. The Campus Decedent Taxpayer Unit will establish a centralized location to notify the IRS to file probate claims. This unit would be able to quickly hand off cases needing a proof of claim to the appropriate office.

- **Manually Monitored Installment Agreements (MMIA) and Federal Tax Deposit (FTD)**

The IRS requests additional staffing to improve the MMIA and FTD Alerts programs. MMIA's are installment agreements that cannot be established and monitored systemically with automatic reminder notices. For MMIA's, extra steps and resources are required to mail reminder notice letters. The Predictive Dialer system could be used for a "just in time" reminder and potentially reduce MMIA defaults while saving printing and mailing costs.

FTD Alert soft notices are issued to business taxpayers who have been identified as not having fulfilled a requirement to make federal tax deposits. The additional staff will allow the IRS to utilize the Predictive Dialer system to contact taxpayers who have not responded to the notice. In addition, revenue from taxpayer payments will be received earlier in the collection process and reduce the effect of delayed action on enforcement resources.

- **Civil Tax Assessment Cases Resulting from Criminal Restitution**

The IRS requests additional staffing to coordinate the civil tax assessment cases resulting from criminal restitutions. Multiple individuals can be assessed a single liability requiring them to make payments, but the total liability can only be collected once. This work requires closely monitoring and applying court-generated payments to all parties, and cross-referencing them to reach a zero balance over the 10-year collection statute.

#### IT Projects (+\$16.1 million / +48 FTE)

- **Predictive Analytics for the Collection Enterprise (PACE)**

PACE is a collection of improvements to existing systems that will increase the effectiveness and efficiency of Collection through the design, development, and testing of

models, communication, case routing, and case resolution tools and techniques. PACE will enhance current systems by providing decision support earlier in the collection process, build and incorporate new analytic models, and route cases to optimal treatment streams at an earlier stage. Through the results of continuous testing and evaluation, the IRS will be better able to define, measure, and work the most productive cases. Most productive case factors include long-term compliance, voluntary compliance, and revenue collected.

- **Compliance Data Warehouse (CDW)**

These funds will allow the IRS to purchase hardware and storage capacity to expand the data available from the CDW. The purpose of the CDW is to provide high-quality data and information services to the IRS research community in support of projects, analyses, and studies related to tax administration, enforcement, and customer service. This includes new data tools and analysis of the collection stream to improve effectiveness, treatment selection, and segmentation of the delinquent taxpayer population. The added data will facilitate new studies to improve the effectiveness and productivity of IRS service and enforcement programs. This investment will improve decision models for case management in Collection work streams for nearly 1,500 employees.

- **Business Master File Case Creation Nonfiler Identification Process (BMF CCNIP)**

BMF CCNIP will provide the capability to more efficiently target nonfilers of business returns, including unknown nonfilers who may be delinquent in filing their required tax returns. This program has a current limited capability in its first release configuration that will extend and enhance the algorithms and datasets in use including available state return data. This program will become the system where cases are created, prioritized, selected, maintained, and integrated with filing compliance performance and management tools. Development of this system will reduce non-liable closures by assigning employees to the best cases, and is expected to produce a higher number of secured returns and an increase in the number of taxpayers that meet filing obligations.

**Other Direct Costs (+\$4.5 million / +27 FTE)**

*Dollars in Millions*

IRS Activity	Cost	FTE	Positions	Explanation
Appeals	\$2.0	12.75	17	Support collection efforts on key compliance areas, particularly the Trust Fund Recovery Penalty and Collection Due Process workstreams.
Chief Counsel	\$2.4	13.50	18	Provide support for increases in requests for legal advice, litigation assistance, and collection due process, particularly from Field Collection and the Campus Decedent Taxpayer Unit.
Human Capital Office	\$0.1	0.75	1	Handle increased workload to hire and support staff.
<b>Total</b>	<b>\$4.5</b>	<b>27.00</b>	<b>36</b>	

Leverage Data to Improve Case Selection +\$39,060,000 / +59 FTE

This initiative will improve data accessibility and usability for better case selection, issue identification, and treatment assignment.

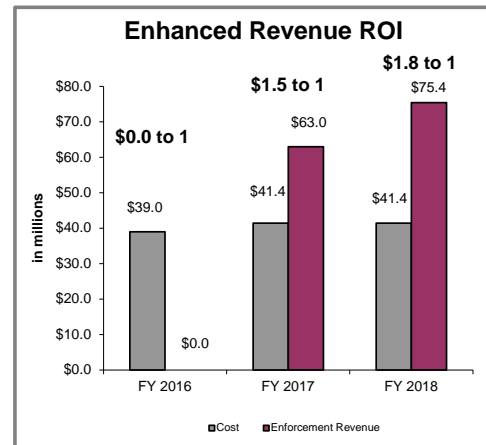
Taxpayer behaviors, including those of individuals, small businesses, and large corporate taxpayers, are constantly changing. The IRS must adapt quickly to changing taxpayer behavior to prevent fraud and tax code misuse.

This initiative will:

- Increase the digital availability of tax return information;
- Create an analytical computing and data testing environment to allow the IRS to identify taxpayer behavioral changes more quickly and test compliance responses promptly;
- Optimize compliance case identification and treatment assignment to increase effectiveness while reducing risk and costs;
- Enhance IRS large corporate taxpayer issue identification/return selection activities, improve the data systems and tools needed to perform this work, and more effectively use knowledge management and information technology resources to identify potential compliance risk; and
- Provide skilled staff in areas such as machine learning, statistical modeling, and data mining.

Position Type/Other Costs	FTE	Positions	\$000
<b>Improve Data Availability</b>	<b>21.75</b>	<b>30</b>	<b>\$10,296</b>
IT Specialist	7.50	11	1,392
Contractual Services			1,754
E-file Data Interface for Compliance Data Environment	14.25	19	7,150
<b>Design and Pilot New Ways to Identify &amp; Prioritize Cases</b>	<b>10.25</b>	<b>13</b>	<b>\$9,757</b>
Analyst	8.00	10	1,377
IT Specialist	2.25	3	380
Contractual Services			3,000
IT Equipment			3,250
Hardware & Software			1,750
<b>Optimize Case Selection and Assignment to Appropriate Treatment Streams</b>	<b>11.25</b>	<b>15</b>	<b>\$16,353</b>
IT Specialist	11.25	15	1,853
Contractual Services			6,000
IT Equipment			2,000
Hardware & Software			6,500
<b>Enhancing Large Corporate Compliance through Improved Issue Identification/Return Selection and Robust Knowledge Management</b>	<b>13.50</b>	<b>18</b>	<b>\$2,198</b>
Program Analyst	5.50	7	886
Analyst	7.25	10	1,190
Economist	0.75	1	122
<b>Other Direct Costs</b>	<b>2.25</b>	<b>3</b>	<b>\$456</b>
Attorney	2.25	3	456
<b>Total</b>	<b>59.00</b>	<b>79</b>	<b>\$39,060</b>

Improved use of analytics is expected to increase revenue collection and, while this is not included in the IRS's traditional ROI calculations, it is projected to increase revenue by \$75.4 million in FY 2018, a revenue enhancing ROI of \$1.8 to \$1.



Improve Data Availability (+\$10.3 million / +21.75 FTE)

This initiative will provide resources to allow the IRS to increase the data available for research and analysis by funding the following three projects:

- Enhance Electronic Data Capture on Residual Paper Returns

While the rate of electronic filing continues to increase, the IRS will continue to receive some tax returns on paper. These resources provide IT staffing and contracting support to allow existing systems to accept additional transcribed data.

- Expand the Compliance Data Environment (CDE) and the Modernized Taxpayer Return Database (MTRDB)

This initiative will expand CDE and MTRDB to include all e-filed data and make it accessible for research and identification of emerging trends. Analysis of e-filed data will allow the IRS to develop appropriate compliance strategies. The MTRDB is a database of all tax returns used for case selection purposes. The MTRDB improvements will make all e-file return data available and accessible. Campus and field personnel will be able to replicate complete copies of e-filed returns as needed, relieving taxpayers who e-file from the burden of providing copies of prior-year returns for an examination.

- Allow Electronic Filing of Three Employee Retirement Income Security Act (ERISA) Information Returns

Currently, taxpayers must use different means and go to different government agencies to file employee plan returns depending on the type of form they are filing, placing an undue burden on taxpayers. Unlike other Form 5500 series returns, which are filed electronically with the Department of Labor (DOL), Form 5500-EZ, *Annual Return of One-Participant Retirement Plan*, is filed with the IRS either on paper or through the IRS Filing Information Returns Electronically (FIRE) system. These resources will consolidate electronic filing of Form 5500-EZ and two other retirement plan-related forms on DOL's EFAST2 platform. Allowing retirement plan-related forms to be filed in one, electronic location will improve taxpayer service, improve case selection, and reduce processing and transcription errors.

Design and Pilot New Ways to Identify and Prioritize Cases

(+\$9.8 million / +10.25 FTE)

This initiative provides resources to develop an analytical computing and data testing environment that will allow the IRS to rapidly analyze and apply data extracts and third party data to evolving compliance programs. Currently, much of the IRS's data analysis takes place several years after the returns are filed. To improve this process, the IRS must develop an analytical computing environment to test this technology before full implementation and deployment. Once completed, this technology will enhance the IRS's ability to study the most difficult tax administration challenges. Experiments conducted in this analytical computing environment will assist the IRS in quantifying proposed changes to processes and policies.

This request also supports additional analysts to design and conduct pilot testing of new case selection methods. Pilot tests as part of carefully designed studies will allow the IRS to test new hypotheses, processes, and procedures under rigorous methods designed to measure and assess the results.

Optimize Case Selection and Assignment to Appropriate Treatment Streams  
(+\$16.4 million / +11.25 FTE)

This initiative will provide the resources to redirect casework to functions that can handle it most effectively or to functions with available capacity. Developing new business rules will allow selection and distribution of cases into the most effective enforcement activity. Once cases complete their cycle, data visualization will allow for comparison of the effectiveness of the treatment streams.

The ability to adapt to the changing compliance environment and to address a changing noncompliant population depends on new business and technology models for case selection, issue identification, and case treatment/assignment. The new business and technology models will support the organization across individual business units. Currently, IRS compliance tools are focused on individual business units with inadequate linkage across the operating boundaries of the organization. Moving to these new models requires integration and development of common business services. This investment in business tools (e.g., rules-based engines, statistical analysis packages, and data visualization) will enhance secure data access across the IRS organization and provide a common process to identify cases in production.

Enhancing Large Corporate Compliance through Improved Issue Identification/Return Selection and Robust Knowledge Management  
(+\$2.2 million / +13.5 FTE)

In carrying out its mission, the IRS must decide where and how to apply its limited resources for the greatest benefit. This is especially true in large corporate taxation, where over the past decade the work has become increasingly globalized, and corporate business models have evolved to meet changing demands. In large corporate taxation, the IRS uses issue-driven, risk-based modeling approaches, focusing on the nature and complexity of tax issues, to inform its workload selection decisions. The overarching goal is to identify those issues having the broadest impact on compliance, regardless of entity type or size, and assign resources accordingly.

This initiative seeks to enhance IRS issue identification/return selection activities by improving use of data modeling, data filtering, and statistical analysis as well as improving the data systems and tools needed to perform this work. This initiative will fund staff who will possess highly specialized skillsets to conduct statistical analysis and computer programming tasks including modeling, data mining, and information architecture. These hires will allow the IRS to fully use knowledge management and information technology resources to uncover and pinpoint areas of potential compliance risk.

These individuals will:

- Help the IRS prioritize large corporate workload and apply limited field resources towards areas of highest compliance risk;
- Select and audit tax issues that will have the broadest overall impact on compliance;
- Support alternative and early issue resolution approaches and guidance; and
- Enhance and better leverage data and analytics to inform business decisions.

**Other Direct Costs (+\$0.5 million / +2.25 FTE)**

*Dollars in Millions*

IRS Activity	Cost	FTE	Positions	Explanation
Chief Counsel	\$0.5	2.25	3	Provide support in determining what information needs to be programmed into the system in order to help develop the most productive issues and cases, identifying the greatest compliance risks, and improving audit efficiency overall.
<b>Total</b>	<b>\$0.5</b>	<b>2.25</b>	<b>3</b>	

Address Compliance Risks in the Tax-Exempt Sector +\$23,462,000 / +159 FTE

This initiative will help the IRS to build and maintain public trust by anticipating and addressing the tax-exempt sector’s needs, encourage voluntary compliance, and effectively enforce the law to ensure compliance.

This initiative will:

- Enhance the streamlined application process for exempt organizations seeking tax-exempt status;
- Protect taxpayer donations to charities by mitigating the downstream risks associated with the streamlined application process by conducting post-determination compliance activities;
- Protect participants in retirement plans and their assets, which total over \$23 trillion, through a comprehensive downstream enforcement program as the IRS pursues a strategic shift in the application process for qualified employee retirement plans;
- Facilitate voluntary correction opportunities related to employment taxes and retirement plans; and
- Improve service by integrating three separate determination application systems into one end-to-end system, which supports the IRS’s strategic goal to deploy advanced information technology systems to address efficiency and productivity in the determination process.
- Through this initiative, the IRS will be able to focus resources on areas with the greatest risk and ensure that all resources in the Tax Exempt and Government Entities arena are developed and deployed appropriately. This will lessen the burden on taxpayers and employees and will facilitate consistent and timely determinations of exempt status and qualifications of employee plans.

Position Type/Other Costs	FTE	Positions	\$000
<b>Address Compliance Risks in the Tax-Exempt Sector</b>	<b>108.50</b>	<b>145</b>	<b>\$13,548</b>
<b>Enhance Streamlined Determinations Process</b>	<b>74.00</b>	<b>99</b>	<b>\$8,413</b>
Revenue Agent	33.00	44	4,961
Tax Examiner	37.50	50	3,128
Manager	3.50	5	324
<b>Strengthen Enforcement For Employee Plans</b>	<b>34.50</b>	<b>46</b>	<b>\$5,135</b>
Revenue Agent	34.50	46	5,135
<b>Strengthen Voluntary Compliance for Tax-Exempt and Government Entities</b>	<b>29.25</b>	<b>39</b>	<b>\$4,079</b>
Revenue Agent	11.25	15	1,681
Tax Compliance Officer	11.25	15	1,244
Tax Law Specialist	3.00	4	530
Tax Examiner	1.50	2	136
Manager	2.25	3	488
<b>IT Project</b>	<b>13.75</b>	<b>18</b>	<b>\$4,620</b>
Integrate Determination Application Systems	13.75	18	4,620
<b>Other Direct Costs</b>	<b>7.50</b>	<b>10</b>	<b>\$1,215</b>
Attorney	6.00	8	1,075
Support Staff - Counsel	0.75	1	69
Tax Examiner - Appeals	0.75	1	71
<b>Total</b>	<b>159.00</b>	<b>212</b>	<b>\$23,462</b>

Major Activities	FY 2018 Projected Workload					
	Additional Determination Applications Closed	Post-Determination Compliance Reviews	Examination Closures	Compliance Check Closures	Voluntary Compliance Closures	Voluntary Correction Follow-up Exams
Enhance Streamlined Determinations Process	40,000	6,000	780	300		
Strengthen Enforcement for Employee Plans			920	2,300	690	
Strengthen Voluntary Compliance for Tax-Exempt and Government Entities					936	575
<b>Total</b>	<b>40,000</b>	<b>6,000</b>	<b>1,700</b>	<b>2,600</b>	<b>1,626</b>	<b>575</b>



## Address Compliance Risks in the Tax-Exempt Sector (+\$13.5 million / +108.5 FTE)

- Enhance Streamlined Determinations Process

The determination process for organizations seeking tax-exempt status is the IRS's first compliance contact with these entities. The complexity and compliance risk of exempt organization applications has increased as more of these organizations operate like commercial entities (e.g., credit counseling, down payment assistance, and mortgage foreclosure assistance organizations).

To address these issues and deliver high quality service, the IRS implemented an innovative streamlined application process for small organizations that pose a low risk of non-compliance. Along with this streamlined process, the IRS introduced the Form 1023-EZ, a new version of the Form 1023, *Application for Recognition of Exemption*, which further improves customer service and reduces taxpayer burden by simplifying the information requested from applicants and minimizing the need for the IRS to follow-up with applicants. The IRS expects that approximately 63 percent of new organizations seeking tax-exempt status will use this form in lieu of the longer Form 1023.

This initiative requests resources that will allow the IRS to promote the compliance of exempt organizations through the new streamlined process in the exempt organizations determination program and to process the expected increase in receipts of the Form 1023-EZ. These resources are expected to allow the IRS to close an additional 40,000 applications annually, and will improve the quality and timeliness of service provided to all tax-exempt organization applications.

However, because communication with applicants will be reduced under the new streamlined process, organizations that may have previously corrected their operations due to conversations with the determination agents, or may have withdrawn their applications for failure to establish a basis for exemption, may receive exemption. This potentially places charitable donations from taxpayers at risk. To mitigate this risk, this initiative also provides resources to support a system of post-determination enforcement approach, including compliance reviews, checks, and examinations. At full potential, with these resources, the IRS expects to complete 6,000 post-determination compliance reviews and almost 1,100 examinations or compliance checks of organizations identified through the post-determination reviews. The data gathered from these post-determination reviews and examinations will additionally be used to evaluate the streamlined application process. Without these resources, the exempt organization sector, and those who benefit from their services, will be adversely affected as the wait time for application closure increases and the IRS risks increased noncompliance.

- Strengthen Enforcement for Employee Plans

Participants in retirement plans collectively own over \$23 trillion in assets. To better protect participant assets and help ensure the retirement security of these participants, the IRS is pursuing a strategic shift related to determinations of qualified employee retirement plans, which will enable greater compliance coverage and enhance

productivity of enforcement efforts. The upfront qualification program will utilize a risk-based review approach to streamline operations and improve customer service. In order to support this risk-based approach, the IRS will require additional resources to conduct back-end compliance activities. This shift will also result in the expansion of overall compliance coverage of the employee plans sector.

Additional revenue agents will be used to expand the IRS's multi-faceted compliance program, which includes traditional field examinations, focused compliance check projects, and enhanced voluntary compliance opportunities. These additional compliance activities will enable the IRS to address downstream risks resulting from the streamlined approval of retirement plans. Compliance checks will consist of soft contacts (i.e., contacting the taxpayer to encourage them to self-correct their compliance issues) with approved retirement plans that underwent limited review during the qualification process, while areas of greater concern will be addressed by field examination. Meanwhile, voluntary compliance enhancements will allow sponsors of retirement plans to self-identify compliance issues and to self-correct those compliance issues.

This comprehensive enforcement program is expected to protect over \$23 trillion in retirement assets that fall within the IRS's scope and 130 million pension plan participants through an additional:

- 920 traditional audits;
- 2,300 compliance check closures; and
- 690 voluntary compliance closures.

Without these resources, IRS enforcement activities in the retirement sector, including compliance checks and field examinations, will decrease from the FY 2014 performance level of over 13,100 to 10,800 in FY 2017, a decrease of 18 percent. This drop in enforcement activities would place retirement plan participants and their retirement assets at a greater risk of noncompliance and abuse than they are today.

Strengthen Voluntary Compliance for Tax-Exempt and Government Entities  
(+\$4.1 million / +29.25 FTE)

Tax-exempt organizations, employee retirement plans, and government entities account for a significant share of the U.S. economy, representing approximately \$27.6 trillion in assets. While not subject to income tax, these entities are responsible for employment and excise taxes and must satisfy a complex set of other legal requirements. To efficiently promote compliance within this segment, the IRS has created a number of voluntary correction programs that provide opportunities for taxpayers to voluntarily self-report and correct compliance failures. These programs allow taxpayers to comply with federal tax and reporting requirements with fewer burdens than an examination. This request will expand and improve these existing programs.

This initiative will benefit the 6.1 million employers who pay \$1.7 trillion in employment taxes annually, and it will provide additional options for plan sponsors to protect the retirement benefits of participants in governmental, IRA, and 403(b) retirement plans.

IT Project (+\$4.6 million / +13.75 FTE)

- Integrate Determination Application Systems

The IRS’s determination application processing is currently dependent on three separate information systems. These systems each provide a portion of the functionality needed to fully process determination applications. This initiative will deploy a single system and create a seamless end-to-end user system for IRS determination applications processing.

These improvements are expected to reduce specialist review times for applications by 25 minutes per application, nearly an 11 percent reduction from the current average processing time. In addition, the single repository will also streamline data analysis and reporting. This integration will also enable the IRS to reduce taxpayer burden by focusing on high-risk applications through real-time application sampling in order to identify compliance issues as they emerge. In addition, the IRS expects to realize savings over five years through the:

- Reassignment of dedicated programmers;
- Elimination of maintenance requirements for two separate, aging systems;
- A reduction in the printing and mailing of taxpayer correspondence; and
- A decrease in time applied in manually preparing inventory control reports.

Other Direct Costs (+1.2 million / +7.5 FTE)

*Dollars in Millions*

IRS Activity	Cost	FTE	Positions	Explanation
Appeals	\$0.07	0.75	1	Promote compliance activities and provide a high level of customer service for employee retirement plan and exempt organization appeals.
Counsel	\$1.14	6.75	9	Provide published guidance and legal guidance to the IRS in addressing compliance issues in the tax-exempt sector, and to navigate potentially undetected issues related to employer sponsored retirement plans and tax-exempt organizations.
<b>Total</b>	<b>\$1.21</b>	<b>7.50</b>	<b>10</b>	

*Pursue Employment Tax and Abusive Tax Schemes +\$17,186,000 / +52 FTE*

This initiative will enhance overall enforcement efforts, increase the number of convictions and assessments, and allow the IRS to apply network analysis to the investigation of abusive tax schemes. Network analysis is a powerful software tool being used by many law

Position Type/Other Costs	FTE	Positions	\$000
<b>Pursue Employment Tax &amp; Abusive Tax Schemes</b>	<b>49.00</b>	<b>65</b>	<b>\$9,668</b>
Special Agent	34.50	46	7,681
Manager, Analyst and Support Staff	14.50	19	1,987
<b>Network Analysis</b>			<b>\$7,158</b>
Contractual Services			7,158
<b>Other Direct Costs</b>	<b>3.00</b>	<b>4</b>	<b>\$360</b>
Attorney	3.00	4	360
<b>Total</b>	<b>52.00</b>	<b>69</b>	<b>\$17,186</b>

enforcement and other agencies to leverage data and detect illegal or other non-compliant behavior. The proposed financial and criminal intelligence database, network analysis software will proactively identify potentially noncompliant taxpayers in multiple program areas by allowing the IRS to link multiple potentially abusive returns or information items together to identify the central figure behind a scheme versus applying resources to work individual returns one at a time. This network will improve the sharing of information among IRS operating divisions and expand the IRS’s capability to identify significant tax cases.

Many core tax enforcement program areas, such as employment tax and abusive tax schemes, have become underserved in recent years due to the redirection of limited IRS resources to other areas, such as identity theft investigations, which increased by 660 percent between FY 2010 and FY 2013. This initiative will help stop these problems from becoming an even greater source of criminal activity and lost revenue.

Major Activities	FY 2018 Projected Workload Investigations Completed
Investigations	60
<b>Total</b>	<b>60</b>

### Pursue Employment Tax and Abusive Tax Schemes (+\$9.7 million / +49 FTE)

This investment will expand the IRS's capabilities in the following core tax enforcement areas:

- **Employment Tax Program**

Employers are required by law to withhold federal income, Social Security, and Medicare taxes from their employees.

This program investigates employers who may be subject to criminal and civil sanctions for willfully failing to pay employment taxes. Employees suffer in these situations because they may not qualify for Social Security, Medicare, or unemployment benefits when employers do not report or pay employment and unemployment taxes. The failure of these employers to properly remit withheld employment taxes increases the burden on compliant taxpayers whose taxes ultimately must cover these promised benefits.

- **Abusive Tax Schemes Program**

Abusive tax schemes have evolved from simple structuring of domestic and foreign trust arrangements into sophisticated strategies that take advantage of the financial secrecy laws of some foreign jurisdictions and the availability of credit/debit cards issued by offshore financial institutions. This program investigates these fraudulent domestic and foreign trust arrangements. One focus of the program is the identification and investigation of tax scheme promoters as well as those who facilitate abusive tax schemes (e.g., accountants, lawyers). The other, equally important focus is the investigation of investors who knowingly participate in abusive tax schemes.

- **Corporate Schemes Program**

This program concentrates on violations of the Internal Revenue Code and related statutes committed by large, publicly traded (or private) corporations and/or by their senior executives. These schemes are characterized by their scope, complexity, and the magnitude of their negative economic consequences for communities, employees, lenders, investors, and financial markets. Most corporate fraud investigations are joint efforts involving many federal agencies through partnership with the Department of Justice Financial Fraud Enforcement Task Force.

### Network Analysis (+\$7.2 million / 0 FTE)

To further efforts in these areas, the IRS will invest in a network analysis product, which will provide investigators with the capability to identify patterns of noncompliance and alleged criminal behavior through advanced data matching methods. Successful tests of network analysis have demonstrated the versatility of this technology to improve case selection by identifying networks as opposed to single cases. The benefit of identifying the network of related potentially abusive returns is the ability to identify the central point behind a scheme or related group of returns, such as in identity theft, which would enable the IRS to address the central figure behind the scheme versus addressing individual returns one at a time. Specific features of network analysis include linking data from internal data sources and identifying networks, patterns, and characteristics that indicate noncompliant behavior.

Examples of such data sources include filed returns; information reporting documents such as Forms 1099 and K-1; currency transaction reports; and return preparer data.

Network analysis software provides an opportunity for data-driven assessment of complex compliance issues. Investment in a permanent network analysis software tool can enhance issue detection, workload selection, and treatment options for some of the IRS’s most challenging data problems, including identity theft.

Acquiring a network analysis tool will allow IRS operating divisions to identify compliance issues that are difficult and often impossible to detect with existing data matching processes. In 2011 and 2012 the IRS tested network analysis and determined that it can help the IRS to target issues better, for example, “ghost preparers” (preparers who prepare returns for others but do not sign the return as required), employment tax, and education tax credit schemes. In addition, the IRS successfully matched identity theft cases to ghost preparer networks to test the potential for applying this technology to identity theft work.

Other Direct Costs (+\$0.4 million / +3 FTE)

*Dollars in Millions*

IRS Activity	Cost	FTE	Positions	Explanation
Chief Counsel	\$0.4	3.00	4	Provide legal guidance throughout the course of investigations, evaluate successful prosecutions, and work with the Department of Justice during criminal trials.
<b>Total</b>	<b>\$0.4</b>	<b>3.00</b>	<b>4</b>	

Enhance Investigations of Transnational Organized Crime (TOC) +\$42,528,000 / +194 FTE

This initiative will allow IRS to hire Criminal Investigation (CI) staff to address the growth in criminal activity of a global nature. TOC refers to associations of individuals who operate in multiple countries for the purpose of obtaining power, influence, and

Position Type/Other Costs	FTE	Positions	\$000
<b>Enhance Investigations of Transnational Organized Crime (TOC)</b>	<b>180.00</b>	<b>240</b>	<b>\$40,074</b>
Special Agent	180.00	240	40,074
<b>Other Direct Costs</b>	<b>14.00</b>	<b>19</b>	<b>\$2,454</b>
Attorney	11.00	15	2,194
Support Staff	3.00	4	260
<b>Total</b>	<b>194.00</b>	<b>259</b>	<b>\$42,528</b>

financial gains, wholly or in part by illegal means, while protecting their activities through a pattern of corruption that often funds terrorist activities. The threat of transnational organized crime has become more severe because criminal networks are using increasingly sophisticated tactics that exploit the borderless, interconnected nature of the global economy.

IRS CI is recognized throughout the law enforcement community for its expertise in the investigation, disruption, and dismantling of sophisticated narcotics and money laundering networks. While other federal agencies have investigative jurisdiction for money laundering violations, the IRS is the only agency that can investigate both money laundering violations and violations of the Internal Revenue Code simultaneously.

This initiative will allow the IRS to dedicate resources to this emerging and significant threat to the nation's economic interests, which could cause significant damage to the global financial system.

Major Activities	FY 2018 Projected Workload
	Investigations Completed
Investigations	360
<b>Total</b>	<b>360</b>

Enhance Investigations of Transnational Organized Crime (TOC)  
 (+\$40.1 million / +180 FTE)

IRS CI staff work with the Office of National Drug Control Policy (ONDCP) as well as several multi-agency task forces that coordinate activities between the IRS, the Department of Justice, the Drug Enforcement Agency, and other agencies. Through these efforts, IRS CI supports investigations of illegal drug trafficking and money laundering perpetrated by organizations involved in TOC.

IRS CI’s mission in narcotics law enforcement is to aid in the federal government’s efforts to disrupt and dismantle the transnational, national, and regional criminal organizations which are responsible for the illegal drug supply in the United States and their related money laundering organizations, through the investigation and prosecution of their members and associates, and the seizure and forfeiture of their illicit proceeds. IRS CI special agents utilize their unique financial investigative expertise to follow the money trail, tracing the proceeds from illegal activity back to the criminal organizations responsible. To fulfill its mission, IRS CI investigates violations of the Internal Revenue Code, Bank Secrecy Act and federal money laundering statutes.

This initiative will provide resources to hire special agents who will:

- Support the U.S. National Drug Control Strategy, the President’s Strategy to Combat Transnational Organized Crime, and the National Money Laundering Strategy;
- Increase investigations of third party money launderers and international banks;
- Work with international partners to identify illicit financial networks that are utilized to launder the proceeds of TOC organization; and
- Strengthen the IRS’s partnerships with domestic and international law enforcement agencies to more effectively fight transnational narcotics, money laundering, and terrorist organizations worldwide.

Other Direct Costs (+\$2.5 million / +14 FTE)

*Dollars in Millions*

IRS Activity	Cost	FTE	Positions	Explanation
Chief Counsel	\$2.5	14.00	19	The Division Counsel/Associate Chief Counsel (Criminal Tax) will provide legal advice, formally review applications for search warrant, grand jury requests, tax-related prosecution recommendations and highly sensitive undercover operations.
<b>Total</b>	<b>\$2.5</b>	<b>14.00</b>	<b>19</b>	



Ensure Ethical Standards of Conduct for Practitioners +\$4,280,000 / +28 FTE

This initiative will allow the IRS’s Office of Professional Responsibility (OPR) to conduct oversight of return preparers who represent taxpayers and are subject to Circular 230, *Regulations Governing Practice Before the Internal Revenue Service* (C230). These resources will:

Position Type/Other Costs	FTE	Positions	\$000
<b>Ensure Ethical Standards of Conduct for Practitioners</b>	<b>26.50</b>	<b>35</b>	<b>\$3,765</b>
Analyst	15.00	20	1,890
Attorney	7.50	10	1,585
Paralegal	4.00	5	290
<b>Tax Debt Resolution</b>	<b>1.50</b>	<b>2</b>	<b>\$216</b>
Attorney	0.75	1	158
Paralegal	0.75	1	58
<b>Technology Enhancements</b>			<b>\$299</b>
Contractual Labor			299
<b>Total</b>	<b>28.00</b>	<b>37</b>	<b>\$4,280</b>

- Provide additional staff to handle the growing number of cases requiring litigation;
- Establish three satellite offices strategically located across the country to handle disciplinary case conferences and related negotiations; and
- Invest in technology to provide video conference capability and a systems interface that will allow OPR to increase research capability and exchange referrals and other pertinent information electronically with the Return Preparer Office (RPO).

Ensure Ethical Standards of Conduct for Practitioners (+\$3.8 million / +26.5 FTE)

The population of those who are subject to the ethical standards contained in C230 will be expanding to include uncredentialed tax return preparers, who sign up for the IRS Voluntary Record of Completion program and who represent taxpayers in disputes involving returns and claims for refunds which they have prepared or signed. A condition precedent to receiving the credential is agreement to be covered by all of Subpart B, and Subpart C, Section 10.51, *Incompetence and disreputable conduct*. After December 31, 2015, uncredentialed return preparers will be prohibited from representing taxpayers before Treasury for any matter at any level. The nature of the cases being handled by OPR has evolved over the past five years from being primarily focused on a practitioner’s own tax non-compliance (85 percent of cases in 2009) to being primarily focused on complex practitioner conduct which violates substantive provisions in C230 involving due diligence, false and misleading information given to IRS personnel, conflicts of interest, advising conduct in violation of tax laws, and false and misleading advertising (71 percent of cases in 2013).

These complex conduct cases, by their nature, require more extensive development, involve more sophisticated settlement negotiations, and are more apt to result in commencement of an administrative proceeding before an Administrative Law Judge. After uncredentialed practitioners prevailed in *Loving v. Commissioner* on their claim that Treasury and the IRS do not have the authority to regulate tax return preparers (although such preparers may consent to be subject to C230), some members of the practitioner community have suggested that other parts of C230 may not be valid and that OPR’s jurisdiction may be limited. As a result, OPR anticipates an increase in litigation challenging its authority and validity of C230.

OPR estimates that the number of cases requiring litigation could triple over the next two years as a result of the foregoing. The additional staffing will handle these complex conduct

cases and the associated appeals, conferences, allegations, negotiations, and administrative hearing preparation, briefing and, when necessary, appeals of Administrative Law Judge decisions.

In addition, the increased staffing will handle:

- Anticipated increases in referrals of practitioner misconduct;
- Due process conferences;
- The new Appellate Authority functions delegated to OPR with respect to appeals from Return Preparer Office (RPO) determinations by C230 practitioners regarding compliance and suitability in the Preparer Tax Identification Number (PTIN) registration process; and
- Alleged violations of C230 standards by tax debt resolution companies that assist taxpayers with negotiations to abate penalties, enter into installment agreements, and compromise an assessed federal tax liability.

In addition, new field office locations will provide improved access for practitioners who desire an in-person conference within their geographical region. Currently, all practitioners must travel to Washington, D.C. to be afforded their right to an in-person conference. Satellite offices will allow employees to handle disciplinary case conferences and related negotiations at three satellite offices strategically located across the country.

#### Tax Debt Resolution (+\$0.2 million / +1.5 FTE)

Additional resources are required to focus on proactively identifying and addressing alleged C230 violations by tax debt resolution companies. Tax debt resolution companies are new and unique to OPR's expanded scope of responsibility. The business model for these companies involves few, if any, "legacy" C230 practitioners (e.g., attorneys, CPAs, and enrolled agents and actuaries). The companies' employees assist taxpayers with negotiations to abate penalties, enter into installment payment plans, and compromise an assessed federal tax liability. These companies do not necessarily prepare tax returns or represent taxpayers during audits. Tax debt resolution companies have largely gone unregulated until now.

#### Technology Enhancements (+\$0.3 million / 0 FTE)

This initiative also includes resources to interface the OPR E-TRAK Case and Correspondence Management System (CCMS) with the IRS Return Preparer Office (RPO) 360 database to allow for better information sharing and video conferencing.

#### Other Direct Costs

There are no other direct costs associated with this initiative.

Consolidate and Modernize IRS Facilities +\$85,456,000 / +74 FTE

This initiative will provide space alteration resources needed to renovate and reduce office space throughout the IRS inventory and realize an estimated annual rent savings of \$23 million. This supports Administration mandates to efficiently manage real property assets, and reduce the federal office space footprint and consolidated data centers. In addition, this initiative includes an increase in Procurement and Facilities Management and Security Services staff to deliver core business functions that have experienced a significant decrease since FY 2011.

Position Type/Other Costs	FTE	Positions	\$000
<b>Consolidate and Modernize IRS Campuses</b>	<b>74.00</b>	<b>99</b>	<b>\$85,456</b>
Analyst	74.00	99	9,956
Space Renovation			58,159
Hardware and Software			12,191
Equipment			5,150
<b>Total</b>	<b>74.00</b>	<b>99.00</b>	<b>\$85,456</b>

The IRS continues to review cost estimates in order to choose the projects that will provide the greatest savings. Major reductions and consolidations are achievable at IRS occupied buildings where the following strategies can be implemented:

- Reducing workstation size in accordance with revised National Workplace Standards allowing for reductions in workstation size;
- Workspace sharing for frequent teleworkers and employees who work outside of their assigned post of duty (POD) more than 80 hours per month; and
- Realignment of occupied workspace and consolidation of vacant workspace.

In 2012, the IRS established a standard 48 square foot workstation size for most employees and a 3:1 sharing ratio for employees who are out of the office 80 or more hours each month. Time out of the office is defined as a combination of offsite (field/mobile) work, telework of any type, and regular days off. These two factors provide the IRS with a unique opportunity to drastically reduce the amount of office space in inventory. In addition, this will provide base funding covering health and safety projects, mandatory moves, and space reduction. This includes campus consolidation and modernization (the 4800 building in Atlanta, and project development for a replacement facility in Fresno).

Tight budget constraints, reduced funding levels, and uncertainty of future budgets have made it difficult to plan and execute a portfolio of required or advantageous projects. Without the requested resources, the IRS will be unable to optimize its use of office space and realize significant rent savings. The opportunity to consolidate and modernize IRS campuses will continue to be postponed and the overall benefits of space reduction and business unit co-location will be lost. The IRS plans to reinvest the rent savings from this initiative to fund rent increases for the remaining buildings and for other new space reduction projects.

Other Direct Costs

There are no other direct costs associated with this initiative.

Maintain Integrity of Revenue Financial Systems +\$12,162,000 / +7 FTE

This initiative will support and improve the IRS's revenue financial accounting systems to ensure timely and accurate reporting of tax data.

Position Type/Other Costs	FTE	Positions	\$000
Maintain Integrity of Revenue Financial Systems	7.00	10	\$12,162
Program Analyst	7.00	10	1,007
Contractual Services			11,155
Total	7.00	10	\$12,162

The revenue financial and accounting systems include the general ledger, which is required to reconcile and report to Treasury on \$3.1 trillion in revenue before refunds and \$374 billion in individual and business tax refunds in FY 2013; produce the annual audited financial statements; and perform other operational and financial reporting on unpaid tax assessments currently identified by the Government Accountability Office (GAO) as a material weakness.

The current revenue financial system does not use commercial software and the IRS is reliant on internal funding to maintain its legacy system. This initiative will allow the IRS to make the necessary system and programming changes required to comply with Office of Management and Budget (OMB) mandates, and to stay current with internal changes made to the IRS's tax processing systems for tax administration that also affect financial reporting. The investment plan includes funding to:

- Eliminate manual work-around processes;
- Make changes to ensure that the IRS's revenue financial systems comply with accounting and system requirements;
- Merge multiple financial systems into one repository to ensure the integrity of the IRS's financial data. This is needed to improve analyses and reporting which will address the long-standing GAO-reported material weakness related to unpaid tax assessments;
- Develop financial system requirements to ensure accurate accounting and reporting for both the operational and financial transactions recorded in the tax systems;
- Allow the IRS to implement all required system changes resulting from accounting events when changes are made in the tax processing systems (master files) for key initiatives, including the ACA, CADE 2, identity theft, Automated Trust Fund Recovery Penalty, and foreign tax compliance (FATCA)

Other Direct Costs

There are no other direct costs associated with this initiative.

Implement Agency Wide Shared Services Priorities +\$10,992,000 / +9 FTE

This initiative will allow the IRS to implement security measures to protect IRS employees, facilities, operations, and information. This initiative consists of countermeasures to address the security risks identified during the FY 2010 Facility Risk Assessment in 191 IRS buildings, impacting over 70,000 employees.

Position Type/Other Costs	FTE	Positions	\$000
<b>Improve Security at IRS Facilities</b>	<b>9.00</b>	<b>11</b>	<b>\$10,992</b>
IT Specialist	9.00	11	1,398
Contractual Services			3,916
Hardware & Software			3,178
Leasehold Improvement			2,500
<b>Total</b>	<b>9.00</b>	<b>11.00</b>	<b>10,992</b>

Improve Security at IRS Facilities (+\$11.0 million / +9 FTE)

This initiative requests resources to replace outdated security systems and implement solutions to vulnerabilities in IRS facilities. This initiative is in direct support of the IRS's Strategic Foundation to ensure a secure environment that protects the safety and security of IRS employees and facilities.

- Enterprise Physical Access Control System (ePACs)  
This proposal includes \$8.5 million and 8.5 FTE in new funding to update the ePACs throughout the enterprise. The ePACs is critical to the IRS's ability to monitor and protect resources and support life safety activity for the public, employees, and contractors. Many existing PAC systems are characterized as Federal Information Security Management Act (FISMA) non-compliant.
- Implement Security Countermeasures  
The IRS is requesting \$2.5 million to implement security recommendations developed in response to the FY 2010 Facility Risk Assessment. This investment will help mitigate the risks identified by providing for the purchase, implementation, and installation of countermeasures such as:
  - Intrusion Detection Systems – detects criminal acts;
  - Screening Equipment – enables controlled access to specific areas of the facility;
  - Barriers – deters persons from engaging in criminal activities; and
  - Alarms – provides security against loss from fire or mechanical failure.

Other Direct Costs

There are no other direct costs associated with this initiative.

Implement Federal Investigative Standards +\$3,464,000 / +11 FTE

This initiative will provide resources to support the financial responsibility determination required by Executive Order 13467, *Reforming Processes Related to Suitability for Government*

Position Type/Other Costs	FTE	Positions	\$000
<b>Implement Federal Investigative Standards</b>	<b>11.00</b>	<b>15</b>	<b>\$3,464</b>
Program Analyst	3.00	4	533
Tax Compliance Automation	8.00	11	2,931
<b>Total</b>	<b>11.00</b>	<b>15</b>	<b>\$3,464</b>

*Employment, Fitness for Contractor Employees, and Eligibility for Access to Classified National Security Information* (June 30, 2008). Under the E.O. all federal executive branch agencies must implement common employment suitability and security standards, which includes tax compliance checks for initial background investigations and periodic reinvestigations when hiring federal employees and contractors, or determining whether to provide, suspend, or revoke a personnel security clearance. The IRS will receive requests, and process and provide results to federal agencies conducting background investigations. The resources requested will help the IRS to:

- Establish a project office to define the process for completing and uploading consent-based tax check authorizations in accordance with IRC Section 6103(c) to a central repository;
- Establish standards for defining tax compliance;
- Create an automated tax compliance extract; and
- Create a summary report that will be used by various federal agencies to support a suitability determination or grant a security clearance and associated federal tax compliance activities for employees and contractors if needed.

OMB's Performance Accountability Council (PAC) published a government-wide FIS implementation plan in April 2014 and is monitoring and supporting agency implementation plans. The PAC's *Security and Suitability Processes Review Report to the President* (March 2014) recommends full and accelerated implementation of FIS standards by 2016 to enhance protection of federal facilities, suitability for U.S. government employment or fitness as a contractor and eligibility to access classified information or hold a sensitive position.

The Director of National Intelligence (ODNI) reported that more than 4.9 million federal government and contractor employees held or were eligible to hold a personnel security clearance. GAO is conducting a cross-agency audit (Job Code 192436) concerning Department of Defense security clearance holders with unpaid tax debts. Background investigations, with a tax compliance check, are required to grant a security clearance allowing access to classified information that, through unauthorized disclosure, can cause exceptionally grave damage to U.S. national security.

In December 2012, ODNI and the OPM established a cross-agency Federal Investigative Standards Implementation Working Group (FISIWG) that included representatives from Treasury and the IRS and is supporting efforts to automate the tax check process and clarify legal constraints for disclosing tax records.

Other Direct Costs:

There are no other direct costs associated with this initiative.

Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities  
+\$5,000,000 / 0 FTE

IRS will transfer \$5 million to the Alcohol and Tobacco Tax and Trade Bureau (TTB) for those high-ROI tax enforcement activities that produce additional revenue through program activities designated to narrow the federal excise tax gap on alcohol and tobacco commodities.

Position Type/Other Costs	FTE	Positions	\$000
<b>Alcohol and Tobacco Tax and Trade Bureau Program Integrity Transfer</b>			<b>\$5,000</b>
Special Agent			2,699
Training			220
Training Service Contracts			2,041
Support Supplies			8
Equipment			32
<b>Total</b>			<b>\$5,000</b>

More detailed information can be found in the TTB chapter of this document.

## 2.2 – Operating Levels Table

Dollars in Thousands

Internal Revenue Service Object Classification	FY 2014 Actual	FY 2015 Enacted	FY 2016 Request
11.1 Full-Time Permanent Positions	5,998,928	6,016,824	6,686,872
11.3 Other than Full-Time Permanent Positions	85,924	79,465	83,305
11.5 Other Personnel Compensation	223,667	181,903	222,025
11.8 Special Personal Services Payments	24,299	15,671	15,884
<b>11.9 Personnel Compensation (Total)</b>	<b>6,332,818</b>	<b>6,293,863</b>	<b>7,008,086</b>
12.0 Personnel Benefits	1,922,424	1,954,019	2,234,039
13.0 Benefits to Former Personnel	43,682	52,266	52,936
<b>Total Personnel and Compensation Benefits</b>	<b>\$8,298,924</b>	<b>\$8,300,148</b>	<b>\$9,295,061</b>
21.0 Travel	72,529	115,161	179,837
22.0 Transportation of Things	24,338	23,635	31,700
23.1 Rental Payments to GSA	611,334	614,865	637,320
23.2 Rent Payments to Others	13,194	13,761	14,062
23.3 Communications, Utilities, & Misc	330,949	291,752	344,126
24.0 Printing & Reproduction	32,522	30,644	34,549
25.1 Advisory & Assistance Services	636,571	712,460	973,706
25.2 Other Services	110,291	124,158	271,064
25.3 Purchase of Goods & Services from Govt. Accounts	185,914	181,102	201,042
25.4 Operation & Maintenance of Facilities	169,437	159,116	177,548
25.5 Research & Development Contracts	3,950	2,846	2,899
25.6 Medical Care	13,570	14,160	16,625
25.7 Operation & Maintenance of Equipment	66,353	44,478	57,456
25.8 Subsistence & Support of Persons	2,159	1,702	4,957
26.0 Supplies and Materials	44,156	47,822	58,889
31.0 Equipment	270,394	230,539	515,736
32.0 Land and Structures	15,122	2,833	77,911
41.0 Grants, Subsidies	21,043	29,000	31,000
42.0 Insurance Claims & Indemnities	1,650	1,995	2,034
91.0 Unvouchered	3,126	2,823	3,549
<b>Total Non-Personnel</b>	<b>\$2,628,602</b>	<b>\$2,644,852</b>	<b>\$3,636,010</b>
<b>New Appropriated Resources</b>	<b>\$10,927,526</b>	<b>\$10,945,000</b>	<b>\$12,931,071</b>
<b>Appropriations:</b>			
Taxpayer Services	2,145,195	2,156,554	2,408,803
Enforcement	4,914,497	4,860,000	5,399,832
Operations Support	3,722,599	3,638,446	4,743,258
Business Systems Modernization	145,235	290,000	379,178
<b>New Appropriated Resources</b>	<b>\$10,927,526</b>	<b>\$10,945,000</b>	<b>\$12,931,071</b>
<b>FTE</b>	<b>82,643</b>	<b>81,279</b>	<b>90,524</b>



**2B – Appropriation Language and Explanation of Changes**

Appropriations Language	Explanation of Changes
<p style="text-align: center;"><b>DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE</b></p> <p style="text-align: center;"><b>TAXPAYER SERVICES</b></p> <p>For necessary expenses of the Internal Revenue Service to provide taxpayer services, including pre-filing assistance and education, filing and account services, taxpayer advocacy services, and other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, [\$2,156,554,000] <i>\$2,408,803,000</i>, of which not less than [\$7,000,000] <i>\$5,600,000</i> shall be for the Tax Counseling for the Elderly Program, of which not less than [\$10,000,000] <i>\$12,000,000</i> shall be available for low-income taxpayer clinic grants, and of which not less than \$12,000,000, to remain available until September 30, [2016] <i>2017</i>, shall be available for a Community Volunteer Income Tax Assistance matching grants program for tax return preparation assistance, of which not less than \$206,000,000 shall be available for operating expenses of the Taxpayer Advocate Service: <i>Provided</i>, That of the amounts made available for the Taxpayer Advocate Service, not less than \$5,000,000 shall be for identity theft casework. (<i>Department of the Treasury Appropriations Act, 2015.</i>)</p> <p style="text-align: center;"><b>ENFORCEMENT</b></p> <p>For necessary expenses for tax enforcement activities of the Internal Revenue Service to determine and collect owed taxes, to provide legal and litigation support, to conduct criminal investigations, to enforce criminal statutes related to violations of internal revenue laws and other financial crimes, to purchase and hire passenger motor vehicles (31 U.S.C. 1343(b)), and to provide other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, [\$4,860,000,000] <i>\$5,399,832,000</i>, of which not to exceed <i>\$150,000,000</i> shall remain available until September 30, 2017, and of which not less than [\$60,257,000] <i>\$57,493,000</i> shall be for the Interagency Crime and Drug Enforcement program: <i>Provided, That, of the amounts provided under this heading, not less than \$352,100,000, of which \$5,000,000 shall be transferred to the Alcohol and Tobacco Tax and</i></p>	<p>The FY 2016 President’s Budget requests additional resources for the low-income taxpayer clinic grants which provide support for taxpayers facing financial hardship and taxpayers whose problems are not resolved through normal IRS channels.</p> <p>The IRS requests two-year authority in the Enforcement appropriation so as to maximize flexibility in budget execution in the face of a difficult budget environment in recent years. This will mirror similar authority in the Operations Support appropriation.</p> <p>The Budget Request for the Enforcement account is <i>\$5,399,832,000</i> including a program integrity cap adjustment of <i>\$352,100,000</i> which, when combined with the</p>

*Trade Bureau, shall be for an additional appropriation for tax activities, including tax compliance to address the Federal tax gap, as specified for purposes of Section 251(b)(2) of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. (Department of the Treasury Appropriations Act, 2015.)*

OPERATIONS SUPPORT

For necessary expenses of the Internal Revenue Service to support taxpayer services and enforcement programs, including rent payments; facilities services; printing; postage; physical security; headquarters and other IRS-wide administration activities; research and statistics of income; telecommunications; information technology development, enhancement, operations, maintenance, and security; the hire of passenger motor vehicles (31 U.S.C. 1343(b)); and other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner; [\$3,638,446,000] \$4,743,258,000, of which not to exceed \$315,000,000 shall remain available until September 30, [2016] 2017; of which not to exceed \$65,000,000 shall remain available until expended for acquisition of equipment and construction, repair and renovation of facilities; of which not to exceed \$1,000,000 shall remain available until September 30, [2017] 2018, for research; of which [not less than]not to exceed \$1,850,000 shall be for the Internal Revenue Service Oversight Board; of which not to exceed \$25,000 shall be for official reception and representation expenses: *Provided*, That not later than 30 days after the end of each quarter, the Internal Revenue Service shall submit a report to the Committees on Appropriations of the House of Representatives and the Senate and the Comptroller General of the United States detailing the cost and schedule performance for its major information technology investments, including the purpose and life-cycle stages of the investments; the reasons for any cost and schedule variances; the risks of such investments and strategies the Internal Revenue Service is using to mitigate such risks; and the expected developmental milestones to be achieved and costs to be incurred in the next quarter: *Provided further*, That the Internal Revenue Service shall include, in its budget justification for fiscal year [2016] 2017, a summary of cost and schedule performance information for its major information technology systems: *Provided further, That, of the amounts*

**\$315,197,000** cap adjustment in the Operations Support account, totals **\$667,297,000** in additional appropriation for tax enforcement and compliance activities.

The Budget Request for the Operations Support account is **\$4,743,258,000** including a program integrity cap adjustment of **\$315,197,000**.

Many facilities projects span timeframes beyond two fiscal years. The requested no-year funding authority provides the administrative flexibility to execute a project without having to incrementally fund it across multiple years. Full funding of a project up front eliminates the possibility that future funding will not be available to complete and reduces risk and costs of administration. It is also consistent with how other agencies are funded for facilities-related projects.

*provided under this heading, such sums as are necessary shall be available to fully support tax enforcement and compliance activities, including not less than \$315,197,000, for an additional appropriation for tax activities, including tax compliance to address the Federal tax gap, as specified for purposes of Section 251(b)(2) of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. (Department of the Treasury Appropriations Act, 2015.)*

#### BUSINESS SYSTEMS MODERNIZATION

For necessary expenses of the Internal Revenue Service's business systems modernization program, [\$290,000,000] \$379,178,000, to remain available until September 30, [2017] 2018, for the capital asset acquisition of information technology systems, including management and related contractual costs of said acquisitions, including related Internal Revenue Service labor costs, and contractual costs associated with operations authorized by 5 U.S.C. 3109: *Provided*, That not later than 30 days after the end of each quarter, the Internal Revenue Service shall submit a report to the Committees on Appropriations of the House of Representatives and the Senate and the Comptroller General of the United States detailing the cost and schedule performance for CADE 2 and Modernized e-File information technology investments, including the purposes and life-cycle stages of the investments; the reasons for any cost and schedule variances; the risks of such investments and the strategies the Internal Revenue Service is using to mitigate such risks; and the expected developmental milestones to be achieved and costs to be incurred in the next quarter. *(Department of the Treasury Appropriations Act, 2015.)*

#### ADMINISTRATIVE PROVISIONS – INTERNAL REVENUE SERVICE (INCLUDING TRANSFER OF FUNDS)

SEC. 101. Not to exceed 5 percent of any appropriation made available in this Act to the Internal Revenue Service may be transferred to any other Internal Revenue Service appropriation upon the advance [approval]notification of the Committees on Appropriations.

SEC. 102. The Internal Revenue Service shall maintain an employee training program, which shall include the

following topics: taxpayers' rights, dealing courteously with taxpayers, cross-cultural relations, ethics, and the impartial application of tax law.

SEC. 103. The Internal Revenue Service shall institute and enforce policies and procedures that will safeguard the confidentiality of taxpayer information and protect taxpayers against identity theft.

SEC. 104. Funds made available by this or any other Act to the Internal Revenue Service shall be available for improved facilities and increased staffing to provide sufficient and effective 1-800 help line service for taxpayers. The Commissioner shall continue to make improvements to the Internal Revenue Service 1-800 help line service a priority and allocate resources necessary to enhance the response time to taxpayer communications, particularly with regard to victims of tax-related crimes.

[SEC. 105. None of the funds made available to the Internal Revenue Service by this Act may be used to make a video unless the Service-Wide Video Editorial Board determines in advance that making the video is appropriate, taking into account the cost, topic, tone, and purpose of the video.]

SEC. [106]/105. The Internal Revenue Service shall issue a notice of confirmation of any address change relating to an employer making employment tax payments, and such notice shall be sent to both the employer's former and new address and an officer or employee of the Internal Revenue Service shall give special consideration to an offer-in-compromise from a taxpayer who has been the victim of fraud by a third party payroll tax preparer.

[SEC. 107. None of the funds made available under this Act may be used by the Internal Revenue Service to target citizens of the United States for exercising any right guaranteed under the First Amendment to the Constitution of the United States.]

[SEC. 108. None of the funds made available in this Act may be used by the Internal Revenue Service to target groups for regulatory scrutiny based on their ideological beliefs.]

[SEC. 109. None of funds made available by this Act to the Internal Revenue Service shall be obligated or expended on conferences that do not adhere to the procedures, verification processes, documentation requirements, and policies issued by the Chief Financial Officer, Human Capital Office, and Agency-Wide Shared Services as a result of the recommendations in the report published on

Section 105 is no longer needed. In 2013, the IRS established policy and standards for video use and the Servicewide Video Editorial Board to review all video projects planned throughout the IRS.

Sections 107 and 108 are unnecessary since these behaviors are prohibited under existing, permanent law.

Section 109 is unnecessary since obligation and outlay of funds on conferences are already subject to adequate review and departmental policies.

Section 110 is unnecessary since these behaviors are prohibited under existing, permanent law.

<p>May 31, 2013, by the Treasury Inspector General for Tax Administration entitled "Review of the August 2010 Small Business/Self-Employed Division's Conference in Anaheim, California" (Reference Number 2013–10–037).] [SEC. 110. None of the funds made available by this Act may be used in contravention of section 6103 of the Internal Revenue Code of 1986 (relating to confidentiality and disclosure of returns and return information).] <i>SEC. 106. Section 9503(a) of title 5, United States Code, is amended by striking the clause "before September 30, 2013" and inserting "before September 30, 2020".</i> <i>SEC. 107. Section 9503(a)(5) of title 5, United States Code, is amended by inserting before the semicolon the following: "renewable for an additional two years, based on a critical organizational need". (Department of the Treasury Appropriations Act, 2015.)</i></p>	<p>The IRS requests Streamlined Critical Pay (SCP) authority through September 30, 2020. This SCP authority expired September 30, 2013. Currently there are approximately 30 senior employees under SCP appointments. If the SCP is not renewed, the IRS will not be able to recruit and retain top-level talent, especially IT professionals who can help protect taxpayer data from cyber-attacks and who are working to modernize the IRS's IT infrastructure.</p>
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## 2C – Legislative Proposals

The IRS requests Streamlined Critical Pay (SCP) authority through September 30, 2020. This SCP authority expired September 30, 2013. Currently there are approximately 30 senior employees under SCP appointments. If the SCP is not renewed, the IRS will not be able to recruit and retain top-level talent, especially IT professionals who can help protect taxpayer data from cyber-attacks and who are working to modernize the IRS's IT infrastructure. According to Treasury Inspector General for Tax Administration report 2015-IE-R001, *The Internal Revenue Service's Use of Its Streamlined Critical Pay Authority*, "Private sector expertise had been crucial to introducing new leadership to supplement in-house expertise, and the IRS had taken advantage of the private sector expertise by retaining the critical pay appointees whenever feasible."

## 2D – Legislative Tax Proposals

These legislative proposals are intended to reduce the tax gap and improve tax compliance with minimal taxpayer burden. The new tax gap proposals that were included in the FY 2016 President's Budget were estimated by the Treasury Office of Tax Analysis (OTA) to increase revenue by \$84.3 billion over the next 10 years (estimate includes the revenue generated by the FY 2016 program integrity cap adjustment initiatives). These proposals will reduce the tax gap by expanding information reporting and sharing, improving compliance by businesses, and strengthening tax administration. The IRS estimates the implementation cost for these FY 2016 President's Budget tax gap proposals to be \$157.5 million (excluding the program integrity cap adjustment's ten-year cost) over three years, including the initial startup, processing, and compliance operational costs (the cost for these legislative proposals is provided below). Note that in a few cases estimates are not yet available due to timing. If Congress enacts these provisions, the IRS will require additional funds to be included in the authorizing legislation in the amounts shown below.

*Expand information reporting* – Compliance with the tax laws is highest when payments are subject to information reporting to the IRS. Specific information reporting proposals would:

- Require information reporting for private separate accounts of life insurance companies (\$0);
- Require a certified Taxpayer Identification Number (TIN) from contractors and allow certain withholding (\$11.5 million);
- Modify reporting of tuition expenses and scholarships on Form 1098-T, *Tuition Statement* (\$0.2 million);
- Provide for reciprocal reporting of information in connection with the implementation of the FATCA (\$4.2 million); and

*Improve compliance by businesses* – Improving compliance by businesses of all sizes is important. Specific proposals to improve compliance by businesses would:

- Require greater electronic filing of returns (\$0.6 million);
- Increase certainty with respect to worker classification (\$1.9 million); and
- Increase information sharing to administer excise taxes (\$0).
- Provide authority to readily share beneficial ownership information of U.S. companies with law enforcement (\$4.3 million).

*Strengthen tax administration* – The IRS has taken a number of steps under existing law to improve compliance. These efforts would be enhanced by specific tax administration proposals that would:

- Impose liability on shareholders to collect unpaid income taxes of applicable corporations (\$0.1 million);
- Increase levy authority for payments to Medicare providers with delinquent tax debt (\$0.1 million);
- Implement a program integrity statutory cap adjustment for tax administration (\$18.7 billion);
- Streamline audit and adjustment procedures for large partnerships (\$2.5 million);
- Revise offer-in-compromise application rules (\$17.8 million);
- Expand the IRS access to information in the National Directory of New Hires for tax administration purposes (\$12 million);
- Make repeated willful failure to file a tax return a felony (\$0);
- Facilitate tax compliance with local jurisdictions (\$1.2 million);
- Extend statute of limitations where state adjustment affects federal tax liability (\$0);
- Improve investigative disclosure statute (\$0);
- Require taxpayers who prepare their returns electronically but file their returns on paper to print their returns with a scannable code (\$14.6 million);

- Allow IRS to absorb credit and debit card processing fees for certain tax payments (\$9.6 million);
- Provide the IRS with greater flexibility to address correctable errors (\$1.4 million);
- Make e-filing mandatory for exempt organizations (\$18.2 million);
- Authorize the Department of Treasury to require additional information to be included in electronically filed Form 5500 annual reports and electronic filing of certain other employee benefit plan reports (\$11.2 million);
- Impose a penalty on failure to comply with electronic filing requirements (\$2.5 million);
- Improve the whistleblower program (\$0);
- Index all penalties for inflation (\$0.8 million);
- Extend paid preparer Earned Income Tax Credit (EITC) due diligence requirements to the child tax credit (\$20.2 million);
- Extend IRS authority to require a truncated Social Security Number (SSN) on Form W-2, *Wage and Tax Statement* (\$0.2 million);
- Combat tax-related identity theft (\$2.7 million);
- Allow states to send notices of intent to offset federal tax refunds to collect state tax obligations by regular first-class mail instead of certified mail (\$0);
- Explicitly provide that the Department of Treasury and IRS have authority to regulate all paid return preparers (Undetermined);
- Rationalize tax return filing due dates so they are staggered (\$1.0 million);
- Increase the penalty applicable to paid tax preparers who engage in willful or reckless conduct (\$0);
- Enhance administrability of the appraiser penalty (\$0);
- Increase levy authority for payments to Medicare providers with delinquent tax debt (\$0 million); and
- Implement standards clarifying when employee leasing companies can be held liable for their clients' federal employment taxes (new in 2016).

## **2E – Strategic Objective Annual Review (SOAR)**

The GPRA Modernization Act of 2010 requires each federal agency to conduct a review of performance goals and objectives on an annual basis. This strategic review serves as an annual assessment of progress being made to improve program outcomes and looks at opportunities for productivity gains using a variety of analytical, research, and evaluation methods to support the assessment.

Based on the SOAR review, the IRS identified three areas of focus: (1) expand online services; (2) build stronger relationships with the tax community and government partners; and (3) build upon current compliance analytics.

In FY 2014, the IRS:

- Expanded and enhanced digital self-help services available to taxpayers through IRS.gov, increased use of social media and mobile tools such as YouTube and IRS2Go and promoted the use of Facilitated Self Assistance kiosks available at some Taxpayer Assistance Centers;
- Continued to foster stronger relationships with its tax community and government partners through Tax Forums, workshops and training at various locations across the country, and providing a weekly *e-News for Tax Professionals* newsletter;
- Improved compliance analytics through increased collaboration with the states and foreign governments, the development of enhanced workload selection models, and the deployment of the Return Review Program, an automated system designed to maximize fraud detection at the time the tax returns are filed to eliminate the issuance of questionable refunds.

A summary of IRS accomplishments can be found in Section 1B, *Vision, Priorities, and Context*. More detailed information on the IRS FY 2014 accomplishments can be found in the Management's, Discussion & Analysis Report that was released as part of GAO's review of the IRS financial statements in November 2014. The IRS has requested additional resources to support these areas of focus.



## **2F – IRS Use of Evidence and Evaluation**

The IRS continues to improve program performance by applying existing evidence about what works and by using research and innovation to improve program delivery.

### **Significant Accomplishments**

#### *Reducing Taxpayer Burden and Improving Compliance*

- Post-Filing Model: The IRS has developed a model of the post-filing interactions between taxpayers and the IRS, accounting for various post-filing treatment streams, with a focus on taxpayer burden, IRS costs, cycle time, and compliance outcomes. The taxpayer burden aspect of the model was presented at the 2013 Winter Simulation Conference, the 2014 HM Revenue and Collections International Tax Analysis Conference, the 2014 IRS Research Conference, and the 2014 Joint Statistical Meetings.
- Use of National Research Program (NRP) Data to Evaluate EITC Compliance: The IRS is using data from the NRP individual taxpayer study to evaluate compliance of taxpayers who claim the EITC. The study is using the NRP results to estimate the total cost of EITC errors, evaluate types of errors made and the relative costs of those errors, as well as identify common characteristics of tax returns on which errors are reported.
- Evaluation of the Compliance Assurance Process (CAP): The IRS CAP research project found that CAP revenue results are substantially similar to the traditional examination program, and are achieved sooner with greater certainty. The research is helpful in demonstrating the effects of the CAP program and complements program measures based on directly observable outcomes.

### **Highest Priorities**

#### *Improving the Effectiveness of the IRS*

- Fraud Detection: Research, Analysis, and Statistics (RAS) supports IRS efforts in early detection of fraud and erroneous refund claims through research to identify fabricated entities potentially filing false income and withholding information documents in an attempt to bypass existing detection filters.
- Evaluation of Statistics of Income (SOI) Major Programs: The IRS SOI office conducted initial evaluations with key customer groups to evaluate the utility of its individual and corporation income tax products, determine projected future needs, and identify areas of potential cost savings. The evaluation showed that customers were satisfied with the products, but suggested new directions for the individual income files and changes over the next 5-years in the production and delivery of business tax data to better represent increased globalization. SOI plans phased implementation of proposed changes beginning in FY 2015.
- Encouraging Electronic Refunds: The IRS is partnering with the Bureau of the Fiscal Service (BFS) to increase the electronic deposit take-up rate for tax refunds. This effort includes analysis of the taxpayer segments receiving paper refunds and a pilot outreach program. The pilot program targets taxpayers who received a paper check in Tax Year 2012, but who also received electronic benefits from the federal

government. Two types of letters, and a follow-up postcard were tested on two taxpayer samples containing 35,000 taxpayers each. After processing the 2013 tax returns for over 90 percent of the taxpayers in the outreach campaign, IRS found that 25 percent of them requested an electronic refund. The take-up rate was 7 percent higher compared to similar taxpayers who did not receive an outreach letter. Letters emphasizing the safety of electronic refunds versus paper checks showed a higher-response rate compared to letters emphasizing the speed of electronic refunds. Further analysis of the response to the outreach campaign will be conducted over the summer. This project supports the Administration's electronic government initiative.

### **Implementation Updates for OMB Memo M-14-06.**

- Incarceration Data: SOI provided Treasury with a copy of an IRS administrative data file containing information for U.S. citizens who have been incarcerated. Treasury will use the file for studies of how individuals who have served time in prison use various tax expenditures to both help their families during periods of imprisonment and improve their economic circumstances once they have been released. This file may also be used to study the long-term economic effects of imprisonment on various U.S. demographic groups.
- Providing Information on the Tax System to the Public: During FY 2014, SOI released the 2011 Corporation Source Book online. This publication includes nearly 450 electronic tables that present corporate tax data by industrial sector as well as by major and minor industries within sector. SOI also released tables for the 2011 Corporation Income Tax Returns Complete Report on the IRS webpage, Tax Stats. These tables consist of extensive corporate tax data classified primarily by size of total assets and size of total tax receipts.

In addition, SOI released nearly 400 tables containing detailed information on a wide range of topics. Significantly, SOI released the 2010-2011 state and county level migration data, which are based on year-to-year address changes reported on individual income tax returns. State-level files track inflows and outflows and include both origins and destinations by county. SOI's other releases included updates to tables on controlled foreign corporations and time-series individual income tax data by state.

SOI also completed a review of its very popular individual income tax public-use file and produced a revised release strategy that strengthens privacy protection of individual tax data while increasing the utility of the data to key customers of this product.

## Section 3 – Budget and Performance Plan

### Taxpayer Services

#### Appropriation Description

The Taxpayer Services appropriation provides funding for taxpayer service activities and programs. This includes printing forms and publications, processing tax returns and related documents, offering filing and account services, ensuring the availability of taxpayer assistance, and providing taxpayer advocacy services.

The Taxpayer Services budget request for FY 2016 is \$2,408,803,000 in direct appropriations and 31,285 FTE. This is an increase of \$252,249,000, or 11.70 percent, and 3,011 FTE more than the FY 2015 Enacted level of \$2,156,554,000 and 28,274 FTE.

The performance measures reflected in Taxpayer Services appropriation support and align to *Goal 3: Fairly and effectively reform and modernize federal financial management, accounting, and tax systems, Objective 3.3: Pursue tax reform, implement the ACA and FATCA, and improve the execution of the tax code* of Treasury’s Strategic Plan (FY 2014-2017).

#### 2.1 – Budget Adjustments Table

Dollars in Thousands

Taxpayer Services	FTE	Amount
FY 2015 Enacted	28,274	\$2,156,554
Changes to Base:		
Maintaining Current Levels (MCLs):		
		\$52,822
Pay Annualization		4,837
Pay Raise (1.3%)		18,910
Non-Pay		3,571
FERS Contribution Increase		7,362
Federal Employees Health Benefits (FEHB) Program Modification		18,142
Efficiencies/Savings:		
	(61)	(\$18,399)
Increase e-File Savings	(46)	(2,374)
HCTC Program Termination	(15)	(16,025)
<b>Subtotal FY 2016 Changes to Base</b>	<b>(61)</b>	<b>\$34,423</b>
<b>FY 2016 Current Services (Base)</b>	<b>28,213</b>	<b>\$2,190,977</b>
Program Changes:		
Before Cap Adjustment Program Increases:		
Improve Taxpayer Services	2,806	183,142
Improve Upfront Identification and Resolution of Identity Theft Returns	193	15,562
Address Impact of Affordable Care Act (ACA) Statutory Requirements	1	108
Enhance Service Options for Taxpayers	45	13,891
Increase Service for Low-Income Taxpayers and Taxpayers in Need of Hardship Relief	27	5,123
<b>Subtotal FY 2016 Program Increases</b>	<b>3,072</b>	<b>\$217,826</b>
<b>Total FY 2016 Budget Request<sup>1</sup></b>	<b>31,285</b>	<b>\$2,408,803</b>
Dollar/FTE Change FY 2016 Budget Request over FY 2015 Enacted	3,011	\$252,249
Percent Change FY 2016 Budget Request over FY 2015 Enacted	10.65%	11.70%

<sup>1</sup>FTE include those funded with newly appropriated resources only. FTE funded by User Fees and Unobligated Balances from Prior Years are included in the direct civilian full-time equivalent employment line of the President's Appendix, but are not shown in the table above.

## 2.2 – Operating Levels Table

Dollars in Thousands

Taxpayer Services Object Classification	FY 2014 Actual	FY 2015 Enacted	FY 2016 Request
11.1 Full-Time Permanent Positions	1,478,423	1,513,412	1,665,695
11.3 Other than Full-Time Permanent Positions	44,113	36,629	39,928
11.5 Other Personnel Compensation	71,555	42,404	54,366
11.8 Special Personal Services Payments	885		11
<b>11.9 Personnel Compensation (Total)</b>	<b>1,594,976</b>	<b>1,592,445</b>	<b>1,760,000</b>
12.0 Personnel Benefits	395,692	389,099	469,889
13.0 Benefits to Former Personnel	3		
<b>Total Personnel and Compensation Benefits</b>	<b>\$1,990,671</b>	<b>\$1,981,544</b>	<b>\$2,229,889</b>
21.0 Travel	10,962	19,312	24,164
22.0 Transportation of Things	1,047	671	687
23.2 Rent Payments to Others	1		
23.3 Communications, Utilities, & Misc	1,206	1,707	1,751
24.0 Printing & Reproduction	8,590	8,381	8,532
25.1 Advisory & Assistance Services	22,829	22,336	22,895
25.2 Other Services	21,306	26,735	20,861
25.3 Purchase of Goods & Services from Govt. Accounts	61,253	59,726	61,056
25.4 Operation & Maintenance of Facilities	3	2	2
25.7 Operation & Maintenance of Equipment	2		
25.8 Subsistence & Support of Persons	143	147	191
26.0 Supplies and Materials	5,888	5,884	6,642
31.0 Equipment	80	328	337
41.0 Grants, Subsidies	21,043	29,000	31,000
42.0 Insurance Claims & Indemnities	171	781	796
<b>Total Non-Personnel</b>	<b>\$154,524</b>	<b>\$175,010</b>	<b>\$178,914</b>
<b>New Appropriated Resources</b>	<b>\$2,145,195</b>	<b>\$2,156,554</b>	<b>\$2,408,803</b>
<b>Budget Activities:</b>			
Pre-filing Taxpayer Assistance & Education	595,168	626,510	682,753
Filing & Account Services	1,550,027	1,530,044	1,726,050
<b>New Appropriated Resources</b>	<b>\$2,145,195</b>	<b>\$2,156,554</b>	<b>\$2,408,803</b>
<b>FTE</b>	<b>28,535</b>	<b>28,274</b>	<b>31,285</b>

## 2.3 – Appropriation Detail Table

Dollars in Thousands

Taxpayer Services Resources	FY 2014 Actuals		FY 2015 Enacted		FY 2016 Request		Change FY 2015 to FY 2016 Request		% Change FY 2015 to FY 2016 Request	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>										
Pre-Filing Taxpayer Assistance and Education	5,219	\$595,168	5,373	\$626,510	5,813	\$682,753	440	\$56,243	8.19%	8.98%
Filing and Account Services	23,316	1,550,027	22,901	1,530,044	25,472	\$1,726,050	2,571	196,006	11.23%	12.81%
<b>Subtotal New Appropriated Resources</b>	<b>28,535</b>	<b>\$2,145,195</b>	<b>28,274</b>	<b>\$2,156,554</b>	<b>31,285</b>	<b>\$2,408,803</b>	<b>3,011</b>	<b>\$252,249</b>	<b>10.65%</b>	<b>11.70%</b>
<b>Other Resources:</b>										
Reimbursables	444	28,600	511	32,900	538	34,600	27	1,700	5.28%	5.17%
Offsetting Collections - Non Reimbursables										
User Fees <sup>1</sup>	886	182,742	58	55,195	58	55,595		400		0.72%
Recovery from Prior Years										
Unobligated Balances from Prior Years		17,292		9,553		14,100		4,547		47.60%
Transfers In/Out										
Resources from Other Accounts										
<b>Subtotal Other Resources</b>	<b>1,330</b>	<b>\$228,634</b>	<b>569</b>	<b>\$97,648</b>	<b>596</b>	<b>\$104,295</b>	<b>27</b>	<b>\$6,647</b>	<b>4.75%</b>	<b>6.81%</b>
<b>Total Budgetary Resources</b>	<b>29,865</b>	<b>\$2,373,829</b>	<b>28,843</b>	<b>\$2,254,202</b>	<b>31,881</b>	<b>\$2,513,098</b>	<b>3,038</b>	<b>\$258,896</b>	<b>10.53%</b>	<b>11.49%</b>

<sup>1</sup> FTE funded by User Fees are included in the direct civilian full-time equivalent employment line of the President's Appendix.

**3A – Pre-Filing Taxpayer Assistance and Education** (\$682,753,000 in direct appropriations, \$100,000 from reimbursable programs, and an estimated \$9,000,000 from user fees): This budget activity funds services to assist with tax return preparation, including tax law interpretation, publication, production, and advocate services. The program activities include the following:

- *Pre-Filing Services Management* supports headquarters management associated with Customer Assistance Relationship and Education (CARE). CARE provides pre-filing taxpayer assistance and education.
- *Taxpayer Communication and Education* researches customer needs; develops and manages educational programs; establishes partnerships with stakeholder groups; and disseminates tax information to taxpayers and the general public through a variety of media, including publications and mailings, websites, broadcasting, and advertising.
- *Media and Publications* develops and produces notices, forms, and publications for printed and electronic tax materials, and provides media production services to taxpayers.
- *Taxpayer Advocacy* provides advocate services to taxpayers by identifying the underlying causes of taxpayer problems and participating in the development of systematic and/or procedural remedies.
- *Account Management and Assistance – Field Assistance* provides face-to-face assistance, education, and compliance services to taxpayers. It includes return preparation, answering tax questions, resolving account and notice inquiries, and supplying forms and publications to taxpayers.
- *Taxpayer Advocate Case Processing* provides advocate services to taxpayers to resolve taxpayer problems through prompt identification, referral, and settlement.
- *W&I HQ Management and Administration* provides staffing, training, and direct support for Wage and Investment management activities of strategic planning, communications and liaison, finance, human resources, equity, diversity and inclusion, business modernization, and embedded training.

- *National Distribution Center* processes orders for IRS forms and publications received from individual taxpayers, tax practitioners, and IRS tax return preparation partners.

Description of Performance

The IRS timely delivered 99.1 percent of the Critical Individual Filing Season Tax Products to the public in 2014, exceeding the FY 2013 results by 40.2 percent. The IRS released its products that are unaffected by legislation early to devote more time to analyze, develop, and post or print the tax products affected by late changes to legislation. The IRS expects to meet the target of 95.0 percent for Critical Individual Filing Season Tax Products to the Public in FY 2015 and FY 2016 by continuing to employ this strategy.

The IRS Timeliness of Critical TE/GE and Business Filing Season Tax products to the Public reached 98.7 percent in FY 2014, exceeding the established target by 3.7 percent. The IRS will continue to plan, monitor, and coordinate all products development and delivery activities. To ensure future targets are met, the IRS also will continue to evaluate the processes so that mitigation strategies can be implemented quickly. The IRS expects to meet the target of 95.0 percent for the Critical TE/GE and Business Tax Products to the Public measure in FY 2015 and FY 2016.

The Taxpayer Self-Assistance Rate reached 84.7 percent for FY 2014, falling short of the FY 2014 target of 85.0 percent. The shortfall is attributed to a large decrease in Web Services Completed. The decrease in Web Services is primarily due to a decrease in *Where's My Refund?* usage, which was 31.9 million (14 percent) below the planned volume. The smaller number of taxpayer accesses of “*Where’s My Refund?*” is attributed to a concerted effort to inform taxpayers that the application should only be checked once a day. In previous years, the IRS realized about a 10 percent annual increase in usage as taxpayers became acquainted with this service, though some were using it several times per day. The IRS will continue to promote the use of self-service applications and expects to meet the FY 2015 target of 85.0 percent and the FY 2016 of 86.0 percent.

**3.1.1 – Budget and Performance Report and Plan**

Dollars in Thousands

Pre-Filing Taxpayer Assistance & Education								
Resource Level <sup>1,2</sup>	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Enacted	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Request
Appropriated Resources	\$661,000	\$679,924	\$678,204	\$625,189	\$605,761	\$610,496	\$626,510	\$682,753
Reimbursable Resources	796	862	1,135	96		45	100	100
User Fees	18,700	5,514		22,460	6,400	22,400	9,000	9,000
<b>Budget Activity Total</b>	<b>\$680,496</b>	<b>\$686,300</b>	<b>\$679,339</b>	<b>\$647,745</b>	<b>\$612,161</b>	<b>\$632,941</b>	<b>\$635,610</b>	<b>\$691,853</b>

<sup>1</sup>The FY 2009 - FY 2014 Appropriated Resources represents the approved Operating Plan including any interappropriation transfers.

<sup>2</sup>The FY 2009 - FY 2014 columns represent realized resources for reimbursable and user fees.

Pre-Filing Taxpayer Assistance & Education								FY 2016
Measure	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Target	Request Target
Timeliness of Critical Filing Season Tax Products to the Public (O)	96.8%	95.3%	96.3%	97.2%	58.9%	99.1%	95.0%	95.0%
Timeliness of Critical TE/GE & Business Tax Products to the Public (O)	95.2%	97.7%	96.4%	94.5%	83.6%	98.7%	95.0%	95.0%
Taxpayer Self-Assistance Rate (E) (L)	69.3%	64.4%	70.1%	78.5%	83.3%	84.7%	85.0%	86.0%

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and L - Long Term Goal

**3B – Filing and Account Services** (\$1,726,050,000 in direct appropriations, an estimated \$34,500,000 from reimbursable programs, and an estimated \$46,595,000 from user fees):

This budget activity funds programs that provide filing and account services to taxpayers, process paper and electronically-submitted tax returns, issue refunds, and maintain taxpayer accounts. The IRS continues to make progress in decreasing paper returns and increasing the use of electronic filing and payment methods. The program activities include the following:

- *Filing and Account Services Management* administers filing and account services programs.
- *Submission Processing* processes paper and electronically submitted tax returns and supplemental documents, accounts for tax revenue, processes information documents, and issues refunds and tax notices.
- *Account Management and Assistance – Electronic/Correspondence Assistance* provides education and assistance to taxpayers and resolves accounts and notice inquiries through telephone, paper, and internet correspondence.
- *Electronic Products and Services Support* provides centralized operations and support capabilities for the IRS suite of electronic products, including e-help desk, technology support, and operations support.
- *Electronic Tax Administration (ETA)* markets and administers electronic tax administration products and services.
- *Business Performance Lab* initiatives, recommends and manages systemic solutions for the detection and treatment of improper refunds while ensuring effective treatment for payment of valid refund claims, leads the development of innovative business processes and technology solutions and represents Return Integrity & Compliance Services (RICS) interest in support of the service-wide revenue protection strategy.
- *Pre-Refund* provides coordination support for the pre-refund activities to ensure timely issuance of refunds and credits that are legally due to taxpayers.
- *Joint Operations Center (JOC)* provides service, support, and technology for telephone, correspondence, and electronic media inquiries; real time monitoring and routing of inbound calls; monitoring of Customer Service Representative accuracy; and management of the enterprise telephone database.
- *Files Most Efficient Organization (MEO)* provides staffing, training, and direct support for the management associated with the MEO for files in Submission Processing. This organization stores the administrative files and the most recent tax returns in process, which are the returns most often requested for research by various IRS organizations before being forwarded to federal records centers.

*Description of Performance*

Millions of individual and business taxpayers file their returns electronically. The overall benefits of e-file are faster refunds, greater accuracy, secure and confidential submission, quick confirmation, and the ability to file amended superseded and prior year returns. For FY 2014 the IRS met its 84.1 percent individual e-file target rate. The business e-file rate was 43.1 percent, missing the 2014 target of 44.7 percent.

The IRS uses projections to set the targets for business returns processed. These projected numbers are then used to determine the target for the subset of business returns that are electronically filed. The primary reason for the business e-file shortfall was that returns in the Form 94X (Employment Tax) series did not materialize in the volumes originally projected. A team has been formed to develop a Servicewide strategy for increasing the volume of electronic returns filed by business taxpayers and a communications outreach plan is being developed to promote e-filing for business returns during the 2015 Filing Season. The IRS will increase the individual e-filing target to 84.6 percent for FY 2015 and 85.0 percent for FY 2016. The business e filing target will increase to 46.5 percent for FY 2015 and 47.0 percent for FY 2016. Increases for both e-file rates will be achieved by continuing to promote the benefits of e-filing.

In FY 2014, Customer Accuracy – Tax Law was at 95.0 percent, exceeding the target of 93.0 percent. The mandatory use of the Interactive Tax Law Assistant (ITLA) and the continual monitoring of results through data-driven analysis of reports obtained from the Embedded Quality Review System (EQRS) ensured targets were met. Ongoing efforts focus on production meetings with field sites, promoting coding consistency of product reviews, and providing training to managers and employees to ensure quality service to customers. Although responding to legislative changes in tax laws will continue to be a major challenge moving forward, the IRS will set the tax law accuracy targets at 92.0 percent for FY 2015 and FY 2016.

In FY 2014, the IRS correctly answered 96.2 percent of account questions via the telephone, exceeding the target of 95.0 percent. The high performance on Customer Accuracy – Accounts (Phones) was achieved through data-driven analysis of reports obtained from the Embedded Quality Review System (EQRS). Ongoing efforts focus on production meetings with field sites, promoting coding consistency of product reviews, and providing training to managers and employees to ensure quality service to customers. For FY 2015 and FY 2016, the target for Customer Accuracy – Accounts (Phones) will decrease slightly to 94.0 percent. The IRS anticipates an increase in complexity in inquiries due to ACA implementation, which may negatively impact customer accuracy.

The IRS Customer Contacts Resolved per Staff Year reached 21,018 for FY 2014, falling short of the target of 22,750. This measure includes activities such as automated and assistor calls answered and web services completed. The shortfall is attributed to a large decrease in the number of Web Services Completed. The decrease in Web Services is primarily due to a decrease in the number of “*Where’s My Refund?*” inquiries, which were 31.9 million (14 percent) less than the planned number of 221 million. The IRS attributes the decrease in number of users to a concerted effort to inform taxpayers that the “*Where’s My Refund?*” application is only updated daily, and should not be repeatedly queried throughout the day. Future projections will take into account messaging efforts and the 2014 experience. The Customer Contacts Resolved per Staff Year target will be 21,000 for FY 2015 and 17,300 for FY 2016. To achieve these targets, the IRS will continue to provide efficient responses to customer contacts with the resources available and provide more self-service options on IRS.gov.



In FY 2014, the Customer Service Representative Level of Service was 64.4 percent, which was 5.6 percent above the planned target of 61.0 percent. In FY 2014, Assistor Calls Answered decreased by 23 percent and Informational Messages decreased by 29 percent. Overall, in FY 2014, the IRS experienced a 23 percent decline in call demand from FY 2013. The IRS was able to deliver a higher level of service to customers than originally planned because of additional funding and lower than projected telephone demand (87 percent of planned). The Customer Service Representative Level of Service target is set at 38 percent for FY 2015 due to a projected increase in the number of ACA inquiries and at 80 percent for FY 2016. The IRS will continue to maintain a balance between responding to taxpayer telephone demand and receiving paper correspondence.

In FY 2014, the Refund Timeliness Rate (paper) remained strong at 98.7 percent, exceeding the target of 97 percent. Throughout FY 2014, IMF return cycles and inventories were monitored through various reports and production meetings, and any identified issues were addressed promptly. The IRS expects to meet the target of 94.0 percent target for FY 2015 and 97.0 percent for FY 2016.

### 3.1.2 – Budget and Performance Report and Plan

Dollars in Thousands

Filing and Account Services								
Resource Level <sup>1,2</sup>	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Enacted	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Request
Appropriated Resources	\$1,647,406	\$1,614,418	\$1,630,549	\$1,614,514	\$1,529,792	\$1,546,058	\$1,530,044	\$1,726,050
Reimbursable Resources	37,094	21,993	27,857	20,759	37,535	28,555	32,800	34,500
User Fees	108,300	115,998	128,966	152,136	184,599	160,342	46,195	46,595
<b>Budget Activity Total</b>	<b>\$1,792,800</b>	<b>\$1,752,409</b>	<b>\$1,787,372</b>	<b>\$1,787,409</b>	<b>\$1,751,926</b>	<b>\$1,734,955</b>	<b>\$1,609,039</b>	<b>\$1,807,145</b>

<sup>1</sup>The FY 2009 - FY 2014 Appropriated Resources represents the approved Operating Plan including any interappropriation transfers.

<sup>2</sup>The FY 2009 - FY 2014 columns represent realized resources for reimbursable and user fees.

Filing and Account Services								
Measures	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Target	FY 2016 Request Target
Percent Individual Returns Processed Electronically (Oe) (L)	65.9%	69.3%	76.9%	80.5%	82.5%	84.1%	84.6%	85.0%
Percent of Business Returns Processed Electronically (Oe) (L)	22.8%	25.5%	31.8%	36.7%	40.2%	43.1%	46.5%	47.0%
Customer Accuracy - Tax Law (Phones) (O)	92.9%	92.7%	93.4%	93.2%	95.7%	95.0%	92.0%	92.0%
Customer Accuracy - Accounts (Phones) (O)	94.9%	95.7%	96.0%	95.6%	96.0%	96.2%	94.0%	94.0%
Customer Contacts Resolved per Staff Year (E)	12,918	10,744	12,419	16,320	20,767	21,018	21,000	17,300
Customer Service Representative Level of Service (Oe) (L) <sup>1</sup>	70.0%	74.0%	70.1%	67.6%	60.5%	64.4%	38.0%	80.0%
Refund Timeliness - Individual (Paper) (O)	99.2%	96.1%	99.4%	99.7%	99.0%	98.7%	94.0%	97.0%

<sup>1</sup>Beginning in FY 2013, target includes an increase in base user fees.

Key: Oe - Outcome Measure, E - Efficiency Measure, OI - Output/Workload Measure, and L - Long Term Goal

## **Enforcement**

### **Appropriation Description**

The Enforcement appropriation provides funding for the examination of tax returns, both domestic and international; administrative and judicial settlement of taxpayer appeals of examination findings; technical rulings; monitoring of employee pension plans; determination of qualifications of organizations seeking tax-exempt status; examination of tax returns of exempt organizations; enforcement of statutes relating to detection and investigation of criminal violations of the internal revenue laws; identification of underreporting of tax obligations; securing of unfiled tax returns; and collection of unpaid accounts.

The Enforcement budget request for FY 2016 is \$5,399,832,000 in direct appropriations and 44,800 FTE. This is an increase of \$539,832,000, or 11.11 percent, and 4,236 FTE more than the FY 2015 Enacted level of \$4,860,000,000 and 40,564 FTE.

The performance measures reflected in the Enforcement appropriation support and align to *Goal 3: Fairly and effectively reform and modernize federal financial management, accounting, and tax systems, Objective 3.3: Pursue tax reform, implement the ACA and FATCA, and improve the execution of the tax code* of the Department of the Treasury's Strategic Plan (FY 2014-2017).

## 2.1 – Budget Adjustments Table

Dollars in Thousands

Enforcement	FTE	Amount
<b>FY 2015 Enacted</b>	<b>40,564</b>	<b>\$4,860,000</b>
<b>Changes to Base:</b>		
<b>Maintaining Current Levels (MCLs):</b>		<b>\$81,120</b>
Pay Annualization		11,875
Pay Raise (1.3%)		46,428
Non-Pay		5,171
FERS Contribution Increase		16,488
Federal Employees Health Benefits (FEHB) Program Modification		1,158
<b>Subtotal FY 2016 Changes to Base</b>		<b>\$81,120</b>
<b>FY 2016 Current Services (Base)</b>	<b>40,564</b>	<b>\$4,941,120</b>
<b>Program Changes:</b>		
<b>Before Cap Adjustment Program Increases:</b>		
Implement Foreign Account Tax Compliance Act (FAT CA)	321	33,625
Address Impact of Affordable Care Act (ACA) Statutory Requirements	432	44,775
Implement Merchant Card and Basis Matching	322	28,212
<b>Subtotal FY 2016 Before Cap Adjustment Program Increases</b>	<b>1,075</b>	<b>\$106,612</b>
<b>Total FY 2016 Request Before Cap Adjustment</b>	<b>41,639</b>	<b>\$5,047,732</b>
<b>Cap Adjustment Program Increases:</b>		
<b>Enforcement Initiatives:</b>		
Prevent Identity Theft and Refund Fraud	358	47,738
Increase Audit Coverage	1,038	97,353
Improve Audit Coverage of Large Partnerships	107	13,722
Address International and Offshore Compliance Issues	238	35,206
Enhance Collection Coverage	986	83,236
Leverage Data to Improve Case Selection	14	5,111
Address Compliance Risks in the Tax-Exempt Sector	146	15,511
Pursue Employment Tax and Abusive Tax Schemes	52	8,677
Enhance Investigations of Transnational Organized Crime (TOC)	194	37,161
Ensure Ethical Standards of Conduct for Practitioners	28	3,385
<b>Subtotal Enforcement Initiatives</b>	<b>3,161</b>	<b>\$347,100</b>
<b>Alcohol and Tobacco Tax and Trade Bureau Program Integrity Transfer:</b>		
Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities		5,000
<b>Subtotal Alcohol and Tobacco Tax and Trade Bureau Program Integrity Transfer Initiative</b>		<b>\$5,000</b>
<b>Subtotal FY 2016 Cap Adjustment</b>	<b>3,161</b>	<b>\$352,100</b>
<b>Subtotal FY 2016 Program Increases</b>	<b>4,236</b>	<b>\$458,712</b>
<b>Total FY 2016 Budget Request<sup>1</sup></b>	<b>44,800</b>	<b>\$5,399,832</b>
Dollar/FTE Change FY 2016 Budget Request over FY 2015 Enacted	4,236	\$539,832
Percent Change FY 2016 Budget Request over FY 2015 Enacted	10.44%	11.11%

<sup>1</sup>FTE include those funded with newly appropriated resources only. FTE funded by User Fees and Unobligated Balances from Prior Years are included in the direct civilian full-time equivalent employment line of the President's Appendix, but are not shown in the table above.

## 2.2 – Operating Levels Table

Dollars in Thousands

Enforcement Object Classification	FY 2014 Actual	FY 2015 Enacted	FY 2016 Request
11.1 Full-Time Permanent Positions	3,351,722	3,309,069	3,609,945
11.3 Other than Full-Time Permanent Positions	33,066	34,066	34,494
11.5 Other Personnel Compensation	128,589	115,634	137,255
11.8 Special Personal Services Payments	23,077	15,671	15,871
<b>11.9 Personnel Compensation (Total)</b>	<b>3,536,454</b>	<b>3,474,440</b>	<b>3,797,565</b>
12.0 Personnel Benefits	1,119,645	1,126,096	1,253,106
<b>Total Personnel and Compensation Benefits</b>	<b>\$4,656,099</b>	<b>\$4,600,536</b>	<b>\$5,050,671</b>
21.0 Travel	50,685	76,544	119,969
22.0 Transportation of Things	9,750	9,110	15,765
23.1 Rental Payments to GSA	3		1
23.2 Rent Payments to Others	472	479	529
23.3 Communications, Utilities, & Misc	2,655	2,727	3,244
24.0 Printing & Reproduction	2,505	2,602	2,995
25.1 Advisory & Assistance Services	89,844	56,794	62,212
25.2 Other Services	30,020	36,458	48,721
25.3 Purchase of Goods & Services from Govt. Accounts	41,639	43,080	47,515
25.4 Operation & Maintenance of Facilities	12	17	18
25.5 Research & Development Contracts	3,950	2,813	2,866
25.6 Medical Care	10	10	11
25.7 Operation & Maintenance of Equipment	569	237	436
25.8 Subsistence & Support of Persons	1,857	1,440	4,649
26.0 Supplies and Materials	17,675	17,369	22,050
31.0 Equipment	2,521	5,999	13,652
32.0 Land and Structures	5	12	12
42.0 Insurance Claims & Indemnities	1,100	950	967
91.0 Unvouchered	3,126	2,823	3,549
<b>Total Non-Personnel</b>	<b>\$258,398</b>	<b>\$259,464</b>	<b>\$349,161</b>
<b>New Appropriated Resources</b>	<b>\$4,914,497</b>	<b>\$4,860,000</b>	<b>\$5,399,832</b>
<b>Budget Activities:</b>			
Investigations	601,740	602,298	713,282
Exam & Collections	4,154,342	4,104,453	4,513,376
Regulatory	158,415	153,249	173,174
<b>New Appropriated Resources</b>	<b>\$4,914,497</b>	<b>\$4,860,000</b>	<b>\$5,399,832</b>
<b>FTE</b>	<b>42,119</b>	<b>40,564</b>	<b>44,800</b>

## 2.3 – Appropriation Detail Table

Dollars in Thousands

Enforcement Resources	FY 2014 Actuals		FY 2015 Enacted		FY 2016 Request		Change FY 2015 to FY 2016 Request		% Change FY 2015 to FY 2016 Request	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>										
Investigations	3,581	\$601,740	3,425	\$602,298	3,931	\$713,282	506	\$110,984	14.77%	18.43%
Exam and Collections	37,409	4,154,342	36,104	4,104,453	39,692	4,513,376	3,588	408,923	9.94%	9.96%
Regulatory	1,129	158,415	1,035	153,249	1,177	173,174	142	19,925	13.72%	13.00%
<b>Subtotal New Appropriated Resources</b>	<b>42,119</b>	<b>\$4,914,497</b>	<b>40,564</b>	<b>\$4,860,000</b>	<b>44,800</b>	<b>\$5,399,832</b>	<b>4,236</b>	<b>\$539,832</b>	<b>10.44%</b>	<b>11.11%</b>
<b>Other Resources:</b>										
Reimbursables	47	27,925	63	35,800	66	39,400	3	3,600	4.76%	10.06%
Offsetting Collections - Non Reimbursables		31,073		33,100		33,075		(25)		-0.08%
User Fees <sup>1</sup>	109	13,241	133	15,940	133	16,240		300		1.88%
Recovery from Prior Years										
Unobligated Balances from Prior Years	200	17,129		23,976		13,010		(10,966)		-45.74%
Transfers In/Out <sup>2</sup>		17		7,561		(5,000)		(12,561)		-166.13%
Resources from Other Accounts	3		3		3					
<b>Subtotal Other Resources</b>	<b>359</b>	<b>\$89,385</b>	<b>199</b>	<b>\$116,377</b>	<b>202</b>	<b>\$96,725</b>	<b>3</b>	<b>(\$19,652)</b>	<b>1.51%</b>	<b>-16.89%</b>
<b>Total Budgetary Resources</b>	<b>42,478</b>	<b>\$5,003,882</b>	<b>40,763</b>	<b>\$4,976,377</b>	<b>45,002</b>	<b>\$5,496,557</b>	<b>4,239</b>	<b>\$520,180</b>	<b>10.40%</b>	<b>10.45%</b>

<sup>1</sup>FTE funded by User Fees and Unobligated Balances from Prior Years are included in the direct civilian full-time equivalent employment line of the President's Appendix.

<sup>2</sup>Resources from Transfers In/Out include FY 2014 transfers between IRS and the Office of National Drug Control Policy (ONDCP) High Intensity Drug Trafficking Area (HIDTA) Program (net transfer \$17K), FY 2015 transfers between IRS and Spectrum (net transfer \$7.6M), and an FY 2016 transfer out to the Alcohol and Tobacco Tax and Trade Bureau (TTB) (\$5M).

**3C – Investigations** (\$713,282,000 in direct appropriations and an estimated \$38,500,000 from reimbursable programs): This budget activity funds the Criminal Investigation (CI) programs that explore potential criminal and civil violations of tax laws; enforce criminal statutes relating to violations of tax laws and other financial crimes, and recommend prosecution as warranted. The program activities include the following:

- *General Management and Administration* supports the headquarters management activities of strategic planning, communications, finance, and human resources for CI activities.
- *Criminal Investigations* supports the enforcement of criminal statutes relating to violations of internal revenue laws and other financial crimes. CI investigates cases of suspected intent to defraud that involve both legal and illegal sources of income and recommends prosecution as warranted. This activity includes the investigation and prosecution of tax and money-laundering violations associated with narcotics organizations.
- *Criminal Tax Legal Support* provides legal advice and support from IRS Counsel to CI.
- *International Investigations* supports international investigations involving U.S. citizens residing abroad, non-resident aliens, expatriates, and investigations involving other international issues, including legal support (e.g., Foreign Tax Credit and Foreign Earned Income Exclusion, Corporations, Non-Profits, Pension Plans, etc.).

### Description of Performance

Criminal Investigation (CI) serves the American public by investigating potential criminal violations of the Internal Revenue Code and related financial crimes in a manner that fosters confidence in the tax system and compliance with the law. The following measures are used to evaluate the success of achieving its mission.

FY 2014 year end results for CI Completions (4,606) are 3.7 percent above year-end target (4,440) and reflect a 17.1 percent decrease compared to FY 2013. These results are similar to previous years before ID theft spiked. Year-end performance in FY 2014 was impacted by a decrease in the number of Special Agents in recent years, due to attrition and lack of hiring, as well as a re-focus on more complex tax case programs - which have a higher cycle time - and on existing inventory in the judicial process. The majority of investigations completed in FY 2014 (75.5 percent) consist of prosecutions that were recommended to the Department of Justice, a decrease of 20.3 percent from FY 2013. CI will continue to utilize proven case development strategies, expand case development efforts, and leverage interagency partnerships to identify, initiate and complete significant criminal investigations in all program areas. Statistics used in determining future performance were analyzed utilizing CI's Performance Projection Model. FY 2015 and FY 2016 year-end targets account for attrition, average case per case-working agent, projected case initiations, inventory of cases at the beginning of fiscal year and projected number of cases expected in inventory at the end of fiscal year. CI continues to carry a high number of ID Theft cases in all stages of its inventory. These cases have a shorter cycle time and usually result in multiple investigations, many of which were initiated prior to FY 2015 and are now in the judicial process. As more of these cases move forward into the judicial process, more resources continue to be required to work this judicial pipeline inventory. Additionally, a steady decrease in the number of special agents available to work cases due to attrition and no hiring authority will continue to impact future performance results, as already evidenced by a lower total number of open subject investigations (in all programs). Also, CI's re-focus on more complex tax case programs that take longer to complete (i.e. Corporate Fraud, Abusive Tax Schemes, etc.) will continue to impact future performance results. The IRS expects to achieve its target of 3,800 Completed Investigations for FY 2015 and FY 2016.

FY 2014 year end results for the Number of Convictions (3,110) are 26.9 percent above the year-end target (2,450) and reflect a 6.1 percent decrease from FY 2013. Although results are lower than in FY 2013, the number of convictions in FY 2014 reflects an increase of 42.4 percent when compared to FY 2010. The large number of quality investigations that were initiated and completed in previous years (most of which were ID theft cases) and are now being processed by the Department of Justice (DOJ) contributed to a high number of convictions. This accounts for the 2.3 percent increase in legal-source convictions from FY 2013. CI management will continue to ensure appropriate and consistent contact with the DOJ Tax Division and U.S. Attorney Offices regarding prosecutorial priorities and appropriate movement of pipeline investigations. The year-end target are based on historical averages and the fact CI depends on the ability of the Department of Justice (DOJ) and U.S. Attorney's office (USAO) to accept its cases for prosecution and to move them through the courts. The IRS expects to achieve its target of 2,700 convictions for FY 2015 and FY 2016.

FY 2014 year-end results for Conviction Rate (93.4 percent) are 0.3 percent higher than in FY 2013 and 1.5 percent above the year-end target. Acquittals increased in FY 2014 by 31.6 percent to 25, while dismissals decreased by 13.7 percent to 195. Appropriate case selection and effective field performance continue to positively impact the number of cases resulting in convictions. Since CI does not prosecute its own cases, it must depend on the ability of the DOJ to accept its cases for prosecution and move such cases through the courts. CI management will continue its current efforts to maintain appropriate and consistent contact

with the DOJ Tax Division and U.S. Attorney Offices regarding prosecutorial priorities and appropriate movement of pipeline investigations to ensure a high rate of conviction. Year-end target will remain at 92 percent, based on historical averages and the fact CI depends on the ability of the Department of Justice (DOJ) and U.S. Attorney's office (USAO) to accept its cases for prosecution and to move them through the courts. In FY 2015 and FY 2016, the IRS expects to achieve its target of 92 percent using this strategy.

The Conviction Efficiency Rate is defined as the cost of the Criminal Investigation program divided by the number of convictions. FY 2014 year end results (\$231,103) are 17.5 percent better than the year-end target (\$280,000). Although CI's financial plan for FY 2014 indicates a slight increase in Enforcement funds (1.6 percent) and FTEs (0.9 percent) from the original projections, a higher than expected number of convictions kept the rate below the \$280,000 target. To achieve the FY 2015 and FY 2016 target of \$243,000, CI will continue to monitor its budget and coordinate with DOJ Tax Division and U.S. Attorney Offices regarding prosecutorial priorities.

### 3.1.3 – Budget and Performance Report and Plan

Dollars in Thousands

Investigations								
Resource Level <sup>1,2</sup>	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Enacted	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Request
Appropriated Resources	\$611,601	\$639,363	\$644,479	\$636,386	\$589,751	\$599,193	\$602,298	\$713,282
Reimbursable Resources	39,639	67,549	63,146	56,895	28,582	27,133	35,000	38,500
User Fees				6,935	4,709			
<b>Budget Activity Total</b>	<b>\$651,240</b>	<b>\$706,912</b>	<b>\$707,625</b>	<b>\$700,216</b>	<b>\$623,042</b>	<b>\$626,326</b>	<b>\$637,298</b>	<b>\$751,782</b>

<sup>1</sup>The FY 2009 - FY 2014 Appropriated Resources represents the approved Operating Plan including any interappropriation transfers.

<sup>2</sup>The FY 2009 - FY 2014 columns represent realized resources for reimbursable and user fees.

Investigations								FY 2016 Request
Measure	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Target	Target
Criminal Investigations Completed (Ot) (L)	3,848	4,325	4,697	4,937	5,557	4,606	3,800	3,800
Number of Convictions (Oe) (L)	2,105	2,184	2,350	2,634	3,311	3,110	2,700	2,700
Conviction Rate (Oe) (L)	87.2%	90.2%	92.7%	93.0%	93.1%	93.4%	92.0%	92.0%
Conviction Efficiency Rate (\$) (E) (L)	\$327,328	\$324,776	\$310,029	\$270,511	\$211,048	\$231,103	\$243,000	\$243,000

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, L - Long Term Goal

**3D – Exam and Collections** (\$4,513,376,000 in direct appropriations): This budget activity funds programs that enforce the tax laws and increase compliance through examination and collection programs that ensure proper payment and tax reporting. This budget activity also includes campus support of the Questionable Refund program and appeals and litigation activities associated with exam and collection. The program activities include the following:

- *Compliance Services Management* supports management associated with exam and collection program activities.
- *Payment Compliance – Correspondence Collection* supports IRS collection activities by initiating contact and collecting delinquent taxpayer liabilities through written notices and other means.
- *Automated Collections and Support* initiates contact and collects delinquent taxpayer liabilities through the centralized Automated Collection System (ACS).
- *Payment Compliance – Field Collection* conducts field investigations and collection efforts associated with delinquent taxpayer and business entity liabilities, including direct taxpayer contact and outreach programs to protect the interest of the federal government in delinquent tax liability situations.
- *Tax Reporting Compliance – Document Matching* supports the Automated Underreporter (AUR), Combined Annual Wage Reporting (CAWR), Federal Unemployment Tax Act (FUTA), and other Document Matching Programs.
- *Tax Reporting Compliance – Electronic/Correspondence Exam* initiates written correspondence with taxpayers related to tax issues arising from claims on their tax returns.
- *Tax Reporting Compliance – Field Exam* compares taxpayer income levels and corresponding tax liabilities to ensure the accuracy of taxpayer returns.
- *Fraud/Bank Secrecy Act* assists and supports compliance employees IRS-wide in protecting the integrity of the U.S. tax administration system. The Bank Secrecy Act Program examines non-bank financial institutions and nonfinancial trades and businesses for compliance with the anti-money laundering provisions of the Bank Secrecy Act of 1970 (BSA) and the USA PATRIOT Act of 2001. It processes and provides customer support for Reports of Foreign Bank and Financial Accounts (FBARs) and Form 8300, *Report of Cash Payments Over \$10,000 Received in a Trade or Business*. The National Fraud Program provides oversight and direction for fraud policy and operations IRS-wide.
- *Appeals* provides an administrative review process that provides a channel for impartial case settlement before a case is docketed in a court of law.
- *Litigation* provides legal support for the IRS in litigation of cases, including interpretation of the tax law.
- *Specialty Programs – Exams* examines federal tax returns of businesses and individuals responsible for the filing and payment of employment, excise, estate and gift taxes.



- *International Collection* supports international field collection efforts associated with delinquent taxpayer and business entity liabilities from U.S. citizens residing abroad, non-resident aliens, expatriates, and those involving other international issues (e.g., Foreign Tax Credit and Foreign Earned Income Exclusion).
- *International Exams* supports the international exam program involving U.S. citizens residing abroad, non-resident aliens, expatriates, and other examinations involving other international issues including legal support (e.g., Foreign Tax Credit and Foreign Earned Income Exclusion, Corporations, Non-Profits, Pension Plans, etc.).
- *Unit General Management and Administration* provides staffing, training, and direct support for headquarters management activities of strategic planning, communication and liaison, finance, human resources, equity, diversity and inclusion, business system planning, and embedded training.
- *EITC Management and Administration* supports headquarters management associated with administering the Earned Income Tax Credit (EITC) program IRS-wide.
- *Integrity & Verification Operations* supports IRS civil fraud detection and prevention efforts in a pre-refund environment including monitoring program performance and developing policy and procedures and guidance for processing civil revenue protection programs(s).
- *ID Theft Victim's Assistant* has end-to-end responsibility and accountability for IDT victim assistance policy and operations which will include paper inventories from tax-related ID theft, the Identity Theft Protection Specialized Unit (IPSU) and Return Preparer Misconduct.
- *Accounts Management Taxpayer Assurance Program* provides support to Accounts Management for the review of questionable refunds including Identity Theft functions.
- *Whistleblower Office* provides staffing, training, and direct support to process, assess, and analyze tips from individuals who identify potential tax problems.
- *Communications and Liaison* coordinates local government and liaison relationships; manages congressional, state, and national stakeholder relationships and issues; coordinates crosscutting issues, including audit management and legislative implementation; manages national media contacts and local media relationships; and ensures IRS compliance with disclosure and privacy laws.

#### Description of Performance - Exam

The Examination program provides taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness. The performance goals that the IRS uses to gauge the Examination program performance are discussed below.

The FY 2014 IRS Individual Exam Coverage rate reached 0.9 percent, exceeding the target by 0.1 percent. In FY 2014, the number of individual audits decreased by more than 162,000, or 11.6 percent, which is attributable to the time lost because of the lapse in federal appropriations. Servicewide emphasis was placed on monitoring base inventory levels, decreasing cycle times, identifying workload with short cycle times, and emphasizing IMF

related pickups from BMF returns, while focusing on improving quality. Servicewide IMF coverage will continue through the development and execution of the FY 2015 Examination Plan, which includes sufficient IMF closures to ensure coverage rates are met. The IRS expects to achieve an Individual Exam Coverage rate of 0.8 percent in FY 2015 and FY 2016.

In FY 2014, Field Exam National Quality Review Score reached 88.4 percent, falling 1.2 percent short of its 89.6 percent target. A decline in the weakest quality attribute (Time Span) for this performance measure has contributed to a decline in overall quality performance, with year-end performance falling slightly short of target. The leading error in this attribute is failure to meet closing action time frames. Area Directors have quality action plans and their FY 2014 and FY 2015 Performance Management Review System quality commitments focus on reducing those leading errors. Educational efforts, customized to address the leading errors within the weaker attributes, are ongoing at the area and territory level. The IRS expects to achieve a quality score of 89.6 percent in FY 2015 and FY 2016.

The IRS achieved a score of 90.6 percent for the Office Exam National Quality Review Score, exceeding the FY 2014 target of 90.2 percent. The Tax Compliance Officer (TCO) program will continue to focus on weaker performing attributes in FY 2015 (Time Span and Compliance Checks). The leading errors within these two attributes are closing action timeframes and multi-year compliance checks. Educational efforts, customized to address the leading errors within the weaker attributes, are ongoing at the Area and Territory level. The IRS expects to achieve a quality score of 90.2 percent in FY 2015 and FY 2016.

The Examination Quality – Large Business measure is calculated through a Large Business and International Quality Measurement System (LQMS) review of a statistically valid random sample of closed Large Business Return (LBR) cases. Case scores are based on the percentage of elements passed within each of the four quality audit standards (1. Planning; 2. Inspection; 3. Development; 4. Work Papers and Reports). In FY 2014, Examination Quality – Large Business finished at 83.0 percent, 7.0 percentage points below the FY 2014 target of 90 percent. The 83.0 percent was a result of low scores in audit standards 1, 2, and 4. Actions that are currently underway to improve this score include direct feedback to revenue agents, outreach presentations on the quality audit standards and ways to improve case quality, quarterly virtual training sessions to highlight and discuss actions for areas of improvement, and one-on-one report outs to analysts in each industry. As a result of these continued efforts, the IRS expects to achieve the FY 2015 and FY 2016 target of 90 percent.

The Examination Coverage – Business measure is calculated by taking the total number of LB&I returns (C and S Corporations with assets over \$10 million and all partnerships) examined and closed by LB&I during the current fiscal year, divided by total filings for the preceding calendar year. In FY 2014, Business Examination Coverage ended at 4.3 percent. Total closures for FY 2014 decreased by 18.9 percent and projected closures decreased by 5.7 percent, compared to FY 2013. LB&I was able to recover from the lapse in federal appropriations and exceeded the target coverage rate of 4.2 percent. The IRS expects to achieve the FY 2015 and FY 2016 targets of 3.8 percent and 3.6 percent, respectively. The FY 2015 projected coverage rate is based on planned closures of 10,186 and projected return filings of 268,800. With no hiring initiatives and continued attrition, planned closures are

slightly lower in FY 2015 despite a projected increase in returns filed. As a result, planned coverage for FY 2015 is slightly less.

Exam Efficiency – Individual finished at 138, exceeding the FY 2014 target of 133. The Individual Exam Efficiency measure is calculated by taking the sum of all individual 1040 returns closed by SB/SE, W&I (excluding non-audit EITC Proof of Concept cases), LB&I (Field Exam and Correspondence Exam), and TE/GE and audit reconsideration cases divided by the total staff years expended in relation to those individual 1040 returns. Individual closures decreased 11.6 percent due to the lapse in federal appropriations while staffing decreased 8.9 percent relative to FY 2013. Servicewide emphasis in FY 2015 will be placed on decreasing cycle times and increasing IMF related pickups from BMF returns. The IRS expects to achieve the FY 2015 and FY 2016 targets of 135 and 118, respectively. Since FY 2015 will not have a large impact from the FY 2014 lapse in federal appropriations, Exam Efficiency – Individual should improve. In addition, as individual-related cases are worked in conjunction with business work streams, the efficiency rate should be consistent with FY 2014, unless FTE levels decline rapidly. The FY 2016 Exam Efficiency – Individual target is set lower as the IRS expects new FTEs to require time for training before reaching full efficiency.

Automated Underreporter (AUR) Efficiency finished at 1,935 in FY 2014, above the target of 1,931. The AUR Efficiency measure is calculated by taking the total number of W&I and SB/SE contact closures (a closure resulting from a case where IRS made contact) divided by the total FTEs, including overtime. The effect of the decreased closures as a result of the lapse in federal appropriations was mitigated by AUR efficiency improvements made through programming changes, the case selection process, and procedural changes for various programs. Servicewide AUR efficiency will improve in FY 2015 because a large portion of the correspondence examinations have been screened and are clean moving into the fiscal year, which will allow additional time for contact closures work. The IRS expects to achieve the FY 2015 and FY 2016 targets of 2,032 and 2,014, respectively. The FY 2016 target is set lower as new FTEs will not have an immediate impact on case closures due to the need for training.

In FY 2014, AUR Coverage ended at 2.6 percent. The AUR Coverage measure is calculated by taking the total number of contact closures divided by total prior calendar year individual filings. Total contact closures decreased 8.2 percent due to the lapse in federal appropriations and individual filings decreased by 1.1 percent, compared to FY 2013. AUR improved coverage by strengthening the case screening process, issuing more notices, and increasing closures. The IRS will maintain an AUR Coverage rate of 2.6 percent in FY 2015 and FY 2016. Since FY 2015 will begin without a large influx of overage inventory and new hires will have already received training, overall productivity should continue to increase.

#### *Description of Performance - Collection*

The Collection program collects delinquent taxes and secures delinquent tax returns through the fair and equitable application of the tax laws and provides education to customers to allow future compliance; thereby protecting and promoting public confidence in the American tax system. The performance goals that the IRS uses to gauge collection program performance are discussed below.

In FY 2014, Collection Coverage was 45.9 percent, exceeding the target of 42.7 percent. The Collection Coverage measure is calculated by taking the total volume of collection work disposed divided by total collection work available. Taxpayer Delinquent Account (TDA), Taxpayer Delinquent Investigation (TDI), and balance due notice dispositions exceeded plan which helped mitigate the impact of the lapse in federal appropriations on enterprise disposition totals. The IRS will continue to market and promote the use of the online Installment Agreement and Direct Pay tools. Disposition totals will be positively influenced by the additional Field Collection personnel hired in September 2014 who will become fully productive in FY 2015. The IRS expects to achieve the FY 2015 and FY 2016 targets of 43.8 percent and 45.9 percent, respectively.

Collection Efficiency finished at 2,051 in FY 2014, exceeding the target of 2,007. The Collection Efficiency measure is calculated by dividing total collection case closures by the total number of FTEs devoted to working the closures. Three ACS call sites returned to work Collection cases in March, which positively impacted dispositions. Through planned improvements including streamlined processes and enhanced case selection, the IRS expects to achieve the FY 2015 and FY 2016 targets of 2,173 and 2,131, respectively.

In FY 2014, the Field Collection National Quality Review Score ended at 81.6 percent, exceeding the target of 81.0 percent. The Field Collection Quality measure is calculated by taking the quality attributes that are reviewed and determined to be correct by a third-party Quality Reviewer divided by the total number of quality attributes reviewed. Quality case and work products continued to be one of three strategic objectives for Field Collection. Continued focus on this goal in FY 2014 encompassed advanced technical training for over one-third of newer Field Revenue Officers on topics such as Research, Interviewing Skills, Comprehensive Financial Analysis, Trust Fund Recovery Penalty, Advanced Collection Theories and Suits. With a continued emphasis on improving the quality of case and work products as well as advanced technical training planned for approximately 900 revenue officers in FY 2015, the IRS expects to achieve the FY 2015 and FY 2016 target of 81.6 percent. FY 2014 year-end results for Automated Collection System (ACS) Accuracy were 95.2 percent, exceeding the target of 94 percent. The ACS Accuracy measure reflects the percentage of correct responses from a random weighted sampling of calls selected for quality review by the Centralized Quality Review System (CQRS). SB/SE will continue to follow-up on quality action plans resulting from site visits. Monthly calls with the Quality staff will also continue to identify and discuss quality issues and trends impacting Customer Accuracy. The IRS expects to achieve the FY 2015 and FY 2016 target of 94 percent.

### 3.1.4 – Budget and Performance Report and Plan

Dollars in Thousands

Exam and Collections								
Resource Level <sup>1,2</sup>	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Enacted	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Request
Appropriated Resources	\$4,355,186	\$4,700,345	\$4,689,220	\$4,504,885	\$4,210,108	\$4,196,794	\$4,104,453	\$4,513,376
Reimbursable Resources	8,970	8,729	11,163	6,385	804			
User Fees	3,103	49						
<b>Budget Activity Total</b>	<b>\$4,367,259</b>	<b>\$4,709,123</b>	<b>\$4,700,383</b>	<b>\$4,511,270</b>	<b>\$4,210,912</b>	<b>\$4,196,794</b>	<b>\$4,104,453</b>	<b>\$4,513,376</b>

<sup>1</sup>The FY 2009 - FY 2014 Appropriated Resources represents the approved Operating Plan including any interappropriation transfers.

<sup>2</sup>The FY 2009 - FY 2014 columns represent realized resources for reimbursable and user fees.

Exam and Collections								FY 2016
Measure	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Target	Request Target
Examination Coverage - Individual (Oe) (L)	1.0%	1.1%	1.1%	1.0%	1.0%	0.9%	0.8%	0.8%
Field Exam National Quality Review Score (Oe) (L)	85.1%	84.9%	85.8%	87.4%	89.2%	88.4%	89.6%	89.6%
Office Exam National Quality Review Score (Oe) (L)	92.1%	91.6%	90.4%	91.3%	90.3%	90.6%	90.2%	90.2%
Examination Quality - Large Business <sup>1</sup> (Oe) (L) (New in FY 2013)					92.0%	83.0%	90.0%	90.0%
Examination Coverage - Business (Assets > \$10 million) (Oe) (L)	5.6%	5.7%	6.2%	6.2%	5.6%	4.3%	3.8%	3.6%
Automated Underreporter (AUR) Efficiency (E) (L)	1,905	1,924	2,007	2,041	2,025	1,935	2,032	2,014
Automated Underreporter (AUR) Coverage (E) (L)	2.6%	3.0%	3.3%	3.2%	2.8%	2.6%	2.6%	2.6%
Examination Efficiency - Individual (E) (L)	138	140	139	142	142	138	135	118
Collection Coverage - Units (Ot) (L)	54.2%	50.1%	50.0%	48.1%	47.0%	45.9%	43.8%	45.9%
Collection Efficiency - Units (E) (L)	1,845	1,822	1,952	1,997	2,057	2,051	2,173	2,131
Field Collection National Quality Review Score (Ot) (L)	80.5%	80.6%	80.3%	80.4%	81.4%	81.6%	81.6%	81.6%
Automated Collection System (ACS) Accuracy (Oe)	94.3%	95.9%	94.9%	94.7%	94.4%	95.2%	94.0%	94.0%

Key: Oe - Outcome Measure, E - Efficiency Measure, L - Long Term Goal, Ot - Output/Workload Measure

<sup>1</sup>As a result of program changes that occurred in the Large Business and International (LB&I) organization, starting in FY 2013, a new Examination Quality - Large Business measure replaced the two previous LB&I quality measures - Examination Quality - Industry and Coordinated Industry.

**3E – Regulatory** (\$173,174,000 in direct appropriations, an estimated \$900,000 from reimbursable programs, and an estimated \$16,240,000 from user fees): This budget activity funds the development and printing of published IRS guidance materials; interpretation of tax laws; internal advice to IRS on general non-tax legal issues; enforcement of regulatory rules, laws, and approved business practices; and support for taxpayers in the areas of pre-filing agreements, determination letters, and advance pricing agreements. The program activities include the following:

- *Tax Law Interpretation and Published Guidance* interprets the tax law through published guidance, technical advice, and other technical legal services.
- *General Legal Services* provides advice to the IRS on non-tax legal issues, including procurement, personnel, labor relations, equal employment opportunity, fiscal law, tort claims and damages, ethics, and conflict of interest.
- *Rulings and Agreements* applies the tax law to specific taxpayers in the form of pre-filing agreements, determination letters, advance pricing agreements, and other pre-filing determinations and advice.
- *International Regulatory Legal Support* supports Counsel’s work in tax law interpretation and rulings and agreements related to international issues.
- *Return Preparer Strategy* provides staffing, training, and direct support associated with the Return Preparer Strategy.
- *Office of Professional Responsibility* identifies, communicates, and enforces Treasury Circular 230 standards of competence, integrity, and conduct of those who represent taxpayers before the IRS, including attorneys, Certified Public Accountants (CPAs), enrolled agents, enrolled actuaries and appraisers, and other professionals.

#### Description of Performance

Tax Exempt and Government Entities (TEGE) Determination Closures include both applications for qualified status of employee retirement plans (EP) under IRC Section 401(a) and applications from various charitable entities seeking tax-exempt status (EO). The IRS reviews applications to determine eligibility and closes them upon approval or disapproval.

For FY 2014, final year-end results for TE/GE Determinations case closures were 136,746, exceeding the target of 71,219 by 92 percent. This was driven by an enterprise-wide focus in FY 2014 on closing the backlog of applications for tax-exempt status, which resulted in a 114 percent increase in Exempt Organization (EO) Determinations case closures over the planned level. Specifically, this increase was due to: 1) The implementation of processing efficiencies as recommended by a Lean Six Sigma (LSS) review of the EO determinations program; 2) Additional resources, including detailees from EO Examinations and W&I, devoted to closing the inventory backlog, which was reduced by 65 percent from the previous year; and 3) The roll-out of the new Form 1023-EZ, which takes less time to process than the more complex Form 1023. In EP, the increase in case closures over plan was due to case processing efficiencies including limiting the application review to selected focus issues. In FY 2015, case processing improvements will be maintained by continuing streamlined processing of exempt organization applications and as more customers adopt the Form

1023-EZ to apply for tax-exempt status. In addition, EP closures will be impacted by recommendations from a LSS review of the EP determinations program and the lower number of applications expected in FY 2015. These efforts will assist in achieving the FY 2015 and FY 2016 targets of 99,942 and 127,945, respectively.

### 3.1.5 – Budget and Performance Report and Plan

Dollars in Thousands

Regulatory								
Resource Level <sup>1,2</sup>	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Enacted	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Request
Appropriated Resources	\$150,480	\$164,292	\$159,293	\$158,096	\$149,319	\$156,991	\$153,249	\$173,174
Reimbursable Resources	469	574	654	660	631	792	800	900
User Fees			13,249	12,482	15,700	13,241	15,940	16,240
<b>Budget Activity Total</b>	<b>\$150,949</b>	<b>\$164,866</b>	<b>\$173,196</b>	<b>\$171,238</b>	<b>\$165,650</b>	<b>\$171,024</b>	<b>\$169,989</b>	<b>\$190,314</b>

<sup>1</sup>The FY 2009 - FY 2014 Appropriated Resources represents the approved Operating Plan including any interappropriation transfers.

<sup>2</sup>The FY 2009 - FY 2014 columns represent realized resources for reimbursable and user fees.

Regulatory								FY 2016
Measure	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Target	Request Target
TE/GE Determination Case Closures (O)	96,246	105,247	91,205	87,000	65,877	136,746	99,942	127,945

Key: O - Output/Workload Measure

## **Operations Support**

### **Appropriation Description**

The Operations Support appropriation provides funding for overall planning, direction, and support for the IRS, including shared service support related to facilities services, rent payments, printing, postage, and security. This appropriation funds headquarters policy and management activities such as corporate support for strategic planning; communications and liaison; finance; human resources; equity, diversity and inclusion; research and statistics of income; and necessary expenses for information systems and telecommunication support, including development, security, and maintenance of the IRS's information systems.

The Operations Support budget request for FY 2016 is \$4,743,258,000 in direct appropriations and 13,863 FTE. This is an increase of \$1,104,812,000, or 30.36 percent, and 1,820 FTE more than the FY 2015 Enacted level of \$3,638,446,000 and 12,043 FTE.

The measures reflected in the Operations Support appropriation align to *Goal 3: Fairly and effectively reform and modernize federal financial management, accounting, and tax systems, Objective 3.3: Pursue tax reform, implement the ACA and FATCA, and improve the execution of the tax code* of Treasury's Strategic Plan (FY 2014-2017).



## 2.1 – Budget Adjustments Table

Dollars in Thousands

Operations Support	FTE	Amount
<b>FY 2015 Enacted</b>	<b>12,043</b>	<b>\$3,638,446</b>
<b>Changes to Base:</b>		
<b>Maintaining Current Levels (MCLs):</b>		<b>\$65,512</b>
Pay Annualization		4,093
Pay Raise (1.3%)		16,004
Non-Pay		39,968
FERS Contribution Increase		5,447
<b>Efficiencies/Savings:</b>		<b>(\$32)</b>
Increase e-File Savings		(32)
<b>Reinvestments:</b>		<b>\$16,025</b>
Expand Telecom Infrastructure to Handle Increased Demand		16,025
<b>Subtotal FY 2016 Changes to Base</b>		<b>\$81,505</b>
<b>FY 2016 Current Services (Base)</b>	<b>12,043</b>	<b>\$3,719,951</b>
<b>Program Changes:</b>		
<b>Before Cap Adjustment Program Increases:</b>		
Improve Taxpayer Services	164	118,381
Leverage New Technologies to Advance the IRS Mission		3,618
Implement Information Technology (IT) Changes to Deliver Tax Credits and Other Requirements	818	305,645
Improve Upfront Identification and Resolution of Identity Theft Returns		3,322
Implement Foreign Account Tax Compliance Act (FAT CA)	140	37,380
Sustain Critical Information Technology (IT) Infrastructure	157	188,514
Address Impact of Affordable Care Act (ACA) Statutory Requirements	50	22,323
Enhance Service Options for Taxpayers	9	2,352
Restore Staffing for Essential Support Programs	152	19,938
Increase Service for Low-Income Taxpayers and Taxpayers in Need of Hardship Relief		596
Implement Merchant Card and Basis Matching		6,041
<b>Subtotal FY 2016 Before Cap Adjustment Program Increases</b>	<b>1,490</b>	<b>\$708,110</b>
<b>Total FY 2016 Request Before Cap Adjustment</b>	<b>13,533</b>	<b>\$4,428,061</b>
<b>Cap Adjustment Program Increases:</b>		
<b>Enforcement Initiatives:</b>		
Prevent Identity Theft and Refund Fraud	62	34,424
Increase Audit Coverage	61	64,456
Improve Audit Coverage of Large Partnerships		2,527
Address International and Offshore Compliance Issues		5,451
Enhance Collection Coverage	48	39,594
Leverage Data to Improve Case Selection	45	33,949
Address Compliance Risks in the Tax-Exempt Sector	13	7,951
Pursue Employment Tax and Abusive Tax Schemes		8,509
Enhance Investigations of Transnational Organized Crime (TOC)		5,367
Ensure Ethical Standards of Conduct for Practitioners		895
<b>Subtotal Enforcement Initiatives</b>	<b>229</b>	<b>\$203,123</b>
<b>Infrastructure Initiatives:</b>		
Consolidate and Modernize IRS Facilities	74	85,456
Maintain Integrity of Revenue Financial Systems	7	12,162
Implement Agency Wide Shared Services Priorities	9	10,992
Implement Federal Investigative Standards	11	3,464
<b>Subtotal Infrastructure Initiatives</b>	<b>101</b>	<b>\$112,074</b>
<b>Alcohol and Tobacco Tax and Trade Bureau Program Integrity Transfer:</b>		
Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities		
<b>Subtotal Alcohol and Tobacco Tax and Trade Bureau Program Integrity Transfer Initiative</b>		
<b>Subtotal FY 2016 Cap Adjustment</b>	<b>330</b>	<b>\$315,197</b>
<b>Subtotal FY 2016 Program Increases</b>	<b>1,820</b>	<b>\$1,023,307</b>
<b>Total FY 2016 Budget Request<sup>1</sup></b>	<b>13,863</b>	<b>\$4,743,258</b>
Dollar/FTE Change FY 2016 Budget Request over FY 2015 Enacted	1,820	\$1,104,812
Percent Change FY 2016 Budget Request over FY 2015 Enacted	15.11%	30.36%

<sup>1</sup>FTE include those funded with newly appropriated resources only. FTE funded by User Fees and Unobligated Balances from Prior Years are included in the direct civilian full-time equivalent employment line of the President's Appendix, but are not shown in the table above.

## 2.2 – Operating Levels Table

Dollars in Thousands

Operations Support Object Classification	FY 2014 Actual	FY 2015 Enacted	FY 2016 Request
11.1 Full-Time Permanent Positions	1,130,683	1,149,605	1,344,969
11.3 Other than Full-Time Permanent Positions	8,238	8,142	8,245
11.5 Other Personnel Compensation	22,772	22,711	28,571
11.8 Special Personal Services Payments	337		2
<b>11.9 Personnel Compensation (Total)</b>	<b>1,162,030</b>	<b>1,180,458</b>	<b>1,381,787</b>
12.0 Personnel Benefits	396,074	426,472	492,282
13.0 Benefits to Former Personnel	43,679	52,266	52,936
<b>Total Personnel and Compensation Benefits</b>	<b>\$1,601,783</b>	<b>\$1,659,196</b>	<b>\$1,927,005</b>
21.0 Travel	10,780	18,658	33,260
22.0 Transportation of Things	13,541	13,854	15,247
23.1 Rental Payments to GSA	611,331	614,865	637,319
23.2 Rent Payments to Others	12,721	13,282	13,533
23.3 Communications, Utilities, & Misc	327,088	287,316	339,061
24.0 Printing & Reproduction	21,427	19,661	23,016
25.1 Advisory & Assistance Services	440,158	435,185	641,675
25.2 Other Services	58,871	60,809	200,393
25.3 Purchase of Goods & Services from Govt. Accounts	83,022	78,296	92,453
25.4 Operation & Maintenance of Facilities	169,422	159,097	177,440
25.5 Research & Development Contracts		33	33
25.6 Medical Care	13,560	14,150	16,614
25.7 Operation & Maintenance of Equipment	65,482	42,741	54,974
25.8 Subsistence & Support of Persons	159	115	117
26.0 Supplies and Materials	20,589	24,537	30,099
31.0 Equipment	257,169	193,566	462,849
32.0 Land and Structures	15,117	2,821	77,899
42.0 Insurance Claims & Indemnities	379	264	271
<b>Total Non-Personnel</b>	<b>\$2,120,816</b>	<b>\$1,979,250</b>	<b>\$2,816,253</b>
<b>New Appropriated Resources</b>	<b>\$3,722,599</b>	<b>\$3,638,446</b>	<b>\$4,743,258</b>
<b>Budget Activities:</b>			
Infrastructure	845,558	829,389	973,521
Shared Services & Support	1,127,931	1,143,864	1,274,194
Information Services	1,749,110	1,665,193	2,495,543
<b>New Appropriated Resources</b>	<b>\$3,722,599</b>	<b>\$3,638,446</b>	<b>\$4,743,258</b>
<b>FTE</b>	<b>11,652</b>	<b>12,043</b>	<b>13,863</b>

## 2.3 – Appropriation Detail Table

Dollars in Thousands

Operations Support Resources	FY 2014 Actuals		FY 2015 Enacted		FY 2016 Request		Change FY 2015 to FY 2016 Request		% Change FY 2015 to FY 2016 Request	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>										
Infrastructure		\$845,558		\$829,389		\$973,521		\$144,132		17.38%
Shared Services and Support	5,097	1,127,931	5,209	1,143,864	5,553	1,274,194	344	130,330	6.60%	11.39%
Information Services	6,555	1,749,110	6,834	1,665,193	8,310	2,495,543	1,476	830,350	21.60%	49.87%
<b>Subtotal New Appropriated Resources</b>	<b>11,652</b>	<b>\$3,722,599</b>	<b>12,043</b>	<b>\$3,638,446</b>	<b>13,863</b>	<b>\$4,743,258</b>	<b>1,820</b>	<b>\$1,104,812</b>	<b>15.11%</b>	<b>30.36%</b>
<b>Other Resources:</b>										
Reimbursables	128	41,315	156	50,300	164	53,000	8	2,700	5.13%	5.37%
Offsetting Collections - Non Reimbursables										
User Fees <sup>1</sup>	156	223,162		391,225		378,525		(12,700)		-3.25%
Recovery from Prior Years		1,025								
Unobligated Balances from Prior Years		108,023		149,270		131,787		(17,483)		-11.71%
Transfers In/Out										
Resources from Other Accounts	6									
<b>Subtotal Other Resources</b>	<b>290</b>	<b>\$373,525</b>	<b>156</b>	<b>\$590,795</b>	<b>164</b>	<b>\$563,312</b>	<b>8</b>	<b>(\$27,483)</b>	<b>5.13%</b>	<b>-4.65%</b>
<b>Total Budgetary Resources</b>	<b>11,942</b>	<b>\$4,096,124</b>	<b>12,199</b>	<b>\$4,229,241</b>	<b>14,027</b>	<b>\$5,306,570</b>	<b>1,828</b>	<b>\$1,077,329</b>	<b>14.98%</b>	<b>25.47%</b>

<sup>1</sup>FTE funded by User Fees are included in the direct civilian full-time equivalent employment line of the President's Appendix.

**3F – Infrastructure** (\$973,521,000 in direct appropriations and an estimated \$800,000 from reimbursable programs): This budget activity funds administrative services related to space and housing, rent and space alterations, building services, maintenance, guard services, and non-IT equipment. The program activities include:

- *Building Delegation* oversees and manages the IRS GSA-delegated buildings, including cleaning, maintenance, utilities, protection, administrative, and recurring and one-time repair costs.
- *Rent* provides resources for all IRS rent needs.
- *Space and Housing/Non-IT Equipment* provides management of all IRS building services, maintenance, space alterations, guard services, custodial overtime, utility services needs, and non-IT equipment.
- *Security* covers building security costs related to contract guard services.

### Description of Performance

In FY 2014, there were 54 space reduction projects completed that resulted in the release of 582,877 RSF of space with Annualized Rent Savings of \$16.4 million.

In the first quarter of FY 2015, there are three space reduction projects that have been “Completed” as of November 30, 2014, totaling 32,442 RSF of space released, and resulting in Annualized Rent Savings of \$663,298. There are an additional 42 space reduction projects that are approved for implementation in FY 2015 that will result in the release of another 542,358 RSF and further Annualized Rent Savings of \$16.1 million. The total of completed and approved space reduction projects for FY 2015 is 574,800 RSF of space to be released with Annualized Rent Savings resulting in approximately \$16.8 million. Completion of a few of these projects may slip into FY 2016 due to construction delays and GSA negotiations with the lessors.

Approximately 16 space reduction projects have been approved for implementation in FY 2016, which will result in the release of 358,092 RSF of space and Annualized Rent

Savings of approximately \$9.7 million. Both FY 2015 and FY 2016 annualized rent reductions are contingent on the availability of sufficient funds in order to implement. Project identification will continue during this budget year.

The IRS also intends to place new hires in existing space and renew leases at existing sites rather than move to new locations, when cost effective. These and other actions will help offset the projected rent costs in FY 2015 and beyond.

### 3.1.6 – Budget and Performance Report and Plan

Dollars in Thousands

Infrastructure								
Resource Level <sup>1,2</sup>	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Enacted	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Request
Appropriated Resources	\$875,538	\$895,202	\$926,190	\$929,634	\$886,535	\$849,025	\$829,389	\$973,521
Reimbursable Resources	14,120	505	880	1,016	701	16,694	700	800
User Fees			23,290	57,477	5,414	17,137		
<b>Budget Activity Total</b>	<b>\$889,658</b>	<b>\$895,707</b>	<b>\$950,360</b>	<b>\$988,127</b>	<b>\$892,650</b>	<b>\$882,856</b>	<b>\$830,089</b>	<b>\$974,321</b>

<sup>1</sup>The FY 2009 - FY 2014 Appropriated Resources represents the approved Operating Plan including any interappropriation transfers.

<sup>2</sup>The FY 2009 - FY 2014 columns represent realized resources for reimbursable and user fees.

### 3G – Shared Services and Support (\$1,274,194,000 in direct appropriations, an estimated \$23,900,000 from reimbursable programs, and an estimated \$14,700,000 from user fees):

This budget activity funds policy management, IRS-wide support for research, strategic planning, communications and liaison, protection of sensitive information and the privacy of taxpayers and employees, finance, human resources, and equity, diversity, and inclusion programs. It also funds printing and postage, business systems planning, physical security, corporate training, legal services, procurement, and employee benefits programs.

The program activities include the following:

- *National Headquarters Management and Administration* directs the management activities of strategic planning, communications and liaison, finance, human resources, equity, diversity and inclusion programs, business systems planning, embedded training, and the Treasury Franchise Fund. This activity sets policies and goals, provides leadership and direction for the IRS and builds partner relationships with key stakeholders (Congress, GAO, OMB, and the Oversight Board). It provides policy guidance for conducting planning and budgeting strategies, conducting analysis of programs and investments to support strategic decision-making, and developing and managing human resources. It also includes official reception and representation expenses.
- *Real Estate and Facilities Management* provides services and supplies required to manage IRS facilities.
- *Procurement* supports the procurement function of the IRS.
- *Equity, Diversity and Inclusion Field Services* provides staffing, training, and direct support to plan and manage the IRS's Equity, Diversity and Inclusion program.
- *Communications and Liaison* coordinates local government and liaison relationships; handles congressional, state, and national stakeholder relationships and issues; coordinates crosscutting issues, including managing audits and legislative

implementation; handles national media contacts and local media relationships; and ensures IRS-wide compliance with disclosure and privacy laws.

- *Employee Support Services* plans and manages financial services, including relocation, travel, purchase cards, corporate express, and employee clearances.
- *Treasury Complaint Centers* plan and manage the Treasury Complaint Centers.
- *Shared Support not provided by Agency-Wide Shared Services* provides resources for shared cross-functional support, such as copiers, postage meters, shredders, courier services, and post office boxes.
- *Printing and Postage – Media and Publications* provides operating divisions with printing and postage, including shipping of taxpayer and internal use materials.
- *Statistics of Income* provides resources for researching annual income, financial, and tax data from tax returns filed by individuals, corporations, and tax-exempt organizations.
- *Research* provides resources for market-based research to identify compliance issues, for conducting tests of treatments to address noncompliance, and for the implementation of successful strategies to address taxpayer noncompliance.
- *Security Administration and Management* manages and oversees the staffing, training, equipment, and direct support for the protection of IRS employees, facilities, and assets, and the protection and proper use of identity information.
- *Wage and Investment (W&I) Business Modernization Support* provides staffing, training, and direct support for W&I's enterprise-wide business modernization efforts, including CADE 2, and Account Management Services (AMS) technology solutions, and re-engineered business processes.
- *Benefit Payments* provides resources to fund Workers' Compensation benefits and Unemployment Compensation for federal employee payments.
- *Shared Services* provides additional services, such as the Public Transit Subsidy.

### Description of Performance

Through support activities that include management and administration of human resources, protection of sensitive information and the privacy of taxpayers and employees, physical security, and research, the IRS continues to provide shared services to all IRS programs.

### *Human Capital*

Employees are the IRS's greatest asset and the IRS is committed to building a diverse, and high performing workforce by recruiting and hiring top talent. The IRS has made significant progress toward achieving the strategic goal of becoming the "Best Place to Work in Government" and fostering high employee engagement. In FY 2014, the IRS:

- Continued to expand Geographic Leadership Communities (GLCs), which are now available in 40 geographic areas. The GLCs are cross-functional groups of executives that host development opportunities and community building workshops in specific geographic areas to improve engagement and networking and better leverage local resources and talent.
- Conducted Town Hall meetings at various IRS locations across the country and issued 83 Commissioner and Deputy Commissioner all-employee email messages.
- Continued the Leadership Succession Review (LSR) program to ensure a strong, cohesive leadership development and succession planning approach from frontline to executive development. Through the four-stage LSR process, employees and managers are assessed against the IRS leadership competencies on their readiness to compete for and be successful at their designated "Next Step" leadership level. Approximately 26,900 IRS employees participated in LSR and the IRS was recognized by The Training Officers' Consortium with the *2014 Leadership Development Award* for its Leadership Succession Review Process.
- Revamped the Commissioners' Corner section on the IRS intranet to showcase Commissioner news and employee feedback and to acknowledge employees' input that resulted in organizational change.
- Exceeded the OPM and Treasury hiring cycle time requirement of 80 days by 9 days. This was done by leveraging technology and improving hiring strategies, the IRS processed more than 330,000 applications and 64,000 competitive and non-competitive personnel actions. Additionally, the IRS deployed a new application designed to improve the Personal Identification Verification pre-screening process of potential new hires.
- Participated in 167 targeted virtual events to increase and attract persons with disabilities, veterans, and related organizations. The IRS' efforts yielded these results:
  - The IRS exceeded the 10 percent veteran hiring rate and 2 percent disabled veteran hiring rate goals; 11.35 percent of external hires were veterans and 5.36 percent were disabled veterans.
  - The IRS exceeded the 10 percent disability hiring rate goal; 10.82 percent of external hires were disabled and 1.73 percent had targeted disabilities.

- Expanded the IRS Veteran Internship Program to include 47 new unpaid interns, 3 of whom were converted to full time positions, and implemented the Vets-to-Feds Program sponsored by OPM and the Department of Veterans Affairs.
- Conducted an in-depth review of the three classes taught at the World Services for the Blind (WSB) facility and modified the class schedule, reducing classroom instruction time by one-third. World Services for the Blind is a program that recruits individuals who are blind or have a visual impairment for IRS training classes and careers, and assist in transitioning them into IRS workforces. In FY 2014, WSB recruited 30 students; 29 were admitted to classes and 21 completed the classes.

The IRS will continue to support its mission by investing in human capital strategies and tools for engaging, recruiting, hiring, developing, and retaining a highly-skilled and high-performing workforce.

### *Security*

The security of IRS employees and facilities are critical to the IRS mission. The IRS continues to provide the necessary safety and security measures to protect its employees and facilities and proactively identify new threats and address future risks. In FY 2014, the IRS:

- Renewed 22,005 employee Smart Identification cards throughout the U.S., including remote posts of duty. The timely renewal of Smart Identification cards was achieved by ensuring cards were renewed prior to expiration and resulted in cost avoidance of \$700,000 for reenrollment and travel.
- Implemented the certificate rekey process for IRS Smart Identification credentials and met the FY 2014 goal by rekeying 4,002 employees and contractors. Additionally, the IRS implemented an online certificate rekey tool to reach more individuals remotely, resulting in cost avoidance of \$156,000 for reenrollment and travel by ensuring timely rekeying of cards as required on a 3 year basis.
- Closed four enterprise-wide IT security vulnerabilities related to auditing, penetration testing, security of shared services, and procurements of commercial off the shelf products.
- Initiated appropriate outreach to ensure that frontline employees are aware of current Potentially Dangerous Taxpayer (PDT) and Caution Upon Contact (CAU) designation processes as well as any changes that are made to the process in the future.

### *Research*

The IRS National Research Program (NRP) continued to analyze reporting compliance data for various taxpayer populations, including Individual Income Tax, Corporate Income Tax, Employment Taxes, and Fuel Excise Taxes. NRP results enhance taxpayer service by improving IRS processes to reduce taxpayer burden and support enforcement activities by identifying issues with high risks for noncompliance. The IRS Joint Statistical Research Program (JSRP) uses Statistics of Income and IRS administrative tax data, to study the effects of existing tax policies on individuals, businesses, and the economy. The JSRP is responsible for several research projects that require collaborating with academia, non-profit research

organizations, and other government agencies on important issues affecting tax administration. In FY 2014, the JSRP expanded the IRS Databank, which provides a new way of looking at tax data at the individual level, rather than the return level. This key difference facilitates better understanding of the impact of taxes on individuals. Another research effort under this program demonstrated a relationship between taxpayer searches for IRS and third-party information on capital gains reporting requirements and the taxpayer's capital gain realizations and reporting activity. Other current research focuses on the effectiveness of tax expenditures and the effect of tax rates on work-force participation.

### 3.1.7 – Budget and Performance Report and Plan

Dollars in Thousands

Shared Services and Support									
Resource Level <sup>1,2</sup>	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Enacted	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Request	
Appropriated Resources	\$1,269,642	\$1,311,127	\$1,291,568	\$1,214,514	\$1,111,317	\$1,188,067	\$1,143,864	\$1,274,194	
Reimbursable Resources	20,763	20,315	19,957	31,486	17,175	19,887	22,700	23,900	
User Fees		17,887	4,588	14,938	33,826	7,819	27,400	14,700	
<b>Budget Activity Total</b>	<b>\$1,290,405</b>	<b>\$1,349,329</b>	<b>\$1,316,113</b>	<b>\$1,260,938</b>	<b>\$1,162,318</b>	<b>\$1,215,773</b>	<b>\$1,193,964</b>	<b>\$1,312,794</b>	

<sup>1</sup>The FY 2009 - FY 2014 Appropriated Resources represents the approved Operating Plan including any interappropriation transfers.

<sup>2</sup>The FY 2009 - FY 2014 columns represent realized resources for reimbursable and user fees.

**3H – Information Services** (\$2,495,543,000 in direct appropriations, \$28,300,000 in reimbursable resources, and an estimated \$363,825,000 from user fees): This budget activity funds staffing, equipment, and related costs to manage, maintain, and operate the information systems critical to the support of the tax administration programs. This includes the design and operation of IT security controls and disaster recovery planning. This budget activity funds the development and maintenance of the millions of lines of programming code that support all aspects and phases of tax processing and the operation and administration of mainframes, servers, personal computers, networks, and a variety of management information systems. IT systems and data are key to all IRS functions. The FY 2015 reductions increase risks and may delay critical system upgrades and the maintenance required for a safe and secure IT system, which is foundational to accomplish IRS's mission and to allow the IRS to interact with the tax paying public on their terms.

Information Technology (IT) is responsible for information systems and technology, ranging from cyber security and networks to applications development and end user equipment and services. The program activities include the following:

- *ACA – Program Management Office (PMO)* manages the strategic planning, development, and implementation of new information systems in support of the business requirements associated with healthcare reform.
- *Application Development* performs the analysis, design, development, testing, and implementation of about 550 applications supporting critical tax processing, management information reporting, and financial management support systems for the IRS. This program also supports external trading partner data exchanges with federal government agencies, state and local governments, and other third party entities. The program controls application source code and deploys applications to the production environment.



- *Cybersecurity* delivers IT security services and ensures IRS compliance with federal statutory and regulatory requirements governing confidentiality, integrity, and availability of IRS electronic systems, services, and data. Cybersecurity tracks compliance, continuously monitors risk, and provides remediation to manage the IRS's IT Security Program in accordance with the Federal Information Security Management Act.
- *Enterprise Operations* designs, develops, and maintains IT that supports critical tax processing, management information reporting, and financial management support systems for the IRS. The program supports data exchanges with external organizations, such as other federal agencies, state and local governments, and external entities (e.g., employers and banks), and includes a comprehensive disaster recovery capability to ensure continued operations in the event of a major interruption of service.
- *Enterprise Program Management Office (EPMO)* provides oversight and project integration into daily IT processes for large-scale development, modernization, and enhancement projects. It enables a coordinated, cross functional project planning, implementation, and performance assessment effort to improve the quality, cost, and delivery schedule of IT systems.
- *Enterprise Services* plans and manages service and delivery methods used across the IT organization, including demand analysis, enterprise architecture, configuration management, project reporting, enterprise life cycle management, release management, systems engineering, dashboard reporting, and internal management.
- *IT Executive Oversight* provides support to the Office of the Chief Technology Officer as well as his direct reports for equity, diversity, and inclusion, and the Director, Stakeholder Management (including Communications Services and Program Oversight). The program provides executive direction for the IT organization, enabling IT to be a customer-focused supplier of IT solutions that are responsive to customer business priorities and meet functional and operational needs effectively.
- *IT Infrastructure* provides a centrally managed investment program for the replacement of IRS IT infrastructure that has reached or surpassed its useful life cycle.
- *Management Services* provides for the design, development, delivery, and evaluation of a wide range of human resource programs for the IT organization. These programs include workforce planning, recruitment and retention, career management, performance management, labor/employee relations, position management, workplace improvement, succession management, and service-wide IT training and education.
- *Strategy and Planning* delivers the Enterprise IT investment strategy and portfolio management, addressing a broad spectrum of functions coordinated through four divisions: Business Planning and Risk Management ensures effective demand and risk management, overseeing Enterprise Intake and leveraging the Integrated Release Plan to support risk-based decisions; Financial Management Services, IT's link to the Chief Financial Officer, formulates and executes IT budgets, prepares fiscal policy, and provides financial services to the IT organization; Investment and Portfolio Management and Oversight monitors investments currently executing in the control

phase of the Capital Planning and Investment Control process as well as investments and projects that have completed implementation; and, Strategic Sourcing strategically manages IT acquisitions and vendors to maximize the value of the IRS's investments while simultaneously minimizing business risk.

- *Treasury Franchise Fund (TFF)* is a centralized functional area that pays for services provided through the Treasury Franchise Fund.
- *User and Network Services* provides telecommunications and desktop support services that allow the IRS to fulfill its missions. This includes the operation of equipment and services to meet business user needs and the execution of routine changes for scheduled and unscheduled modifications to the telecommunications infrastructure and applications. It addresses all phases of engineering, acquisition, implementation, and operation of telecommunications and desktop systems and services, including voice, video, and data communications.

#### Description of Performance

The IRS taxpayer service and enforcement programs rely heavily on information systems that fall into the non-business systems modernization (non-BSM) major products categories. These systems process tax and information returns, account for tax revenues collected, send bills for taxes owed, issue refunds, assist in the selection of tax returns for audit, and provide telecommunication services for all business activities, including the public's toll-free access to tax information.

In addition, in FY 2014, the IRS provided new applications and services to make it easier for taxpayers to get assistance and secure tax information.

- Continued to expand on its use of video technology that allows assistors to interact with taxpayers virtually at selected IRS walk-in Taxpayer Assistance Centers (TAC). The Virtual Service Delivery (VSD) project allowed taxpayers to have face-to-face interactions with IRS assistors working in remote locations using video monitors. In FY 2014, nearly 8,000 taxpayers were assisted through this service vehicle, an increase of 19 percent for the fiscal year and 14 percent for the filing season. This was due, in part, to the repositioning of support equipment enabling more location to provide VSD.
- Provided assistance to taxpayers at Taxpayer Assistance Center and Volunteer Income Tax Assistance sites through Facilitated Self Assistance (FSA) kiosks. FSA enables taxpayers to prepare individual tax returns and learn about Free File options in an environment where live assistance is still available, creating a bridge to help taxpayers migrate from face-to-face service to convenient, lower cost methods available on the IRS website. FSA also introduces taxpayers to new tools such as the *Get Transcript* application, available via IRS.gov, and *Direct Pay*, which provides taxpayers with an electronic online payment option. FSA usage in filing season 2014 was the highest ever with more than 169,000 returns prepared compared to over 82,000 during the same time last year, a 106 percent increase.
- Deployed Electronic Authentication (eAuth) Release 2.0, which allows the IRS to perform secure identity verification for online users, and allows them to establish their

profile and access the business application with a fast turnaround. It also helps reduce costs through a reduction in calls and visits to taxpayer assistance centers. The eAuth has handled over 13 million requests (Jan-Sep 2014) by taxpayers to gain access.

In FY 2014, the IRS had a consistent record managing cost and schedule variance for an average of 26 non-BSM, information service projects that are part of major programs. Cost variances are primarily attributed to cost underruns, which outnumbered overruns by more than 3:1 in FY 2014. These projects comprise a significant component of the overall IT funding total and receive the same management approach and scrutiny as the more public BSM activity.

Non-BSM Major Projects		
Fiscal Year	Percent Within +/- 10% Cost Variance	Percent Within +/- 10% Schedule Variance
2014	68%	97%

In FY 2015 and beyond, the IRS will continue to focus efforts on expanding IRS capabilities to identify fraudulent returns and prevent identity theft, enhance cyber monitoring and IT security controls, expand e-services to taxpayers and practitioners, and further modernize and consolidate IT infrastructure. In addition to supporting required changes for filing season, major initiatives for 2015 include delivering ACA and FATCA releases.

### 3.1.8 – Budget and Performance Report and Plan

Dollars in Thousands

Information Services									
Resource Level <sup>1,2</sup>	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Enacted	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Request	
Appropriated Resources	\$1,721,831	\$1,877,555	\$1,838,958	\$1,803,268	\$1,803,091	\$1,831,050	\$1,665,193	\$2,495,543	
Reimbursable Resources	14,612	17,231	16,286	5,154	8,850	4,734	26,900	28,300	
User Fees	9,543	36,081	26,764	59,823	145,036	198,206	363,825	363,825	
<b>Budget Activity Total</b>	<b>\$1,745,986</b>	<b>\$1,930,867</b>	<b>\$1,882,008</b>	<b>\$1,868,245</b>	<b>\$1,956,977</b>	<b>\$2,033,990</b>	<b>\$2,055,918</b>	<b>\$2,887,668</b>	

<sup>1</sup>The FY 2009 - FY 2014 Appropriated Resources represents the approved Operating Plan including any interappropriation transfers.

<sup>2</sup>The FY 2009 - FY 2014 columns represent realized resources for reimbursable and user fees.

## Business Systems Modernization

### Appropriation Description

The Business Systems Modernization (BSM) appropriation provides resources for the planning and capital asset acquisition of IT to modernize the IRS business systems.

The BSM budget request for FY 2016 is \$379,178,000 in direct appropriations and 576 FTE. This is an increase of \$89,178,000, or 30.75 percent, and 178 FTE more than the FY 2015 Enacted level of \$290,000,000 and 398 FTE.

The performance measures reflected in the Enforcement appropriation support and align to *Goal 3: Fairly and effectively reform and modernize federal financial management, accounting, and tax systems, Objective 3.3: Pursue tax reform, implement the ACA and FATCA, and improve the execution of the tax code* of Treasury's Strategic Plan (FY 2014-2017).

### 2.1 – Budget Adjustments Table

Dollars in Thousands

Business Systems Modernization	FTE	Amount
FY 2015 Enacted	398	\$290,000
Changes to Base:		
Maintaining Current Levels (MCLs):		\$1,223
Pay Annualization		197
Pay Raise (1.3%)		770
FERS Contribution Increase		256
<b>Subtotal FY 2016 Changes to Base</b>		<b>\$1,223</b>
<b>FY 2016 Current Services (Base)</b>	<b>398</b>	<b>\$291,223</b>
Program Changes:		
Before Cap Adjustment Program Increases:		
Leverage New Technologies to Advance the IRS Mission	178	87,955
<b>Subtotal FY 2016 Program Increases</b>	<b>178</b>	<b>\$87,955</b>
<b>Total FY 2016 Budget Request<sup>1</sup></b>	<b>576</b>	<b>\$379,178</b>
Dollar/FTE Change FY 2016 Budget Request over FY 2015 Enacted	178	\$89,178
Percent Change FY 2016 Budget Request over FY 2015 Enacted	44.72%	30.75%

<sup>1</sup>FTE include those funded with newly appropriated resources only. FTE funded by User Fees and Unobligated Balances from Prior Years are included in the direct civilian full-time equivalent employment line of the President's Appendix, but are not shown in the table above.

## 2.2 – Operating Levels Table

Dollars in Thousands

Business Systems Modernization Object Classification	FY 2014 Actual	FY 2015 Enacted	FY 2016 Request
11.1 Full-Time Permanent Positions	38,100	44,738	66,263
11.3 Other than Full-Time Permanent Positions	507	628	638
11.5 Other Personnel Compensation	751	1,154	1,833
<b>11.9 Personnel Compensation (Total)</b>	<b>39,358</b>	<b>46,520</b>	<b>68,734</b>
12.0 Personnel Benefits	11,013	12,352	18,762
<b>Total Personnel and Compensation Benefits</b>	<b>\$50,371</b>	<b>\$58,872</b>	<b>\$87,496</b>
21.0 Travel	102	647	2,444
22.0 Transportation of Things			1
23.3 Communications, Utilities, & Misc		2	70
24.0 Printing & Reproduction			6
25.1 Advisory & Assistance Services	83,740	198,145	246,924
25.2 Other Services	94	156	1,089
25.3 Purchase of Goods & Services from Govt. Accounts			18
25.4 Operation & Maintenance of Facilities			88
25.7 Operation & Maintenance of Equipment	300	1,500	2,046
26.0 Supplies and Materials	4	32	98
31.0 Equipment	10,624	30,646	38,898
<b>Total Non-Personnel</b>	<b>\$94,864</b>	<b>\$231,128</b>	<b>\$291,682</b>
<b>New Appropriated Resources</b>	<b>\$145,235</b>	<b>\$290,000</b>	<b>\$379,178</b>
<b>Budget Activities:</b>			
IT Investments	145,235	290,000	379,178
<b>New Appropriated Resources</b>	<b>\$145,235</b>	<b>\$290,000</b>	<b>\$379,178</b>
<b>FTE</b>	<b>337</b>	<b>398</b>	<b>576</b>

## 2.3 – Appropriation Detail Table

Dollars in Thousands

Business Systems Modernization Resources	FY 2014 Actuals		FY 2015 Enacted		FY 2016 Request		Change FY 2015 to FY 2016 Request		% Change FY 2015 to FY 2016 Request	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>										
Business Systems Modernization	337	\$145,235	398	\$290,000	576	\$379,178	178	\$89,178	44.72%	30.75%
<b>Subtotal New Appropriated Resources</b>	<b>337</b>	<b>\$145,235</b>	<b>398</b>	<b>\$290,000</b>	<b>576</b>	<b>\$379,178</b>	<b>178</b>	<b>\$89,178</b>	<b>44.72%</b>	<b>30.75%</b>
<b>Other Resources:</b>										
Reimbursables										
Offsetting Collections - Non Reimbursables										
User Fees										
Recovery from Prior Years		2,272								
Unobligated Balances from Prior Years <sup>1</sup>	139	98,578		226,127		226,866		739		0.33%
Transfers In/Out										
Resources from Other Accounts										
<b>Subtotal Other Resources</b>	<b>139</b>	<b>\$100,850</b>		<b>\$226,127</b>		<b>\$226,866</b>		<b>\$739</b>		<b>0.33%</b>
<b>Total Budgetary Resources</b>	<b>476</b>	<b>\$246,085</b>	<b>398</b>	<b>\$516,127</b>	<b>576</b>	<b>\$606,044</b>	<b>178</b>	<b>\$89,917</b>	<b>44.72%</b>	<b>17.42%</b>

<sup>1</sup>FTE funded by Unobligated Balances from Prior Years are included in the direct civilian full-time equivalent employment line of the President's Appendix.

**3I – Business Systems Modernization (\$379,178,000 in direct appropriations):** This budget activity funds the planning and capital asset acquisition of information technology (IT) to modernize IRS business systems, including labor and related contractual costs.

Business Systems Modernization (BSM) uses best practices and expertise in business solutions and internal management from the IRS, businesses, and technology sectors to develop a world-class tax administration system. The program provides value to taxpayers, the business community, and government and it plays an integral role in reducing the tax gap. BSM has delivered improved taxpayer service, electronic filing, and data analysis capabilities, and it has maintained strong performance in delivering projects within planned cost, schedule, and scope estimates.

The following projects are supported by the FY 2016 BSM request of \$379.2 million:

*CADE 2 (Taxpayer Account Database):* The CADE 2 program implements a single, data-centric solution that provides daily processing of taxpayer accounts. A major component of the CADE 2 program is a modernized relational database and comprehensive data model for all individual taxpayers that provide the foundation for more efficient and effective tax administration. In Transition State 2 of the CADE 2 initiative, the modernized database will become IRS's authoritative source for taxpayer account data, as it begins to address core IMF financial material weakness (FMW) requirements for individual taxpayer accounts. Existing financial reports will be modified to take into account the increased level of detail and accuracy of data in the CADE 2 database. Also, CADE 2 data will be made available for access by downstream systems such as the Integrated Data Retrieval System (IDRS) for online transaction processing by IRS customer service representatives. It will enable analytical reporting for more meaningful business intelligence and expanded opportunities to increase compliance.

*Enterprise Case Management (ECM):* Enterprise Case Management will address the need to modernize and upgrade aging IRS case management systems. These resources will provide for an enterprise solution using a Commercial Off-the Shelf (COTS) product for performing standard case management functions, an infrastructure platform, and a common service that case management applications will leverage.

*Modernized e-File (MeF):* MeF provides a standard filing structure for all IRS return types, a robust platform that meets performance and capacity needs, enhanced and up-to-date technologies, and customer service benefits that are of great appeal to external customers and stakeholders. With MeF, the IRS stores all tax return data in XML format in a Modernized Tax Return Database (MTRDB), allowing all authorized viewers of the data to see an entire tax return online. Once fully implemented, all tax returns and transmission files will be standardized and adhere to IRS rules/schemas.

*Return Review Program (RRP):* RRP delivers an integrated and unified system that enhances IRS capabilities to detect, resolve, and prevent criminal and civil tax noncompliance. The RRP provides a flexible and accessible system capable of supporting a cross-functional approach to address criminal and civil tax noncompliance. In addition, the RRP allows analysis and support of complex case processing requirements for compliance and criminal investigation programs during prosecution, revenue protection, accounts management, and taxpayer communications processes.

*Web Applications (formerly Enhance Online Services (OLS)):* Web Applications will simplify the taxpayer's online experience, provide secure digital communications, and add more interactive capabilities to existing web self-service products. This will allow taxpayers to resolve more issues online, requiring fewer direct interactions with the IRS over the telephone and in person.

*Architecture, Integration and Management (AI&M):* The AI&M program provides engineering management capabilities essential to delivering a program of BSM's magnitude and complexity. It also delivers essential IRS systems strategy, architecture, and engineering capabilities for the major modernization projects across all technology platforms: IT Infrastructure, Business Applications, Data Management, and IT Security. The AI&M program translates enterprise and project objectives into targeted, actionable investments to provide the necessary framework and direction for a cohesive, successful modernization.

*Core Infrastructure:* The Core Infrastructure program provides mission-critical services for designing, engineering, testing, and deploying standardized, consolidated, virtual, and secure modernized development and production environments for use by BSM projects.

The IRS is modernizing taxpayer applications to take advantage of web-based technologies that allow taxpayers to communicate with the IRS through the Internet using commercially available technology. The modernized infrastructure provides a complete environment (hardware, software, processes, and management) for developing, testing, deploying, operating, and monitoring both customer and internal applications in support of business practices. This includes continuing to update the web portal environment and standardizing services, security, and operations management.

This approach facilitates the IRS's ability to develop a shared infrastructure and common business service solutions that are usable across multiple BSM projects.

*Management Reserve:* The management reserve allows the IRS some flexibility to cover unanticipated cost adjustments.

*Labor and support:* This activity provides the labor and support costs associated with the development of projects within the BSM portfolio.

Description of Performance

The IRS’s modernization efforts focus on building and deploying advanced information technology systems, processes, and tools to improve efficiency and productivity.

For the Business Systems Modernization program (BSM), the IRS reports two budget level measures that track the percentage of major BSM projects that are within +/-10 percent of the Cost and Schedule variance threshold. As listed in the tables below, there have been four project releases currently in progress or delivered to date in FY 2014 and the IRS is below its cost variance targets.

In FY 2014, two out of three (66.7 percent) BSM project segments met the cost variance threshold. The one project segment that did not meet the cost variance threshold is Modernized e-File (MeF) Release 9 (R9) Milestone (MS) 4b.

- MeF R9 MS 4b funds were realigned to cover hardware and software costs that were planned and expected for MeF R9 MS 4a, but did not materialize until MeF R9 MS 4b.

Cost Variance for Project Segments Completed in FY 2014							
Project	Release	MS	Planned Cost	Current Cost	Variance (\$000)	Variance (%)	Within Acceptable
MeF	R9	4b	23,000	26,300	3,300	14%	NO
MeF	R9	5	7,300	8,000	700	10%	YES
RRP	TS1	4b	21,303	21,303	0	0%	YES

In FY 2014, all three BSM project segments (100 percent) met the schedule variance threshold, as improved planning and project management continues to have a positive effect on the projects.

Schedule Variance for Project Segments Completed in FY 2014							
Project	Release	MS	Planned Finish	Current Finish	Variance (days)	Variance (%)	Within Acceptable
MeF	R9	4b	12/27/13	12/27/13	0	0%	YES
MeF	R9	5	05/14/14	05/15/14	1	1%	YES
RRP	TS1	4b	02/26/14	02/26/14	0	0%	YES



Starting in FY 2015, the IRS will expand this measure to include all major investments (BSM and non-BSM) assessing cost estimation and management capabilities at a broader major investment level.

In FY 2015 and FY 2016, the IRS expects to meet a target of 90 percent for Cost and Schedule Variance through improved project management and oversight. Historical data recorded over the past two years for the new metric reveals an average cost and schedule variance within the range of the 90 percent target.

### 3.1.9 – Budget and Performance Report and Plan

Dollars in Thousands

Business Systems Modernization									
Resource Level <sup>1,2</sup>	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Enacted	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Request	
Appropriated Resources	\$229,914	\$263,897	\$263,369	\$330,210	\$312,938	\$312,938	\$290,000	\$379,178	
Reimbursable Resources									
User Fees			88,948						
<b>Budget Activity Total</b>	<b>\$229,914</b>	<b>\$263,897</b>	<b>\$352,317</b>	<b>\$330,210</b>	<b>\$312,938</b>	<b>\$312,938</b>	<b>\$290,000</b>	<b>\$379,178</b>	

<sup>1</sup>The FY 2009 - FY 2014 Appropriated Resources represents the approved Operating Plan including any interappropriation transfers.

<sup>2</sup>The FY 2009 - FY 2014 columns represent realized resources for reimbursable and user fees.

Business Systems Modernization								
Measure	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Target	FY 2016 Request Target
Percent of BSM Projects within +/- 10% Cost Variance (E)	60.0%	40.0%	71.4%	50.0%	0.0%	66.7%	90.0%	90.0%
Percent of BSM Projects within +/- 10% Schedule Variance (E)	90.0%	100.0%	100.0%	90.0%	83.3%	100.0%	90.0%	90.0%

Key: E - Efficiency Measure

## Section 4 – Supplemental Information

### 4.1 – Summary of Capital Investments

Dollars in Thousands

Internal Revenue Service FY 2016 Congressional Justification Submission Capital Investments							
Investments / Funding Source	FY 2013 Actuals	FY 2014 Actuals	% Change from FY13 to FY14	FY 2015 Enacted	% Change from FY14 to FY15	FY 2016 Request	% Change from FY15 to FY16
<b>Major IT Investments</b>							
Account Management Services (AMS)	\$17,018	\$14,648	-13.9%	\$17,728	21.0%	\$31,529	77.8%
IRS Operations Support 015-45-0919	17,018	14,648		17,728		31,529	
Affordable Care Act (ACA)	\$248,336	\$341,352	37.5%	\$373,000	9.3%	\$396,620	6.3%
IRS Operations Support 015-45-0919	178,628	155,611		173,000		326,620	
IRS Operations Support User Fees 015-45-5432	69,708	185,741		200,000		70,000	
CADE 2	\$146,506	\$102,560	-30.0%	\$130,930	27.7%	\$155,073	18.4%
IRS Operations Support 015-45-0919	6,053	4,939		6,925		7,054	
IRS BSM 015-45-0921	140,453	97,621		124,005		148,019	
e-Services	\$10,649	\$10,349	-2.8%	\$5,250	-49.3%	\$5,337	1.7%
IRS Operations Support 015-45-0919	10,649	10,349		5,250		5,337	
Electronic Fraud Detection System (EFDS)	\$18,132	\$17,785	-1.9%	\$18,566	4.4%	\$18,910	1.9%
IRS Operations Support 015-45-0919	14,502	14,523		15,305		15,586	
IRS BSM 015-45-0921		002		000		000	
IRS EITC 015-45-0919-0	3,630	3,260		3,260		3,323	
Foreign Account Tax Compliance Act (FATCA)	\$8,575	\$41,534	384.3%	\$62,607	50.7%	\$49,541	-20.9%
IRS Operations Support 015-45-0919	4,906	41,534		62,607		49,541	
IRS Operations Support User Fees 015-45-5432	3,669	000		000		000	
Individual Master File (IMF)	\$11,293	\$12,900	14.2%	\$12,907	0.0%	\$13,132	1.7%
IRS Operations Support 015-45-0919	11,293	12,900		12,907		13,132	
Information Reporting and Document Matching (IRDM)	\$18,892	\$10,595	-43.9%	\$5,512	-48.0%	\$5,603	1.7%
IRS Operations Support 015-45-0919	18,892	10,595		5,512		5,603	
IRS End User Systems and Services (EUSS)	\$194,595	\$177,774	-8.6%	\$187,532	5.5%	\$204,374	9.0%
IRS Operations Support 015-45-0919	193,394	177,728		187,532		204,374	
IRS EITC 015-45-0919-0	013	013		000		000	
IRS Operations Support User Fees 015-45-5432	1,188	033		000		000	
IRS Main Frames and Servers Services and Support (MSSS)	\$473,912	\$555,584	17.2%	\$535,929	-3.5%	\$754,484	40.8%
IRS Operations Support 015-45-0919	460,297	532,726		374,773		460,706	
IRS BSM 015-45-0921	13,616	16,996		16,809		19,432	
IRS Operations Support User Fees 015-45-5432	000	5,862		144,347		274,347	
IRS Telecommunications Systems and Support	\$297,413	\$271,737	-8.6%	\$247,560	-8.9%	\$289,695	17.0%
IRS Operations Support 015-45-0919	286,958	270,242		246,488		288,602	
IRS EITC 015-45-0919-0	1,072	1,073		1,073		1,093	
IRS Operations Support User Fees 015-45-5432	9,383	422		000		000	
Integrated Customer Communications Environment (ICCE)	\$15,136	\$13,867	-8.4%	\$13,066	-5.8%	\$13,295	1.8%
IRS Operations Support 015-45-0919	15,136	13,867		13,066		13,295	
Integrated Data Retrieval Systems (IDRS)	\$15,951	\$15,314	-4.0%	\$15,973	4.3%	\$24,560	53.8%
IRS Operations Support 015-45-0919	15,951	15,314		15,973		24,560	
Integrated Financial System/CORE Financial System (IFS)	\$16,705	\$15,227	-8.8%	\$14,195	-6.8%	\$14,463	1.9%
IRS Operations Support 015-45-0919	16,705	15,227		14,195		14,463	
Integrated Submission and Remittance Processing System (ISRP)	\$11,891	\$10,230	-14.0%	\$10,202	-0.3%	\$10,391	1.9%
IRS Operations Support 015-45-0919	\$11,891	\$10,230		\$10,202		\$10,391	

## 4.1 – Summary of Capital Investments (Continued)

Dollars in Thousands

Internal Revenue Service FY 2016 Congressional Justification Submission Capital Investments							
Investments / Funding Source	FY 2013 Actuals	FY 2014 Actuals	% Change from FY13 to FY14	FY 2015 Enacted	% Change from FY14 to FY15	FY 2016 Request	% Change from FY15 to FY16
Internal Revenue Service.gov (IRS.gov)	\$84,930	\$71,643	-15.6%	\$73,496	2.6%	\$82,065	11.7%
IRS Operations Support 015-45-0919	44,130	68,572		73,496		82,065	
IRS BSM 015-45-0921	1,636	3,071		000		000	
IRS Operations Support User Fees 015-45-5432	39,165	000		000		000	
Modernized e-File (MeF)	\$72,479	\$48,956	-32.5%	\$76,821	56.9%	\$84,876	10.5%
IRS Operations Support 015-45-0919	20,312	25,068		46,936		47,799	
IRS BSM 015-45-0921	52,167	23,888		29,885		37,077	
Return Review Program (RRP)	\$42,849	\$48,074	12.2%	\$63,599	32.3%	\$73,228	15.1%
IRS Operations Support 015-45-0919	22,879	007		16,219		16,517	
IRS BSM 015-45-0921	000	48,065		47,380		56,710	
IRS Operations Support User Fees 015-45-5432	19,970	003		000		000	
Service Center Recognition/Image Processing System (SCRIPS)	\$12,062	\$10,379	-13.9%	\$9,079	-12.5%	\$9,244	1.8%
IRS Operations Support 015-45-0919	12,062	10,379		9,079		9,244	
Web Applications	000	000	N/A	\$16,540	N/A	\$23,586	42.6%
IRS BSM 015-45-0921	000	000		16,540		23,586	
<b>Subtotal, Major IT Investments</b>	<b>\$1,717,325</b>	<b>\$1,790,508</b>	<b>4.3%</b>	<b>\$1,890,492</b>	<b>5.6%</b>	<b>\$2,260,008</b>	<b>19.5%</b>
<b>Non-Major IT Investments</b>	<b>\$567,503</b>	<b>\$556,641</b>	<b>-1.9%</b>	<b>\$599,105</b>	<b>7.6%</b>	<b>\$976,343</b>	<b>63.0%</b>
<b>TOTAL IT Investments</b>	<b>\$2,284,828</b>	<b>\$2,347,149</b>	<b>2.7%</b>	<b>\$2,489,596</b>	<b>6.1%</b>	<b>\$3,236,352</b>	<b>30.0%</b>
<b>Major Non-IT Investments</b>							
Criminal Investigations Capital Assets	\$399	\$507	27.0%	\$300	-40.9%	\$1,044	248.0%
IRS Enforcement (One Year)	000	000		000		744	
IRS Enforcement (Reimbursable)	000	000		000		000	
IRS Enforcement (Forfeiture)	399	507		300		300	
Security Equipment	\$1,684	\$1,476	-12.3%	\$1,100	-25.5%	\$191	-82.6%
IRS Operations Support (One Year)	1,684	1,476		1,100		191	
Leasehold Improvements	\$5,989	\$15,927	165.9%	\$23,245	45.9%	\$86,904	273.9%
IRS Operations Support (One Year)	5,989	15,927		23,245		86,904	
<b>Total Major Non-IT Investments</b>	<b>\$8,073</b>	<b>\$17,911</b>	<b>121.9%</b>	<b>\$24,645</b>	<b>37.6%</b>	<b>\$88,139</b>	<b>257.6%</b>
<b>Total Capital Investments</b>	<b>\$2,292,900</b>	<b>\$2,365,060</b>	<b>3.1%</b>	<b>\$2,514,241</b>	<b>6.3%</b>	<b>\$3,324,491</b>	<b>32.2%</b>

#### **4A – Capital Investment Strategy**

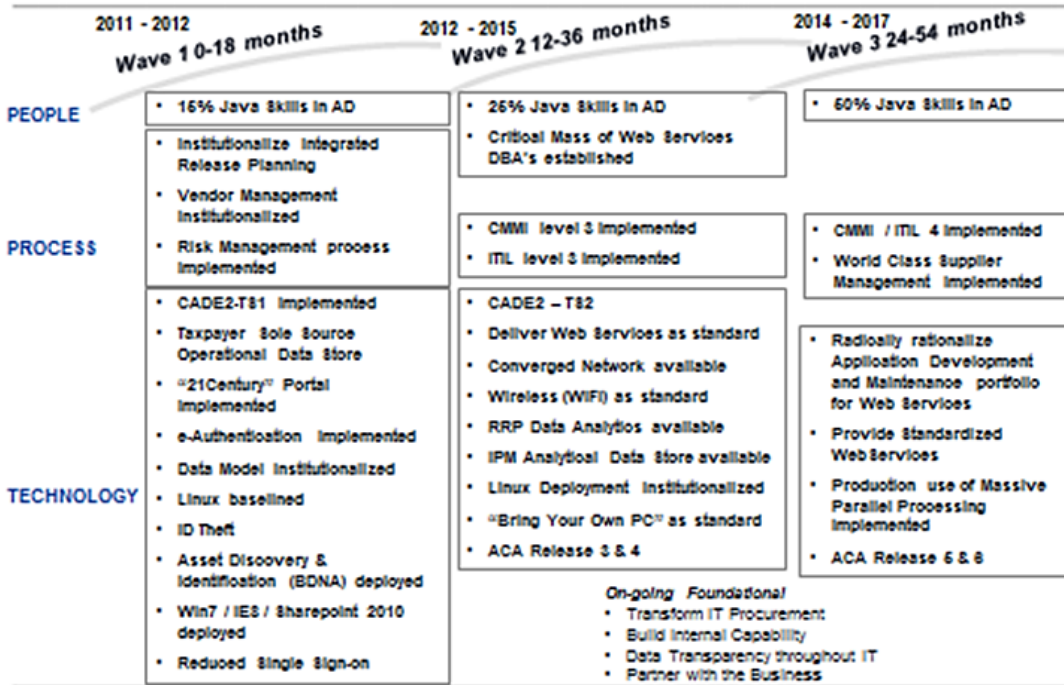
The Information Technology (IT) office is a key facilitator of efficient and effective tax administration. The role of IT is more important than ever as the IRS faces the increasing complexity of tax administration, evolving taxpayer expectations, greater media scrutiny, and increasing occurrences of refund fraud and identity theft. However, as budget reductions continue and new mandates grow, in 2015 IT will struggle to fund legislatively mandated development while maintaining its existing systems. The IRS will largely have to defer upgrades to its aging infrastructure, reduce investments in new technologies, and delay modernizing its existing IT systems, which in turn greatly limits the IRS's ability to perform its mission.

IT must address these new challenges and ensure that it continues to deliver on its core mission and meets ongoing business needs. The IRS needs new technologies to deliver comprehensive IT solutions that focus on improving the electronic filing of tax returns, enhancing services to taxpayers and third party practitioners, and strengthening compliance and criminal enforcement of tax laws. With increases in electronic data, online interactions, and related security risks, the IRS should be making significant investments to secure infrastructure, data, and applications. The continued investment in new technologies and the modernization of existing IT systems also would allow the IRS to improve service to taxpayers and achieve productivity gains. However, such investments have been curtailed because of the lack of funding. The IRS has established world-class practices and tools to manage and implement its portfolio of IT investments more efficiently. One element of the strategy, the Integrated Release Plan (IRP), provides a multi-year view of essential technology initiatives, noting schedule, budgetary, and human capital data, and a link to the IT Technology Roadmap. The IRS continues to develop and refine the IRP to encompass a larger proportion of its IT investments each year. This improves the IRS's ability to use limited resources efficiently and practice sound investment management.

#### ***IT Technology Roadmap***

The IT Technology Roadmap (illustration shown below) provides a multi-year strategic view, defined in 18-month segments, or waves. Each wave identifies the critical people, processes, and technology needed to support the IRS mission. This guiding strategic document is an important component of the Integrated Release Plan.

## Technology Roadmap 2011 – 2017 Illustration



### *Delivering a Balanced Portfolio of Investments*

While the annual tax-filing season and legislative changes are the IRS's highest priorities each year, the IT strategy ensures that the IRS also explores new technologies, in areas such as communications, to complement its existing portfolio of IT investments. Projects such as *Bring Your Own Device*, for example, allow employees to use their personal smart phones and tablets for both professional and personal communications; *Network Convergence* embraces the power of the internet for voice, data, and visual communications; and *IRS portal modernization* is streamlining navigation and enhancing search capabilities to make it easier for taxpayers and other stakeholders to find information and resources quickly. The IRS balances these technologically advanced investments that allow for more effective use of resources against other IT investments that support revenue collections, such as third party tax information reporting and document matching, faster return reviews in processing to prevent tax refund fraud, and foreign account tax reporting.

### *Managing Performance as part of IRS's IT Strategy*

The IRS monitors major IT investments using baselines identified in Major IT Business Case Detail. The monthly review includes a comparison of the projected cost, schedule, and performance estimates to those in the approved Business Case and generates reports for internal and external stakeholders. Every month an Executive Steering Committee (ESC) reviews the overall status, cost, schedule, and scope for each investment and makes needed recommendations. Any changes to the cost, schedule, or scope of the investment require a formal Baseline Change Request (BCR). The IRS employs remediation strategies for investments that are not meeting their stated performance goals, including conducting internal TechStat meetings for investments with a "yellow" (or below) rating in the areas of cost,

schedule, or Treasury Chief Information Officer rating.

### ***IRS Portfolio of Major Investments***

The following is a comprehensive list of assets that make up the foundation of the IRS's investment strategy. Also included are details regarding the immediate and full life-cycle costs, actual obligations through FY 2014, projected useful life, anticipated benefit(s), performance measurement criteria, and remediation strategy specific to each asset.

#### ***Account Management Services (AMS)***

Account Management Services (AMS) is a strategic program that delivers improved customer support for managing taxpayer accounts by leveraging existing IRS applications. As part of the 2006 Modernization Vision and Strategy process, the IRS developed a strategy to use, retain, and provide real-time access to account data regardless of location in the current processing environment (CPE) or modernized data sources. Using a phased release strategy, AMS was able to validate this approach during its initial deployment in October 2007 using a service-oriented architecture implementation to access both CPE and the Customer Account Data Engine (CADE). In 2009 the Desktop Integration (DI) system was integrated into AMS and the Correspondence Imaging System (CIS) became an inventory within AMS. AMS was fully deployed in December 2010 and is now in the Operations and Maintenance stage.

AMS provides multiple systems interfaces using only one computer terminal. The AMS application provides IRS employees with the ability to access and update taxpayer accounts on demand, provides data presentation services to display and validate changes/updates for taxpayer accounts, facilitates management actions/activities (such as work assignments, transfers, case creation and closures, and generation of letters to taxpayers) and makes case information readily available for decision making and reporting, provides the front-end applications for adjustments, penalties, interest, abatements, credit and debit transfers, name and address changes, bankruptcies, installments agreements, changes to the automated treatment streams, and many other taxpayer account-related functions required for customer service and compliance, and provides the functionality to monitor taxpayer accounts for follow-up activity or deferred actions.

**The immediate cost (defined as the base FY 2015 budget plus the FY 2016 request) as well as the full life cycle cost of the asset:**

FY 2015 - FY 2016:	\$ 49,257,073
Life-cycle Cost:	\$169,613,992
Actual Obligations to Date:	\$ 10,570,857
Start Date of Investment:	2009

**The projected useful life of the current asset:** Estimated 2018.

**The anticipated benefit(s) of the investment:** AMS is a major strategic investment that delivers improved customer service to over 41,000 end-users by providing the tools necessary to access tax information quickly and accurately.

### **How performance will be measured and evaluated:**

- AMS Core Application Availability - The percentage of uptime that the AMS system is available for AMS users. The AMS Core Application allows all AMS users to handle a variety of Accounts Management actions. This measure indicates the percentage of scheduled up-time that the application is available to IRS employees. This technical measure considers the application servers and the infrastructure components of the AMS Core Application.
- AMS Databases Availability - This technical measure indicates the percentage of scheduled up-time of the four AMS databases that provide the data needed by AMS users.
- AMS Imaging Inventory Application Availability - The AMS Imaging Inventory is used by over 8000 users to respond to taxpayer correspondence. This measure indicates the percentage of scheduled up-time that the application is available to customer service representatives. This technical measure considers the availability of the application servers, workflow system, and content management system components of the Imaging Inventory.
- Accuracy of adjustments and responses to Taxpayer Correspondence - Percent of adjustments to taxpayer accounts and answers to taxpayer issues provided by correspondence units which are accurate.
- The project's actual costs will not exceed the budget allocation in each quarter.

### ***ACA Administration***

The ACA Administration investment encompasses the planning, development, and implementation of IT systems needed to support the IRS's tax administration responsibilities associated with key provisions of the ACA legislation. The work is organized into Releases that deploy functionality to meet key legislative dates. Each release encompasses multiple projects that need to be delivered at a specific point in time.

ACA 1.0 through 3.0 and 4.1, already in production, involve changes to existing systems, along with the initial release of the Branded Prescription Drug Industry Fee and Insurance Provider Fee projects. These releases also provided the technical solution to support Health Insurance Marketplace open enrollment in the Fall of 2013 (ACA 3.0) and increased data flows from the Department of Health and Human Services/Centers for Medicare and Medicaid Services Data Hub into the IRS Coverage Data Repository.

- ACA 4.0 and 5.0 through 7.1 address work to support the Health Insurance Marketplaces and tax compliance activities, as well as annual updates for non-Marketplace provisions in the law.
- ACA 4.0 will increase data flows from the Department of Health and Human Services/Centers for Medicare and Medicaid Services Data Hub into the IRS Coverage

Data Repository, allowing the IRS to prepare for filing/post-filing compliance activities in 2015.

- ACA 5.0 will enable at-filing checks of a tax return for reporting a PTC, leveraging third-party data from the Insurance Marketplaces.
- ACA 6.0 will focus on collections and PTC pre-refund compliance processing, while ACA 6.1 supports initial post-filing compliance activities.
- ACA 7.0 expands information return processing and capabilities needed for compliance processing.
- ACA 7.1 supports additional PTC reconciliation compliance and identification/evaluation of employer and individual shared responsibility payment compliance candidates.

**The immediate cost (defined as the base FY 2015 budget plus the FY 2016 request) as well as the full life cycle cost of the asset:**

FY 2015 - FY 2016:	\$ 769,620,471
Life-cycle Cost:	\$1,762,029,389
Actual Obligations to Date:	\$ 650,646,000
Start Date of Investment:	2010

**The projected useful life of the current asset:** estimated 2018

**The anticipated benefit(s) of the investment:**

This investment is needed to ensure the full implementation of the ACA, which was passed by Congress and signed into law by the President in March of 2010. The ACA legislation represents landmark reform and changes to the healthcare system in the United States. The IRS IT organization will provide data models, databases, and information technology systems and operations to support the implementation of the ACA. If this investment is not fully funded, the IRS will not be able to fulfill the requirements as specified in the law.

**How performance will be measured and evaluated:**

- ACA applications in production requiring software code changes via P1/P2 defects. Note: Applications in production requiring no more than three P2 defects and zero P1 defects. Yellow Threshold is 4 P2 Defects and Red Threshold is 8 P2 defects or any P1 defect;
- Percent of successful transactions;
- Response Time Performance - Average Response Time in Seconds;
- Annual Overall Cost Variance;
- Branded Prescription Drug Fee Statutory "Allocated Amount" Collected; and
- End-to-End Metric - Branded Prescription Drug.



## **CADE 2**

CADE 2 was chartered in 2009 to address the risks faced by the IRS in modernizing tax processing capabilities so they are more in line with industry standards. The CADE 2 data-centric solution is critical for the IRS to achieve its Strategic Goals. The heart of the CADE 2 solution is an authoritative database for individual taxpayers that will transform the way the IRS approaches tax administration in the future. CADE 2 goals are:

- Establish a solid data foundation for the future by leveraging a relational database and daily processing capability.
- Continue the focus on moving away from 1960s technology so business processes can be realigned to enable better services and more timely compliance (i.e., aging infrastructure, applications and sequential flat file processing).
- Address the financial material weakness, demonstrate compliance with Federal Financial Management System Requirements, and maintain the IRS's clean audit opinion.
- Improve security and privacy posture by addressing identified weaknesses.
- Create one authoritative source of taxpayer data.

With deployment of CADE 2 Transition State 1 (TS1), the IRS took a leap forward from a technology standpoint, accelerating the returns processing cycle from weekly to daily, and moving the management of the IRS's individual taxpayer account data from 1960s sequential flat-files stored on magnetic tapes to state-of-the-art database technology. All individual taxpayer account data is now updated daily in relational formats dictated by a data model that maintains historical values never before retained on account transactions, with instant viewing of taxpayer account data by IRS customer service and other representatives. CADE 2 TS1 offers faster refunds and notices, faster payment postings, and improved service for taxpayers.

The next step to reach the IRS's data-centric vision is Transition State 2 (TS2), in which the IRS will rewrite its core taxpayer account processing applications to leverage the benefits of the new CADE 2 relational database. Once that is done, CADE 2 will become the authoritative source for individual taxpayer account data for the IRS. This will address the IRS's longstanding unpaid assessments financial material weakness, and will ensure long-term viability of IRS tax processing systems, mitigating risks associated with the aging architecture and the design of the IRS's legacy core tax processing systems, as well as the risk of losing knowledge of outdated programming languages as employees retire.

**The immediate cost (defined as the base FY 2015 budget plus the FY 2016 request) as well as the full life-cycle cost of the asset:**

FY 2015 - FY 2016:	\$ 286,002,608
Life-cycle Cost:	\$1,075,293,225
Actual Obligations to Date:	\$ 686,730,962
Start Date of Investment:	2009

**The projected useful life of the current asset:** estimated 2020.

## **The anticipated benefit(s) of the investment:**

### Taxpayer Benefits:

- Deliver more timely, accurate and complete data for faster issue resolution and improved customer service.
- Enhance taxpayer protection from fraud and identity theft.
- Enable more robust online self-service tools.

### IRS Benefits:

- Increase agility of response to changing taxpayer priorities and legislation.
- Reduce IT cost and complexity and address workforce risk.
- Provide analytics and reporting to greatly improve compliance and issue resolution.
- Relieve burden of manually intensive processes on IRS employees enabling automated calculations that are currently not possible.

### Fiduciary Benefits:

- Address the Unpaid Assessments FMW, retain the clean audit opinion, and comply with Federal Financial System Requirements (FFSR).
- Complete the data-centric foundation to better manage over \$3 trillion in revenue.

## **How performance will be measured and evaluated:**

- **Faster Notices.** The percentage of daily notices generated by CADE 2 (versus weekly notices);
- **Faster Refunds:** The percentage of refunds processed daily;
- **Increased percentage of transactions processed daily:** The percentage of transactions processed daily compared to the total transactions processed by IRS;
- **Daily Updates to IDRS:** The percent of business days the CADE 2 solution will process transactions within 48 hours of receipt from submissions processing for days in which there are transactions to process; and
- **Faster updates to account information:** Percent of taxpayer accounts updated in Refund Information File and posted to the Web by the next day. Seasonal metric.

### ***e-Services***

e-Services is a suite of web-based, self-assisted services that allow authorized individuals to conduct business with the IRS electronically. Currently, e-Services products are available to tax practitioners, payers, and other third parties. The services include Registration, Tax Identification Number (TIN) Matching, e-File Application, Disclosure Authorization (DA), Electronic Account Resolution (EAR), Transcript Delivery System (TDS), Reporting Agents, and Automated Electronic Fingerprinting.

**The immediate cost (defined as the base FY 2015 budget plus the FY 2016 request) as well as the full life-cycle cost of the asset:**

FY 2015 - FY 2016:	\$ 10,587,817
Life-cycle Cost:	\$193,644,007
Actual Obligations to Date:	\$172,707,218
Start Date of Investment:	1999

**The projected useful life of the current asset:** estimated 2019.

**The anticipated benefit(s) of the investment:**

- e-Services Registration: More than 654,006 individuals registered via the IEP.
- e-file Application: Processed more than 363,112 Electronic Return Originator Applications for e-File via the IEP and EUP.
- TIN Matching: Processed more than 1,332.4 million bulk requests and more than 87.0 million interactive requests.
- Transcript Delivery System: Processed more than 46.0 million requests for transcripts via the IEP and more than 210.8 million requests via the EUP.
- Total estimated operational savings (print/mail/labor costs) in excess of \$968.7 million for e-File Application, TDS, and address change via the IEP and EUP.
- TIN Matching uncovered more than 856.3 million in potentially unpaid taxes on 1099 income.

**How performance will be measured and evaluated:**

- Number of Priority 2 tickets opened and are related to eServices applications.
- Number of TIN Matching Requests processed through the TIN Matching application
- The percentage of scheduled eServices availability per the approved Service Level Agreement as documented monthly by IRS Enterprise Services.
- Number of defect transmittals to the production environment.
- Number of transcripts processed through the Transcript Delivery System (TDS).

### ***Electronic Fraud Detection System***

The Electronic Fraud Detection System (EFDS) is a major, automated client server-based system used to maximize fraud detection at the time that tax returns are filed to eliminate the issuance of fraudulent tax refunds. EFDS supports the Treasury FY 2014-2017 strategic goal 3: Fairly and effectively reform and modernize federal financial management, accounting, and tax systems. EFDS provides the capability for IRS Criminal Investigation (CI) division Investigative Aides/Analysts and Wage and Investment (W&I) division Business Performance Solutions (BPX), Return Integrity and Correspondence Services

(RICS) Tax Examiners and the Small Business Self-Employed (SB/SE) division to protect government revenue by detecting potentially fraudulent tax refund claims and stopping the issuance of fraudulent tax refunds. Revenue protection is an important element in managing the government's finances; fraudulent tax refund claims are a major cause of revenue loss to the federal government.

**The immediate cost (defined as the base FY 2015 budget plus the FY 2016 request) as well as the full life-cycle cost of the asset:**

FY 2015 - FY 2016:	\$ 37,475,234
Life-cycle Cost:	\$165,813,269
Actual Obligations to Date:	\$110,552,937
Start Date of Investment:	1996

**The projected useful life of the current asset:** estimated 2021.

**The anticipated benefit(s) of the investment:**

EFDS aligns to the following Treasury strategic goal and objective for FY 2014-2017: Goal 3: Fairly and effectively reform and modernize federal financial management, accounting, and tax systems; and Goal 3:3: Pursue tax reform, implement the ACA and FATCA, and improve the execution of the tax code.

Additionally, EFDS supports FY 2014-2017 IRS Strategic Goal 2, effectively enforce the law to ensure compliance with tax responsibilities and combat fraud; Goal 2:4: Deter and promptly resolve noncompliance by protecting revenue from refund fraud and ensuring appropriate revenue collection; and Goal 2:4: Identify trends, detect high-risk areas of noncompliance and prioritize enforcement approaches by applying research and advanced analytics.

In FS 2014 EFDS processed over 133 million returns and was used to stop fraudulent refunds totaling over \$9.65 billion, and inventory showed revenue protected increased by 64 percent. The dollar amount includes Outlier (Frivolous Filer) cases, fraud returns with a refund  $\geq$  \$10 million. One of the Business performance metrics, the percentage of Questionable Refund Program (QRP) refunds identified as false that are stopped by RICS, was 94.7 percent, as of July 26, 2014. This is the result of over \$8.74 billion in refund amounts claimed and \$8.28 billion in refund amounts stopped in FY 2014.

**How performance will be measured and evaluated:**

- Number of confirmed fraudulent returns identified by the data models, expressed as percent of the seasonal target;
- Percentage of Questionable Refund Program refunds identified as false that are stopped by Return Integrity and Correspondence Services (RICS);
- Percentage of scheduled system availability per the approved Service Level Agreement;

- Percentage of completed verifications which are potentially fraudulent; and
- Percentage of primary investigations that are accepted by CI as subject criminal investigations.

### ***FATCA***

The FATCA is a program designed to improve tax compliance by identifying U.S. taxpayers that attempt to shield/divert assets by depositing funds in foreign accounts. The program will consist of a registration component, International Data Exchange Service (IDES), and a Compliance Solution. FATCA legislation requires foreign financial institutions (FFI) to report to the IRS information regarding financial accounts held by U.S. taxpayers, or foreign entities in which U.S. taxpayers hold a substantial ownership interest. The primary beneficiaries of this investment are the federal government and U.S. taxpayers. FATCA will allow the agency to increase international service and enforcement through examinations of employment tax, specialty program audits, individual audits, business audits, and criminal investigation case closures, ensuring that taxpayers meet their tax obligations.

**The immediate cost (defined as the base FY 2015 budget plus the FY 2016 request) as well as the full life-cycle cost of the asset:**

FY 2015 - FY 2016:	\$112,148,385
Life-cycle Cost:	\$170,214,149
Actual Obligations to Date:	\$ 16,591,581
Start Date of Investment:	2011

**The projected useful life of the current asset:** estimated 2020

**The anticipated benefit(s) of the investment:**

Benefits internal to Government:

- Complies with federal legislation to implement FATCA as part of the Hiring Incentives to Restore Employment Act.
- Lays the groundwork for incremental future benefits as FATCA registration, reporting and compliance activities begin, and international compliance risks and tax gap components are identified.

Benefits external to the General Public:

- Lays the foundation for increased tax compliance by U.S. taxpayers with certain international investments and/or other assets, thus promoting tax fairness among U.S. taxpayers.
- Addresses the abuse of offshore accounts to facilitate tax evasion and provides framework to decrease this type of tax evasion over time.

**How performance will be measured and evaluated:**

- Encouraging Electronic Tax Administration - The percentage of registrations submitted electronically. This measure demonstrates the customer choice for interacting with the IRS by electronic means as opposed to submitting a paper form.
- Speed of Processing Submitted Registrations - This measure indicates the number of days the IRS used to process a submitted registration from a status of Submitted to a status of Approved, Limited Conditional, or Terminated.
- Timeliness of FFI List updated on IRS.gov - This measure indicates the timeliness of the data getting posted to IRS.gov. Posting this data provides the public with easier access to regularly released data, lowering operational costs for the IRS and for the FFIs and Individuals who use it.
- Request Processing Errors - This measure indicates the percentage of transactions that were not processed due to errors by the FFI Registration System. This is a measurement of: Errors as a Percentage of Total Transactions (Number of Errors/Transactions)
- System Response Time - This measure indicates the amount of time an individual user can expect to see results from any action taken via a "submit" or clicking a "next" button from the user interface. This is a measurement of the percentage of all requests processed in less than 5 seconds. (% =Transactions < 5 seconds / All Transaction)

***Individual Master File***

IRS is responsible for collecting revenue from individuals to fund the operations of the federal government. In order to effectively accomplish this goal, it must maintain authoritative data on individual taxpayers. The Individual Master File (IMF) is the authoritative data stores for individual taxpayers accounts. Within the IMF, accounts are updated, taxes are assessed, and refunds are generated as required each tax filing period. Virtually all IRS information system applications and processes depend on output, directly or indirectly, from this data source.

**The immediate cost (defined as the base FY 2015 budget plus the FY 2016 request) as well as the full life-cycle cost of the asset:**

FY 2015 - FY 2016:	\$ 26,038,686
Life-cycle Cost:	\$154,673,179
Actual Obligations to Date:	\$ 81,845,499
Start Date of Investment:	1999

**The projected useful life of the current asset:** estimated 2019.

**The anticipated benefit(s) of the investment:**

- Performs daily processing of tax returns allowing faster issuance of refunds; and
- Performs identity-theft related checks on individual tax returns filed on paper.

### **How performance will be measured and evaluated:**

- Interest paid on taxpayer refunds per 1 Million Dollars - This figure represents total Refund Interest divided by total refund dollars issued on original settlement. Measurement data is provided by W&I and SB/SE in the SMART database. The Business target for this measure is established by CAS every January, with a yearly goal and cumulative planned projection for each month. The results report the variance against the target, and the monthly cumulative target is reported in the comments.
- Percent of Taxpayer refunds (paper returns only) issued within 40 days - Timeliness measured by sampling taxpayers receiving refunds. Measurement data is provided by W&I and SB/SE in Submission Processing (SMART) database. The Business target for this measure is established by CAS every January, with a yearly goal and cumulative planned projection for each month. The results report the variance against the target, and the monthly cumulative target is reported in the comments
- Refund Error rate with Systemic Errors - The error rate is the ratio of total incorrect refunds compared to the total number of refunds. Measurement data is provided by W&I and SB/SE in the SMART database. Systemic errors (errors attributed to incorrect programming, less than ideal products from properly working systems, and incorrect IRM procedures) are also included in the rates which indicate “with systemic errors”. CAS sets the yearly target for this measure in January.
- IMF completes planned processing schedule (e.g., daily, weekly) to meet refund, notice and on-line access deadlines - Measurement available on Enterprise Operations weekly reports.
- The percentage of scheduled system availability per the approved Service Level Agreement - As documented monthly by IRS Enterprise Services in the IT Performance Report.

### ***Information Reporting and Document Matching (IRDM)***

Information Reporting and Document Matching (IRDM) is a program to improve business taxpayer compliance by automatically matching the tax return filings to third-party information returns. The goals of IRDM are to increase voluntary compliance and accurate reporting of income by establishing a new business tax return and information returns focusing on merchant card payments and securities basis reporting. IRDM supports the IRS by utilizing information systems that sort, match, identify, manage, and report on returns that are likely sources of Tax Gap-reducing revenue.

Closing the Tax Gap through IRDM increases federal government revenues and benefits the vast majority of taxpayers who voluntarily file accurate returns. To accomplish this, the IRS requires operational resources and systems to be put in place to implement changes that will expand and improve automated matching of data on information returns to the data submitted on tax returns filed. This automation will improve the use of third-party data to increase compliance, provide improved access to information to enhance the quality of customer

services, accelerate issue identification and resolution, and increase the productivity and quality of tax administration.

IRDM has many dependent relationships. IRDM is a system that interacts with systems across the IRS, including data submission systems, databases, data transport functionality, and data processing systems.

IRDM relies heavily on submission processing systems, corporate data systems, and newly implemented infrastructure to identify potential under-reporters and non-filers. IRDM is primarily a case management system that depends on data from submissions systems and additional data sources known as Master File. IRDM will utilize corporate data master file data such as Information Return Master File (IRMF) and Business Master File (BMF) extracted and stored in the Integrated Production Model (IPM). IRDM consists of new functionality developed to assimilate, correlate, and select potential cases.

IRDM is a component of the overall Tax Gap Initiative. The effectiveness of other efforts, as well as funding for compliance personnel, will impact how much and how quickly the Tax Gap is decreased.

**The immediate cost (defined as the base FY 2015 budget plus the FY 2016 request) as well as the full life-cycle cost of the asset:**

FY 2015 - FY 2016:	\$ 11,115,283
Life-cycle Cost:	\$110,660,009
Actual Obligations to Date:	\$ 70,056,892
Start Date of Investment:	2009

**The projected useful life of the current asset:** estimated 2019.

**The anticipated benefit(s) of the investment:**

- Reduce the Tax Gap through IRDM, which will increase federal government revenues and benefit the vast majority of taxpayers who voluntarily file accurate returns; and
- Improve the use of third party data to increase compliance, provide improved access to information to enhance the quality of customer services, accelerate issue identification and resolution, and increase the productivity and quality of tax administration.

**How performance will be measured and evaluated:**

- Production Problem Resolution and Reporting - Number of high priority trouble tickets (P1) not closed within 4 hours;
- Production Problem Resolution and Reporting - Number of priority trouble tickets (P2) not closed timely within 24 hours;



- Percentage of scheduled system availability per the approved Service Level Agreement, as documented monthly by IRS Enterprise Services in the IT Performance Report;
- SB/SE Business Underreporter (BMF-AUR) Contact Closures per FTE – Number of contact closures by BMF-AUR divided by the total FTEs expended during the same timeframe; and
- SB/SE Business Underreporter (BMF-AUR) Contact Closures - Sum of all contact closures by BMF-AUR.

### ***Integrated Customer Communication Environment (ICCE)***

The Integrated Customer Communication Environment (ICCE) directly supports the IRS Strategic Goal of improving service to make voluntary compliance easier.

- Get Transcript is a web-based application that allows authenticated taxpayers to view copies of their account and return transcripts in a secure environment.
- Online Payment Agreement Application allows a taxpayer or authorized representative (Power of Attorney) and qualified businesses to apply for and receive online approval for a short term extension of time to pay or set up a monthly installment agreement.
- Identity Protection PIN (IPPIN) is a web based application designed to provide a pin to taxpayers that are victims of identity theft. This PIN will be used by taxpayers to file their tax return and prevent fraudulent tax return filing. Taxpayers will have to be authenticated and registered in the e-authentication interface prior to accessing IPPIN.
- Internet Refund Fact of Filing (IRFOF) - Where's My Refund application - provides tax refund status information via the web to 1040 series filers.
- IRS2Go mobile applications - This product is designed for the taxpayer on the go to be used via smart phone technology.
- Where's My Amended Return (WMAR) - Allows taxpayers to check the status of their amended returns in either a web or phone environment
- Internet Refund Address Change - Allows taxpayers who have had their check returned from the post office as undeliverable to change their address of record.
- Internet Refund Trace - Allows taxpayers who have not received paper refunds after a specific amount of time to initiate a refund trace.
- The Modernized Internet Employer Identification Number application - Allows the general public to apply for an Employer ID number (EIN) over the web and receive the number in the same session.
- ICCE - Provides a set of telephone applications that allow individual taxpayers to interact directly with their accounts. Consolidating logic for telephone applications reduces overall costs as standard solutions are applied to what was a specialized arena.

- ICCE Online Services (OLS) Web services & mobile applications - This suite of products is designed for the taxpayer on the go to be used via smart phone technology. Applications include FATCA Foreign Financial Institution (FATCA FFI) Look-up Tool, Offer In Compromise (OIC) Calculator, Return Preparer Look-Up Tool, IRS2Go, and Volunteer Income Tax Assistance (VITA) and Search.

**The immediate cost (defined as the base FY 2015 budget plus the FY 2016 request) as well as the full life-cycle cost of the asset:**

FY 2015 - FY 2016:	\$ 26,360,851
Life-cycle Cost:	\$522,647,048
Actual Obligations to Date:	\$482,418,165
Start Date of Investment:	1992

**The projected useful life of the current asset:** estimated 2019.

**The anticipated benefit(s) of the investment:**

Due to the automation of taxpayer services, the government and taxpayers have realized significant time savings as a result of the ICCE investment. The ICCE team continues to identify appropriate automated self-service features to incorporate into future releases to meet the challenge of increased automation.

The primary benefits defined for ICCE are due to Productivity Improvement in the cost per taxpayer contact. Currently, the toll-free phone service and internet inquiry features create significant savings of over \$400 million per year when compared to the cost of live Customer Service Representative (CSR) handling.

Estimates show a cost of approximately \$0.71 per completed toll-free automated call compared to the cost for live CSRs and a cost of \$0.13 per web inquiry compared to the cost of CSRs.

The ICCE Alternatives Analysis estimates benefits for FY 2015 (mainly from Productivity Improvement) at \$539 million. The Return on Investment (ROI) for ICCE in FY 2015 is derived by dividing this number by FY 2015 costs. It calculates to an impressive return of 3,400 percent.

**How performance will be measured and evaluated:**

- The percentage of taxpayers utilizing IRS web applications and automated Phone Service versus CSRs in order to find solutions and answer questions related to tax matters. This is a periodic measure;
- The number of times a taxpayer accesses IRS web applications to request refund status and other web services: Internet Refund Fact of Filing, Internet Employee Identification Number, or Online Payment Agreement;

- The percentage of scheduled system availability per the approved Service Level Agreement, as documented monthly by IRS Enterprise Services in the IT Performance Report;
- Customer Satisfaction (IRS.gov American Customer Satisfaction Index Score); and
- Reduction in the number of transmittals or requests for corrective changes to production environment, as evidence of improved efficiency.

***Integrated Data Retrieval System:***

Operational since 1973, the Internal Data Retrieval Systems (IDRS) is a secure, reliable, flexible, mission-critical system consisting of databases and programs supporting IRS employees working active tax cases. It would not be possible to run the federal government tax filing season without IDRS or some equivalent system. Many IRS employees rely on it daily to do their work. It provides for systemic review of case statuses, alleviating staffing needs and providing consistency in case control. For example, each time a taxpayer calls the IRS, the person answering the phone uses IDRS to log the call and answer questions. IDRS issues notices and processes installment agreements, offers in compromise, and adjustments. Actions taken via IDRS include penalty and interest computations and explanations, credit and debit transfers among accounts, and research of taxpayer accounts for resolution of taxpayer inquiries. IDRS manages data retrieved from the Tax Master Files (Business, Individual, and Employee Plan), allowing IRS employees to take actions on taxpayer issues, track statuses, and post updates back to the Master Files. Using data analytics, IDRS allows the IRS to evaluate taxpayer data efficiently to inform enforcement and secure compliance, both domestically and internationally.

In addition to IRS employees, IRS internet applications depend on IDRS to provide back-end services to allow them to help taxpayers. For example, tens of millions of taxpayers ask *Where's My Refund?* at IRS.gov annually, and millions of business taxpayers obtain Employer Identification Numbers via IRS.gov instead of via paper. IDRS allows businesses providing payroll services to submit tax data on behalf of millions of taxpayers and collaborates with tax practitioners registered with the IRS to reduce the burden of filing Powers of Attorney and Taxpayer Information Authorizations, allowing them to request access to other e-Services. IDRS produces many kinds of tax information to support sending and receiving information to and from other systems within the IRS, SSA, BFS, state and local governments, and tax practitioners.

**The immediate cost (defined as the base FY 2015 budget plus the FY 2016 request) as well as the full life-cycle cost of the asset:**

FY 2015 - FY 2016:	\$ 40,532,774
Life-cycle Cost:	\$257,629,553
Actual Obligations to Date:	\$201,782,240
Start Date of Investment:	1973

**The projected useful life of the current asset:** estimated 2020

**The anticipated benefit(s) of the investment:**

- Allows the IRS to evaluate taxpayer data efficiently to inform enforcement and secure compliance, both domestically and internationally.

**How performance will be measured and evaluated:**

- Individual taxpayer usage of the *Where's My Refund?* feature through IRS.gov, IRS2Go Smartphone application, or automated, toll-free telephone number. This feature relies on IDRS to operate and provides convenient, high-quality, taxpayer-centered service without the assistance of a federal employee. The target for this steady state performance metric is usage equal to 100 percent of the average usage during typical processing years;
- IRS staff usage of IDRS. IDRS enables approximately 60,000 taxpayer-facing IRS employees, using a variety of methods, to retrieve taxpayer records quickly, accurately, and securely to authorized staff while responding to taxpayer inquiries and conducting examinations. The command code TXMOD displays tax data for specific taxpayers for specific periods. The target for this steady state performance metric is TXMOD usage equal to 100 percent of the average usage during typical processing years;
- The percentage of scheduled system availability. To measure this steady state performance metric, calculate the cumulative average percentage of system availability per an approved service level agreement as documented by IRS Information Technology Enterprise Services for "Essential Business Systems";
- Business taxpayer usage of IRS.gov to obtain Employer Identification Numbers (EINs). This feature relies on IDRS to operate and lets taxpayers obtain EINs without assistance of a federal employee instead of mailing form SS-4 "Application for EIN." It reduces the expense and difficulty of doing business with the Government and environmental impact. The target for this steady state performance metric is usage equal to 100 percent of the average usage during typical processing years; and
- The percentage of certified letters printed centrally versus locally. These notify business and individual taxpayers of issues. This aligns with IRS goals to improve taxpayer service and enhance enforcement of tax law. To measure this steady state performance metric, calculate the percentage of certified letters printed centrally versus locally out of all certified letters printed.

***Integrated Financial System (IFS)***

The Integrated Financial System (IFS) is the core financial system used by the IRS for budget, payroll, accounts payable, accounts receivable, general ledger functions, and financial reporting. The IFS system provides accountants, budget, and financial management analysts the ability to effectively manage federal government finances for the IRS and respond to audit

requests in support of a clean audit opinion.

**The immediate cost (defined as the base FY 2015 budget plus the FY 2016 request) as well as the full life-cycle cost of the asset:**

FY 2015 - FY 2016:	\$ 28,658,579
Life-cycle Cost:	\$457,969,522
Actual Obligations to Date:	\$414,083,740
Start Date of Investment:	2001

**The projected useful life of the current asset:** estimated 2019.

**The anticipated benefit(s) of the investment:**

- Allows the IRS to make informed and timely performance-based business and budgetary decisions; and
- Eliminates redundant data management by providing a single master data repository.

**How performance will be measured and evaluated:**

- Complete monthly financial close process and submit Treasury Information Executive Repository (TIER) report within 3 days after month end;
- The percentage of scheduled system availability per the approved Service Level Agreement, as documented monthly by IRS Enterprise Services;
- Percentage of end user issues (aka, Priority 1 and Priority 2 tickets, equating to severity) eliminated or remediated within timeframes established in the approved Service Level Agreement.
- Percentage of timely implementation per IFS maintenance schedule (i.e. deployment) of IFS server patches including Solaris, Veritas, Oracle, SAP and Informatica;
- Percentage of interface failures requiring transmission to system; and
- Timely availability of environments for mocks and testing.

***Integrated Submission and Remittance Processing System (ISRP)***

The Integrated Submission and Remittance Processing (ISRP) system is a mission critical operations and maintenance project that processes tens of millions of tax returns and deposits billions of dollars to the U.S. Treasury on a yearly basis. ISRP is an integrated suite of hardware, software, and network components that provides the interfaces for data entry perfection and transmission of data to IRS Corporate data storage. ISRP Data Entry Operators enter the information from various paper documents that are then converted into electronic data used by downstream operations, such as Financial Information Systems. ISRP also updates tax forms to comply with legislative changes in tax laws. There is a system dependence on various IRS applications, such as Generalized Mainline Framework (GMF), Enhanced Entity Index File (EEIF), Integrated Data Retrieval System (IDRS), and Enterprise File Transfer Utility (EFTU).

**The immediate cost (defined as the base FY 2015 budget plus the FY 2016 request) as well as the full life-cycle cost of the asset:**

FY 2015 - FY 2016:	\$ 20,593,084
Life-cycle Cost:	\$174,169,476
Actual Obligations to Date:	\$143,347,049
Start Date of Investment:	1998

**The projected useful life of the current asset:** estimated 2019.

**The anticipated benefit(s) of the investment:**

- Processes tens of millions of paper tax returns supporting the core business of IRS; and
- Processes billions of dollars of remittances to the U.S. Treasury on a yearly basis.

**How performance will be measured and evaluated:**

- The percentage of daily ISRP deposits made in accordance with Internal Revenue Manual (IRM) 3.0.275;
- Production Problem Resolution and Reporting - Number of high priority trouble tickets (P1) not closed within 4 hours;
- System Availability (Uptime) - Percent of up time hours (actual uptime hours/planned uptime hours);
- Production Problem Resolution and Reporting - Number of priority trouble tickets (P2) not closed timely within 24 hours; and
- Scanner/Transport HARDWARE Response Timeliness - Percentage of Priority Trouble Tickets (P1) Maintenance Response within 2 hours.

### ***IRS End User Systems and Services***

The End User Systems and Services (EUSS) program supports the IRS's day-to-day end user products, services, and support for IRS employees at headquarters and field sites.

The End User Systems and Services (EUSS) investment is comprised of projects and operations and maintenance activities which provide desktops, laptops, mobile devices, software, incident management services, and asset management services to all end users in the IRS. The EUSS investment delivers a secure and stable IT infrastructure, provisioning and managing assets by using industry standard practices in the IRS production environment.

In support of improving efficiency and productivity for all IRS employees, UNS will implement World Class Service strategies to deliver exceptional performance and service by meeting or exceeding industry performance standards through enhanced customer experience and innovation, driving to a transformative culture of self-sufficiency through tools and pro-

active education and service, and improving efficiency through channel segmentation, demand management, and performance measures to implement, where the budget allows, new technologies and interactions to enable more frequent and effective user communication.

UNS will also implement the Software Asset Management (SAM) life-cycle initiative to enhance client software controls to include: automation, use of discovery tools, license and rights management, and software policy compliance. The purpose of implementing the SAM initiative is to reduce security vulnerability with unsupported software and reduce operating costs for the software supported by the EUSS investment.

In support of technical innovation, UNS will begin implementation of “Bring Your Own” (BYO) Smartphone/Tablet service options utilizing self-service support. BYO capabilities will be enhanced through secure commercial off the shelf software applications. BYO will benefit the EUSS investment by reducing mobile device infrastructure costs and improve end user satisfaction. UNS will continue deployment of BlackBerry 10 devices and support the upgrade and refreshment of BlackBerry devices for approximately 3,000 end users. The updated BlackBerry 10 environment will benefit end users by providing advanced technology mobile devices that operate in a secure and safe environment.

**The immediate cost (defined as the base FY 2015 budget plus the FY 2016 request) as well as the full life-cycle cost of the asset:**

FY 2015 - FY 2016:	\$391,906,001
Life-cycle Cost:	\$764,274,569
Actual Obligations to Date:	\$705,367,363
Start Date of Investment:	1970

**The projected useful life of the current asset:** estimated 2019

**The anticipated benefit(s) of the investment:**

- Provides the IT infrastructure to allow the IRS to process tax returns, collect revenue, and issue refunds;
- Decreases the obsolescence rate of “in use” assets;
- Optimizes use of technology and tools, allowing incidents to be resolved remotely; and
- Equips high-mobility employees with tools and technologies for network connectivity from off-site locations.

**How performance will be measured and evaluated:**

- Call Handle Time - Average time it takes a Customer Service Representative to complete a service call;

- United States Government Configuration Baseline (USGCB) Compliance - Percentage of workstations that have settings configured that are compliant to pass baseline security scans;
- Service Desk Speed of Answer - Average time a customer waits in the Service Desk queue before reaching a Service Desk Representative. The time does not include the time an employee spends listening to the Front End Message (FEM).
- First Level Resolution - Measures the percentage of IT interactions closed at the First Level (i.e. by the Enterprise Service Desk (ESD)); and
- EUSS Percent on Time Priority 3 – measures the timeliness of resolution against the standards contained in the Master Service Level Agreement (MSLA), two business days.

***IRS Mainframes and Servers, Services and Support***

The Mainframes and Servers, Services and Support (MSSS) program provides for the design, development, and deployment of server, middleware, and large systems, as well as enterprise storage infrastructures, including systems software products, databases, and operating systems for these platforms.

**The immediate cost (defined as the base FY 2015 budget plus the FY 2016 request) as well as the full life-cycle cost of the asset:**

FY 2015 - FY 2016:	\$1,290,413,565
Life-cycle Cost:	\$5,939,691,315
Actual Obligations to Date:	\$4,093,693,794
Start Date of Investment:	1970

**The projected useful life of the current asset:** estimated 2019

**The anticipated benefit(s) of the investment:**

- Enables the IT infrastructure to allow the IRS to process tax returns, collect revenue, and issue refunds;
- Provides 24x7 IT Operations and Maintenance to all Tier I and Tier II production systems responsible for the daily operation of the IRS batch and online processing environments;
- Ensures server computer resources maintain sufficient capacity to meet system functional and performance demands; and
- Develops, installs, maintains, and modifies the infrastructure required for various on-going Tax Processing Unisys mainframe systems.



**How performance will be measured and evaluated:**

- The percentage of Server Environment Virtualized;
- The percentage of Uptime for the ACS, ICS and IDRS Databases;
- The success Rate Percentage for Automated Deployment of Infrastructure Component Packages to Production - Using the Package Based Promotion Tool;
- The number of Standard Employee IDs with Elevated Access are Reduced; and
- Percentage of Priority Tickets Triaged in 30 minutes by Service Operations Command Center Systems Administrators

***IRS Telecommunications Systems and Support***

The Telecommunications Systems and Support (TSS) program falls under the jurisdiction of the Users and Networks Services (UNS) organization, which is responsible for the management of voice and data networks, video services, and engineering throughout the IRS. This includes providing remote access, voice telephony, voicemail, contact centers, cell phones, pagers, and video conferencing. UNS network is composed of wide area networks, local area networks, servers, switches, and control devices. The investment supports the IT Infrastructure services related to the federally mandated transition to IPV6.

Network Convergence replaces aged voice, voicemail, and video infrastructure, and combines these services on a common network. It provides operational efficiencies, supports agency initiatives to reduce real estate (through projects such as the shared workspaces initiative, universal workspace design, and home as point of duty), and reduces risks posed by aged legacy assets. The Video Conferencing System (VCS) infrastructure has aged devices that need replacing. The original equipment manufacturer no longer supports these devices. Enterprise eFax provides desktop fax capability to IRS employees nationwide. The fax capability will help support decreases in paper, hardware, and toner costs and help support telework-related initiatives.

UNS manages a large-scale contact center infrastructure to assist its customers with tax-related problems and questions. It is in the planning stages of upgrading the existing Aspect Automated Call Distributor (ACD) platforms. ACDs distribute calls among local and remote agents at more than 30 centers within the United States and Puerto Rico. The ACD platforms are reaching end-of-life and need replacing. Replacement will provide features necessary to replicate primary functionality of the ACDs while supporting integration with the existing application and other Contact Center production systems.

**The immediate cost (defined as the base FY 2015 budget plus the FY 2016 request) as well as the full life-cycle cost of the asset:**

FY 2015 - FY 2016:	\$ 537,255,728
Life-cycle Cost:	\$1,106,405,801
Actual Obligations to Date:	\$1,007,403,330

Start Date of Investment: 1970

**The projected useful life of the current asset:** estimated 2019

**The anticipated benefit(s) of the investment:**

- Provides the IT infrastructure to allow the IRS to process tax returns, collect revenue, and issue refunds;
- Supports agency initiatives to reduce real estate (through projects including the shared workspaces initiative, universal workspace design, and home as post of duty);
- Reduces risks posed by aged legacy assets; and
- Supports IRS's Sustaining Infrastructure goal to retire aged assets and reduce obsolescence enterprise-wide.

**How performance will be measured and evaluated:**

- GSP Compliance (Network Devices) - measures the percentage of network devices that meet GSP (Guidelines Standards and Procedures) standards;
- WAN Availability - measures the percentage of availability of Wide Area Network (WAN) Services;
- LAN Availability - measures the percentage of availability of Local Area Network (LAN) Services;
- Internet Access Availability - measures the percentage of internet availability through the three CCGs (Common Communication Gateways); and
- GSP Compliance (Network Rules) - measures the percentage of network rules that meet GSP (Guidelines Standards and Procedures) standards.

***IRS.gov - Portal Environment***

The Integrated Enterprise Portals (IEP) are critical to the IRS mission and foundational to IRS electronic tax administration and to IRS business operations. The IRS has adapted these mission-critical systems over the years to meet the changing needs of the tax paying population; however, current portal design limitations and available systems capacity will not meet the needs of the future investment portfolio. The new IRS IEP will provide seamless one-stop web-based services to internal and external users, such as taxpayers, business partners, IRS employees, and other government agencies. The objective of the new portal project is to continue to maintain and operate secure and reliable portals to meet the goals of the agency by competitively acquiring managed services for the establishment and management of a new infrastructure, hosting, help desk, content management, search, and reporting solution, and the transition of the existing portal capabilities and services to the new IRS web environment transparent to external users. By transitioning to the new IEP environment, it improves the IRS capability to increase IT services to meet the changing needs of the taxpaying public. The IRS will build the new IEP environment in phases, with the final phase to be completed in FY 2013.

**The immediate cost (defined as the base FY 2015 budget plus the FY 2016 request) as well as the full life-cycle cost of the asset:**

FY 2015 - FY 2016:	\$155,561,118
Life-cycle Cost:	\$714,692,256
Actual Obligations to Date:	\$487,488,652
Start Date of Investment:	1996

**The projected useful life of the current asset:** estimated 2017

**The anticipated benefit(s) of the investment:**

- Improves web environment, efficiencies, effectiveness, quality, and process maturity;
- Provides visibility into program cost drivers; and
- Delivers year over year unit cost reductions to the IRS.

**How performance will be measured and evaluated:**

- Providing a public facing web portal environment availability of 99.99 percent that allows taxpayers to meet their tax obligations timely;
- Percentage of system response time of search queries completed in less than 3 seconds;
- Percentage of system response times of User requests for Website content completed less than 3 seconds;
- Providing the percentage of Formal O&M deliverables submitted timely; and
- Providing a Web portal Content Management System (CMS) that allows availability of 99.99% portal services to meet obligations timely.

***Modernized e-File***

The Modernized e-File (MeF) system is a mixed life-cycle investment that is the primary system to receive and process all tax returns submitted electronically. When MeF receives an electronic tax return, the system determines if it satisfies the acceptance rules required for further processing.

One of the benefits of MeF is the extensive error checking and data validation that occurs before the return is fully processed. MeF creates an acknowledgment telling the transmitter that the return was either accepted or rejected, and it provides information about the cause(s) of rejection. This acknowledgment is generally available to the transmitter within minutes of tax return submission. MeF forwards accepted returns to IRS systems used for processing tax returns. If MeF rejects a return due to errors, the transmitter can correct the identified issues and re-submit. These up-front checks help ensure successful processing of returns by downstream tax systems.

The MeF program provides a secure web platform for electronically filing tax and information returns by registered Electronic Return Originators (ERO). This system uses a browser-based and application-to-application solution to provide ERO end users with optimized return filing. MeF is becoming the primary system for electronic filing of business and individual tax returns and forms.

MeF has dependencies with: IRS.gov - Portal Environment, Information Return and Document Matching (IRDM); Individual Master File (IMF); Business Master File (BMF); Tax Return Data Base (TRDB); and Electronic Fraud Detection System (EFDS).

**The immediate cost (defined as the base FY 2015 budget plus the FY 2016 request) as well as the full life-cycle cost of the asset:**

FY 2015 - FY 2016:	\$161,697,466
Life-cycle Cost:	\$586,608,515
Actual Obligations to Date:	\$375,955,489
Start Date of Investment:	2001

**The projected useful life of the current asset:** estimated 2020

**The anticipated benefit(s) of the investment:**

- Beneficiaries include the tax preparation community and the taxpayers they represent;
- Benefits large corporations and tax-exempt organizations that are required at a specific asset threshold to file their tax returns or annual information returns electronically by reducing the handling/ mailing of voluminous paper returns that sometimes exceed 700 attachments/schedules;
- Extensive error checking and data validation that occurs before the return is processed; and
- The system delivers tax returns that do not pass these error checks to the transmitter for correction. These up-front checks help ensure successful processing of returns by the downstream tax systems.

**How performance will be measured and evaluated:**

- The percent of business tax returns processed electronically by MeF;
- The average number of minutes within which electronic filers receive acknowledgement of their electronically filed tax returns;
- The percentage of scheduled system availability per the approved Service Level Agreement, as documented monthly by IRS Enterprise Services;
- Error rate for electronically filed tax returns;
- The percent of individual tax returns processed electronically; and
- Total quarterly cost savings derived from electronically filed tax returns. Savings achieved is based on an average of \$8M target savings per quarter. This is a periodic metric.

## ***Return Review Program***

The Return Review Program (RRP) is a system that uses leading-edge technologies to advance IRS effectiveness in detecting, addressing, and preventing tax refund fraud and protecting United States Treasury revenue. It will replace the legacy EFDS which was built in the mid-1990s. The entirely new RRP fraud framework is critical for IRS success in tackling ever-evolving tax schemes in a sophisticated, scalable, and adaptable manner. Based on specific business models from Criminal Investigation (CI) and the Return Integrity and Correspondence Services (RICS) Office, RRP will support the new cross-functional approach to criminal and civil tax noncompliance, including identity theft.

Using the analytics capability in RRP, the IRS will be able to create predictive fraud and non-compliance detection models, which will seek out subtle data patterns to determine reliability of return data, including filer's identity. RRP will generate a scorecard for questionable returns, evaluating consistency and dependability. Electronic Fraud Detection System processing uses predictive analytics minimally. Cross-functional collaboration is difficult and returns with multiple issues are often partially worked. With RRP, IRS will be able to respond to multiple issues of non-compliance on a single return.

RRP will incorporate Linked Return Analysis (LRA), a tool that reveals patterns and relationships in masses of return data. LRA will allow RRP to identify clusters of returns that share traits indicative of schemes and other tax fraud or non-compliance. The automated actions of link analysis will expand known clusters and schemes; discover new ones and scale to incorporate additional linking characteristics. RRP will introduce three new unsupervised models to detect non-obvious patterns in consistency, outlier and new patterns in data.

**The immediate cost (defined as the base FY 2015 budget plus the FY 2016 request) as well as the full life-cycle cost of the asset:**

FY 2015 - FY 2016:	\$136,826,858
Life-cycle Cost:	\$287,819,946
Actual Obligations to Date:	\$102,919,393
Start Date of Investment:	2010

**The projected useful life of the current asset:** estimated 2020

**The anticipated benefit(s) of the investment:**

- IRS will be able to respond to multiple issues of noncompliance on a single return; and
- Using massively parallel processing, the system's capacity will promote speed, even during the peak of tax filing season. This speed will serve taxpayers not only by supporting fast refunds, but also by quickly recognizing patterns and redirecting fraudulently filed returns.

**How performance will be measured and evaluated:**

The IRS is developing performance measures for the RRP investment.

## *Service Center Recognition/Image Processing System*

The Service Center Recognition/Image Processing System (SCRIPS) is a major paper input processing system specifically designed to automate the processing of Information Return Processing (IRP) forms, Schedule K-1s (Forms 1041 K-1, 1065 K-1, and 1120 K-1), Form 941 (and associated Schedules B and Schedule R), and Form 940 (and associated Schedule A and Schedule R). SCRIPS scans and stores images of all tax documents processed, saving time by converting the scanned images and data to computer-readable code and providing hardcopy images when requested. This is accomplished using the Optical Character Recognition/Intelligent Character Recognition (OCR/ICR) engine in addition to utilizing 2D bar code recognition that optimizes and automates data entry of the taxpayer data.

SCRIPS is one of the front-end input systems that operates at four IRS Submission Processing Centers where the IRS receives, sorts, and sends forms to the scanning areas. SCRIPS sends the electronic taxpayer data to the IRS downstream tax processing systems, including Generalized Mainline Framework (GMF) and Master File for posting to the IRS database, and also Service-Wide Employment Tax Research System (SWETRS) and Statistics Of Income (SOI) for compliance. The IRS archives and retains the images on the system. IRS Customer Service Representatives can request hard copies of images through the IDRS.

SCRIPS processing of these forms directly supports the IRS's ability to administer and collect taxes while supporting voluntary compliance. The IRS has cited two strategic goals which are a direct link back to the Treasury Department's goals. Specifically, SCRIPS has a direct tie to the goal to collect revenue that is due the federal government. Images of these documents are used for research while resolving tax liability and compliance issues. SCRIPS processed more than 99 million tax forms in 2013.

SCRIPS provides top quality service to all taxpayers through fair and uniform application of the law. SCRIPS will address the Information Reporting Document Matching (IRDM) effort, which is designed to match tax returns to their proper tax filing entity by making modifications to the IRP form via year-end legislative changes.

### **The immediate cost (defined as the base FY 2015 budget plus the FY 2016 request) as well as the full life-cycle cost of the asset:**

FY 2015 - FY 2016:	\$ 18,322,185
Life-cycle Cost:	\$185,992,642
Actual Obligations to Date:	\$157,291,609
Start Date of Investment:	1991

**The projected useful life of the current asset:** estimated 2019.

### **The anticipated benefit(s) of the investment:**

SCRIPS scans and stores images of all tax documents processed, saving time by converting the scanned images and data to computer-readable code and providing hardcopy images when requested.

**How performance will be measured and evaluated:**

- Maintain a character recognition error rate on scanned forms of no more than 4 percent per month;
- The percent of tax return image print requests fulfilled within 2 days;
- The percentage of time the SCRIPS system is available per month for processing (system up-time);
- The average number of tax return-related documents processed per hour;
- Number of High Priority (P1) trouble tickets not closed within 4 hours; and
- Number of Moderate Priority (P2) trouble tickets not closed within 24 hours.

***Web Applications (Formerly Online Services (OLS))***

The OLS was established within Treasury, IRS in January 2012 to meet the continued growth in demand for customer service from taxpayers across all channels. Specifically, OLS is a strategic business initiative within IRS that leads the innovation and creation of digital services to meet these taxpayer needs. There are 5 distinct functions within OLS: Online Engagement, Operations and Media; Product Management; User Experience and Design; Portal Business Management; and Strategic Services. These five functions have worked together in order to relaunch IRS.gov and deploy nearly 20 new products and services in line with using digital services to meet taxpayer needs; these products and services include Get Transcript, Where's My Refund (WMR) tracker, and Filing Season (FS) updates to 30 other tools and content areas, including language and other key updates.

In FY 2014, 2015, 2016 and beyond, OLS plans to continue working towards its goal of making taxes clearer through better online content by providing plain language, elegant structuring and clear writing on IRS.gov, as well as better search results on IRS.gov and the web. OLS will continue striving to provide a user-centric, data-informed approach in order to ensure that taxpayer information is being presented and provided in a way that is easy for a taxpayer to interpret.

**The immediate cost (defined as the base FY 2015 budget plus the FY 2016 request) as well as the full life-cycle cost of the asset:**

FY 2015 - FY 2016:	\$40,126,306
Life-cycle Cost:	\$40,126,306
Actual Obligations to Date:	\$ 2,153,313
Start Date of Investment:	2013

**The projected useful life of the current asset:** estimated 2034

**The anticipated benefit(s) of the investment:**

- OLS determined Status Quo was the best alternative which has a return on investment of 133% over seven years. The benefits of this selected approach are cost savings

which will come from reduced call volumes and mailing notices, a reduction in the number of walk-ins and a reduction in payment processing costs.

**How performance will be measured and evaluated:**

To Be Determined (TBD).

**Criminal Investigations (CI) Capital Assets**

These capital assets are used to protect CI special agents from threats and bodily injury when performing their law enforcement duties including conducting investigations concerning alleged criminal tax fraud violations, financial crimes, and other related offenses.

**Security Equipment**

The IRS purchases security equipment such as cameras, digital video recorder system (DVRs), access control panels, and card readers. The IRS uses facility-specific security assessments to prioritize asset needs and develop criteria for replacing equipment in a given facility. Additionally, emergency needs arise over the course of the year. These needs are ranked and funded according to the effect the equipment has on the overall security posture.

Performance is measured through security reviews, testing, and the assessment of individual facilities for their overall security posture using a number of criteria including location, size, number of employees, and type of work done in the facility. These criteria are used to develop an overall security posture. This posture is then compared to existing equipment in the facility to determine additional needs. If a facility has a large divergence from the posture, equipment is ordered. Reviews are done on a regular basis to measure and evaluate performance.

The useful life of security equipment is usually five years. The need for equipment can arise at any time, such as when employees are moved into a new building, during internal moves, or intermittently when equipment needs to be replaced. The benefit of this capital asset investment is that it supports the IRS priority to provide a safe and secure environment for its employees, equipment, and facilities.

**Leasehold Improvements**

Many projects undertaken by IRS entail the design, alteration, and furnishing of space either upon acquisition, at lease renewal, or for other purposes, such as supporting space consolidation or reduction. The portion of the project that is captured as a capital asset is reflected in OMB Object Class 3200, Land and Structures, and includes alterations to buildings; fixtures such as elevators, plumbing, power-plant boilers, fire-alarm systems, lighting, heating systems, air-conditioning systems, flooring, and carpeting. The total figure is a sum of the expenditures in that object class for all IRS projects in that particular year.

The IRS employs a scheme to rank projects in priority order and keeps a comprehensive list of projects across the territories. Projects are considered based on the critical need for the project. Projects approved but not funded in the current year are deferred to the following



year. Proposed projects are identified throughout the year and are prioritized and added to list as appropriate.

Performance is measured utilizing the following measures:

- Project Spend per usable square feet (USF) on Closed Projects;
- Total USF Touched by Projects; and
- Percent of Total USF Under Management; Percent Customers Satisfied With Completed Space Projects.

The useful life of these alterations is usually five years or the remaining fixed term of the lease. The fixed term of most leases is five years, with options to renew or to extend for some additional period. The need for alterations can arise at any time, including, but not limited to:

- Adding personnel workspaces;
- Consolidating functions; and
- Addressing other space issues.

The benefit of these alterations is that they provide the means for the business unit occupants to perform their mission efficiently and in user-friendly space. In addition to space reduction associated rent savings, a portion of the investment may provide a savings such as in the area of energy consumption.

#### **4B – IRS Aging Legacy Information Technology (IT) Infrastructure (non-BSM) Proposed Long-term Multiyear Funding Strategy and Timetable**

The IRS established a Sustaining Infrastructure (SI) program to provide for long-term infrastructure viability with the flexibility to meet dynamically changing business requirements. The SI program includes a prioritization process to replenish aged assets that support the most critical IRS business needs. The prioritization process is a long-term funding strategy, within the Operations Support multi-year appropriation, to upgrade and modernize the aging legacy Information Technology (IT) infrastructure for non-Business System Modernization projects. The process is built on leading business practices that support the IRS mission and strategic objectives while ensuring compliance with federal laws and agency oversight.

The SI program establishes its infrastructure investment timetable by overlaying the annual budget into the prioritization process. Extending beyond legacy systems, investments in innovation, such as network convergence and desktop virtualization allow the IRS to gain efficiencies such that foreseeable budgets will meet the requirements to replace aged assets. This innovation element, as part of the SI program, is a key component to IRS's long-term infrastructure viability. Each year the IRS assesses and funds projects in the following four portfolios:

<b>Portfolio Name</b>	<b>Description</b>	<b>Average Percentage of Portfolio</b>
Sustaining Infrastructure	Aged inventory beyond useful life	65%
Sustaining Architecture & Engineering	Aged inventory not past its useful life, but tied to production applications or critical business need	15%
Sustaining Enterprise System Software	Updating aged software (beyond useful life) to achieve (N)(N-1)	11%
Sustaining Other	Operational Demand	9%

The objectives of the SI prioritization process are to:

- Achieve an acceptable level of aged assets (20 – 25 percent);
- Reduce the aged inventory of IRS infrastructure;
- Describe an IRS future infrastructure replacement decision model;
- Focus replacement investment decisions on the future infrastructure vision;
- Assist in preparing annual asset retirement goals; and
- Make the most efficient infrastructure investments.

The benefits of the SI prioritization process include:

- Reducing the overall operational infrastructure cost of the IT Organization wherever possible;
- Reducing equipment diversity and quantity;
- Improving infrastructure capacity;
- Improving governance;
- Increasing IT security;
- Improving disaster recovery operations; and
- Directing infrastructure to a more efficient world-class environment.

The SI prioritization process is defined by four lifecycle phases: Pre-Select, Select, Control, and Evaluate. During each phase, the IRS governance bodies make decisions using defined processes and data regarding the investments under consideration. Approved investments become part of the larger SI investment portfolio and both new and ongoing investments are monitored continuously throughout their lifecycle against Key Performance Indicators (KPIs) for Deputy, Chief Information Officer (DCIO) and Infrastructure Executive Steering Committee (IESC) review. The IRS conducts post-implementation assessments to ensure Cost, Schedule, and the overall goals of the project were successfully completed.

The four-lifecycle phases of the SI Prioritization Process are described below:

- The ***Pre-Select Phase*** assesses proposed IT solutions for unmet business requirements. The pre-selection phase creates a portfolio of IT project investments designed to improve overall organizational performance. The three-step pre-selection process is:
  - ***Step 1 – Screen IT proposals for relevance and feasibility.*** A mature investment screening process prescribes the required amount of documentation and level of analytical rigor, depending on the project’s type (e.g., mission critical infrastructure, etc.) and phase (e.g., initial concept, new, ongoing, and operational).
  - ***Step 2 – Retain proposals with the highest potential to support the IRS critical mission and/or operations.*** If viable, the proposal moves into the Investment Management Plan (IMP) development stage.
  - ***Step 3 – Prioritize the list of IT projects.*** After completing the analysis, the IRS develops a ranked listing of IT projects.
- During the ***Select phase***, an executive level, decision-making body determines which projects to fund based on the analyses completed during the pre-select phase. The process is used to prioritize IT investments to align with organizational priorities and strategic direction. Projects are funded based on budget constraints with consideration for technical soundness of projects, contribution to mission needs, performance improvement priorities, and overall available budget levels.
- The ***Control Phase*** begins once investments are selected and approved for funding. The Control Phase monitors on-going IT projects during the planning, acquisition, deployment, and operation and maintenance stages of the IT investment life cycle. The primary objective is to assess the investment’s performance and enable effective management of all major IT investments within the IRS. If a project is late, over cost, or not being developed according to approved IMPs, projects may be modified or cancelled.
- The ***Evaluate Phase*** includes two components, a Post Implementation Review (PIR) on implemented or cancelled investments, and an annual analysis of the performance of the IRS’s portfolio management process. During PIRs, data is collected, recorded, and analyzed to compare expected results against actual benefits and returns. Once investments are fully implemented or cancelled, actual versus expected results are evaluated to assess the investment’s impact on strategic performance, identify modifications that may be needed, and revise the investment management process based on lessons learned.

#### **4.2 - Return on Investment (ROI) for IRS Major Enforcement Programs**

The actual cost and actual revenue collected for FY 2010 through FY 2014 for the three major enforcement programs, Examination, Collection and Automated Underreporter (AUR) are provided below. The activities included in these programs include:

**Examination Program** conducts examinations of tax returns of individual taxpayers, businesses, and other types of organizations to verify that the tax reported is correct. This includes examinations of individuals, small business, self-employed, large corporate business, partnerships, international, estate and gift, excise tax and employment tax, and tax-exempt, qualified pension benefit plans, and Government entities. The examination costs include the cost of the Field Exam, Correspondence Exam, IRS Chief Counsel and Appeals functions.

**Collection Program** collects delinquent taxes and secures delinquent tax returns, through the appropriate use of enforcement tools such as lien, levy, seizure of assets, installment agreement, offer in compromise, substitute for return, summons, and IRC 6020(b) (which allows the IRS to prepare returns if a taxpayer neglects or refuses to file); and provides education to taxpayers to enable future compliance. The cost of the Collection program includes Automated Collection System (ACS), Field Collection, and Payment Compliance/ Correspondence Collection.

**Automated Underreporter (AUR) Program** matches payer information returns (Forms 1099, W-2, etc.) against data reported on individual tax returns to the IRS. The information is verified to identify any discrepancies. If a discrepancy is found, the case is given to a tax examiner for research and analysis. If the tax examiner is unable to resolve the discrepancy, a proposed notice is issued and a proposed assessment is generated.

ROI is calculated by dividing revenue by cost. This information provides an indication of the ROI for the three major enforcement programs over time, but it is important to note that enforcement revenue collected in a fiscal year includes tax, interest, and penalties from multiple tax years. Some enforcement activities can take more than a year to close and may generate revenue over several years, so it is generally inappropriate to compare revenue collected in a given fiscal year to the staffing available for that same year.

In addition, it also is important to note that these data reflect the average return on investment for these programs and do not include indirect effects of IRS enforcement activities on voluntary compliance. As such, they are not intended to be used to allocate resources or maximize revenue. Net revenue is maximized only when resources are allocated according to *marginal direct and indirect* return on investment, but those ratios are much more challenging to estimate than the average ROI shown here. As a result, the IRS will continue to allocate enforcement resources across a range of enforcement activities to ensure taxpayers pay the taxes they owe with integrity and fairness to all.

### Return on Investment for IRS Major Enforcement Programs

Dollars in Millions

Enforcement Program	FY 2010			FY 2011			FY 2012			FY 2013			FY 2014		
	Cost <sup>1</sup>	Revenue	ROI	Cost <sup>1</sup>	Revenue	ROI	Cost <sup>1</sup>	Revenue	ROI	Cost <sup>1</sup>	Revenue	ROI	Cost <sup>1</sup>	Revenue	ROI
IRS Total	\$6,581	\$57,592	8.8	\$6,543	\$55,229	8.4	\$6,242	\$50,187	8.0	\$5,883	\$53,345	9.1	\$5,839	\$57,146	9.8
Examination	4,371	23,563	5.4	4,333	18,924	4.4	4,232	14,476	3.4	3,965	16,662	4.2	3,965	18,983	4.8
Collection	1,948	29,105	14.9	1,939	31,060	16.0	1,742	30,442	17.5	1,660	31,396	18.9	1,618	33,198	20.5
Automated Underreporter (AUR)	262	4,924	18.8	270	5,245	19.4	267	5,269	19.7	258	5,287	20.5	256	4,965	19.4

<sup>1</sup>The cost of the enforcement programs was calculated using budget data from the IRS Integrated Financial System (IFS) and includes direct dollars and FTE from the Enforcement appropriation, Exam and Collections budget activity, and dollars from the Operations Support appropriation prorated using actual FTE realized for each major enforcement program.

### 4.3 – IRS Performance Measure Table

Performance Measures	Type of Measure	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Planned	FY2016 Planned
Customer Service Representative Level of Service (LOS) <sup>1</sup>	Oe, L	70.0%	74.0%	70.1%	67.6%	60.5%	64.4%	38.0%	80.0%
Customer Contacts Resolved per Staff Year	E	12,918	10,744	12,419	16,320	20,767	21,018	21,000	17,300
Customer Accuracy - Tax Law (Phones)	Ot	92.9%	92.7%	93.4%	93.2%	95.7%	95.0%	92.0%	92.0%
Customer Accuracy - Accounts (Phones)	Ot	94.9%	95.7%	96.0%	95.6%	96.0%	96.2%	94.0%	94.0%
Timeliness of Critical Filing Season Tax Products to the Public	Ot	96.8%	95.3%	96.3%	97.2%	58.9%	99.1%	95.0%	95.0%
Timeliness of Critical TE/GE & Business Tax Products to the Public	Ot	95.2%	97.7%	96.4%	94.5%	83.6%	98.7%	95.0%	95.0%
Percent Individual Returns Processed Electronically	Oe, L	65.9%	69.3%	76.9%	80.5%	82.5%	84.1%	84.6%	85.0%
Percent of Business Returns Processed Electronically	Oe, L	22.8%	25.5%	31.8%	36.7%	40.2%	43.1%	46.5%	47.0%
Refund Timeliness - Individual (Paper)	Ot	99.2%	96.1%	99.4%	99.7%	99.0%	98.7%	94.0%	97.0%
Taxpayer Self-Assistance Rate	E, L	69.3%	64.4%	70.1%	78.5%	83.3%	84.7%	85.0%	86.0%
Examination Coverage - Individual	Oe, L	1.0%	1.1%	1.1%	1.0%	1.0%	0.9%	0.8%	0.8%
Field Exam Nat'l Quality Review Score	Oe, L	85.1%	84.9%	85.8%	87.4%	89.2%	88.4%	89.6%	89.6%
Office Exam Nat'l Quality Review Score	Oe, L	92.1%	91.6%	90.4%	91.3%	90.3%	90.6%	90.2%	90.2%
Examination Quality - Large Business <sup>2</sup> (new for FY13)	Oe, L					92.0%	83.0%	90.0%	90.0%
Examination Coverage - Business (Assets > \$10 million)	Oe, L	5.6%	5.7%	6.2%	6.2%	5.6%	4.3%	3.8%	3.6%
Examination Efficiency - Individual	E, L	138	140	139	142	142	138	135	118
Automated Underreporter Efficiency	E, L	1,905	1,924	2,007	2,041	2,025	1,935	2,032	2,014
Automated Underreporter Coverage	E, L	2.6%	3.0%	3.3%	3.2%	2.8%	2.6%	2.6%	2.6%
Collection Coverage (Units)	Ot, L	54.2%	50.1%	50.0%	48.1%	47.0%	45.9%	43.8%	45.9%
Collection Efficiency (Units)	E, L	1,845	1,822	1,952	1,997	2,057	2,051	2,173	2,131
Field Collection Nat'l Quality Review Score	Ot, L	80.5%	80.6%	80.3%	80.4%	81.4%	81.6%	81.6%	81.6%
Automated Collection System Accuracy	Oe	94.3%	95.9%	94.9%	94.7%	94.4%	95.2%	94.0%	94.0%
Criminal Investigations Completed	Ot, L	3,848	4,325	4,697	4,937	5,557	4,606	3,800	3,800
Number of Convictions	Oe, L	2,105	2,184	2,350	2,634	3,311	3,110	2,700	2,700
Conviction Rate	Oe, L	87.2%	90.2%	92.7%	93.0%	93.1%	93.4%	92.0%	92.0%
Conviction Efficiency Rate (\$)	E, L	\$327,328	\$324,776	\$310,029	\$270,511	\$211,048	\$231,103	\$243,000	\$243,000
TE/GE Determination Case Closures	Ot	96,246	105,247	91,205	87,000	65,877	136,746	99,942	127,945
Percent of Major Projects within +/- 10% Cost Variance <sup>3</sup>	E	60.0%	40.0%	71.4%	50.0%	0.0%	66.7%	90.0%	90.0%
Percent of Major Projects within +/- 10% Schedule Variance <sup>3</sup>	E	90.0%	100.0%	100.0%	90.0%	83.3%	100.0%	90.0%	90.0%
Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, L - Long-Term Goal									
<sup>1</sup> Beginning in FY 2013, targets include an increase in base user fees.									
n/a - not applicable, HCTC Program ended on December 31, 2013.									
<sup>2</sup> As a result of program changes that occurred in the Large Business and International (LB&I) organization, starting in FY 2013, a new Examination Quality - Large Business measure will replace the two previous LB&I quality measures - Examination Quality - Industry and Coordinated Industry.									
<sup>3</sup> Starting in FY 2015, these measures include all major investments (BSM and non-BSM) whereas in the previous fiscal years it was only BSM.									

### 4.3 – IRS Performance Measure Table (Continued)

Budget Level Performance Measure Description	
Customer Service Representative (CSR) Level of Service	The number of toll free callers that either speak to a Customer Service Representative or receive informational messages divided by the total number of attempted calls.
Customer Contacts Resolved per Staff Year	The number of Customer Contacts resolved in relation to staff years expended.
Customer Accuracy – Tax Law Phones	The percentage of correct answers given by a live assistor on Toll-free tax law inquiries.
Customer Accuracy – Customer Accounts (Phones)	The percentage of correct answers given by a live assistor on Toll-free account inquiries.
Timeliness of Critical Individual Filing Season Tax Products to the Public	The percentage of critical individual filing season tax products (tax forms, schedules, instructions, publications, tax packages, and certain notices required by a large number of filers to prepare a complete and accurate tax return) available to the public in a timely fashion.
Timeliness of Critical TE/GE & Business Tax Products to the Public	Percentage of critical other tax products, paper and electronic, available to the public in a timely fashion.
Percent Individual Returns Processed Electronically	The percentage of electronically filed individual tax returns divided by the total individual returns filed.
Percent Business Returns Processed Electronically	The percentage of electronically filed business tax returns divided by the total business returns filed.
Refund Timeliness – Individual (Paper)	The percentage of refunds resulting from processing Individual Master File paper returns issued within 40 days or less.
Taxpayer Self Assistance Rate	The percentage of taxpayer assistance requests resolved using self-assisted automated services.
Examination Coverage – Individual (1040)	The sum of all individual 1040 returns closed by Small Business/Self Employed (SB/SE), Wage & Investment (W&I), Tax Exempt and Government Entities (TE/GE), and Large Business and International (LB&I) (Field Exam and Correspondence Exam programs) divided by the total individual return filings for the prior calendar year.
Field Exam Nat'l Quality Review Score	The score awarded to a reviewed field examination case by a Quality Reviewer using the National Quality Review System (NQRS) quality attributes.
Office Exam Nat'l Quality Review Score	The score awarded to a reviewed office examination case by a Quality Reviewer using the NQRS quality attributes.
Examination Quality – Large Business	Average of the scores of the Large Business Return (LBR) cases reviewed by LB&I Quality Measurement System (LQMS). Case scores are based on the percentage of elements passed within each of the four auditing standard.
Examination Coverage – Business Assets >\$10 Million	The number of LB&I returns (C and S Corporations with assets over \$10 million and all partnerships) examined and closed by LB&I during the current fiscal year divided by the number of filings for the preceding calendar year.
Examination Efficiency – Individual (1040)	The sum of all individual 1040 returns closed by SB/SE, W&I, TE/GE, and LB&I (Field Exam and Correspondence Exam programs) divided by the total Full-Time Equivalent (FTE) expended in relation to those individual returns.
Automated Underreporter (AUR) Efficiency	The total number of W&I and SB/SE contact closures (a closure resulting from a case where we made contact) divided by the total FTE, including overtime.
Automated Underreporter (AUR) Coverage	A percentage representing the total number of W&I and SB/SE contact closures (a closure resulting from a case where SBSE and W&I made contact) divided by the total return filings for the prior year.
Collection Coverage – Units	The volume of collection work disposed compared to the volume of collection work available.
Collection Efficiency – Units	The volume of collection work disposed divided by total collection FTE.
Field Collection Nat'l Quality Review Score	The score awarded to a reviewed collection cases by a Quality Reviewer using the NQRS quality attributes.
Automated Collection System (ACS) Accuracy	The percent of taxpayers who receive the correct answer to their ACS question.
Criminal Investigations Completed	The total number of subject criminal investigations completed during the fiscal year, including those that resulted in prosecution recommendations to the Department of Justice as well as those discontinued due to a lack of prosecution potential.
Number of Convictions	The number of criminal convictions.
Conviction Rate	The percent of adjudicated criminal cases that result in convictions.
Conviction Efficiency Rate (\$)	The cost of Criminal Investigation's (CI) program divided by the number of convictions.
TE/GE Determination Case Closures	The number of cases closed in the Employee Plans or Exempt Organizations Determination programs, regardless of type of case or type of closing.
Percent of Major Projects within +/- 10% Cost Variance	The percentage of Major IT projects (BSM and nonBSM) that are within the +/-10% threshold for cost. The cost variance is measured from the initial cost estimate versus current cost estimate.
Percent of Major Projects within +/- 10% Schedule Variance	The percentage of Major IT (BSM & nonBSM) projects that are within the +/-10% threshold for schedule. The schedule variance is measured from the initial schedule estimate to the current schedule estimate.

## 4.4 – Alignment of the FY 2016 Initiatives to the IRS Strategic Goals

Treasury		IRS Strategic Goals			Taxpayer Assistance Blueprint (TAB)					
Strategic Goal 3-Objective 3.3	Priority Goals	Goal #1	Goal #2	Strategic Foundation for Organizational Excellence	Electronic Interaction Enablement	Telephone Service Enhancements	Partner Services	Outreach and Education	Marketing and Promotion	
<b>FY 2016 Initiatives</b> Improve Taxpayer Services Improve Upfront Identification and Resolution of Identity Theft Returns Enhance Service Options for Taxpayers Increase Service for Low-Income Taxpayers and Taxpayers in Need of Hardship Relief Implement Foreign Account Tax Compliance Act (FATCA) Implement Merchant Card and Basis Matching Prevent Identity Theft and Refund Fraud Address International and Offshore Compliance Issues Increase Audit Coverage Enhance Collection Coverage Address Compliance Risks in the Tax-Exempt Sector Improve Audit Coverage of Large Partnerships Pursue Employment Tax and Abusive Tax Schemes Enhance Investigations of Transnational Organized Crime (TOC) Ensure Ethical Standards of Conduct for Practitioners Leverage Data to Improve Case Selection Address Impact of the Affordable Care Act (ACA) Statutory Requirements Implement Information Technology (IT) Changes to Deliver Tax Credits and Other Requirements Sustain Critical Information Technology (IT) Infrastructure Implement Federal Investigative Standards Consolidate and Modernize IRS Facilities Maintain Integrity of Revenue Financial Systems Restore Staffing for Essential Support Programs Leverage New Technologies to Advance the IRS Mission	Pursue tax reform, implement the Patient Protection and Affordable Care Act and Foreign Account Tax Compliance Act, and improve Execution of the tax code	Introduce Self-Service and Electronic-Service Taxpayer Options	Deliver High Quality and Timely Service to Reduce Taxpayer Burden and Encourage Voluntary Compliance	Effectively Enforce the Law to Ensure Compliance with Tax Responsibilities and Combat Fraud	Invest in our Workforce and the Foundational Capabilities Necessary to Achieve our Mission and Deliver High Performance for Taxpayers and Stakeholders	✓	✓	✓	✓	✓
	✓	✓	✓	✓	✓	✓	✓	✓	✓	
	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
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	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

## 4.5 – Summary of IRS FY 2016 ACA Budget Request

Dollars in Thousands

FY 2016 Affordable Care Act (ACA)	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT		BSM		TOTAL	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
<b>FY 2015 Enacted</b>										
Reinvestment:					16,025				\$16,025	
Expand Telecom Infrastructure to Handle Increased Demand					16,025				16,025	
<b>Subtotal FY 2016 Changes to Base</b>					<b>\$16,025</b>				<b>\$16,025</b>	
Program Changes:										
Improve Taxpayer Services	78,343	1,231			23,154	7			101,497	1,238
Address Impact of Affordable Care Act (ACA) Statutory Requirements	108	1	44,775	432	22,323	50			67,206	483
Implement Information Technology (IT) Changes to Deliver Tax Credits and Other Requirements					305,645	818			305,645	818
<b>Subtotal Program Increases</b>	<b>\$78,451</b>	<b>1,232</b>	<b>\$44,775</b>	<b>432</b>	<b>\$351,122</b>	<b>875</b>			<b>\$474,348</b>	<b>2,539</b>
<b>Total FY 2016 Budget Request</b>	<b>\$78,451</b>	<b>1,232</b>	<b>\$44,775</b>	<b>432</b>	<b>\$367,147</b>	<b>875</b>			<b>\$490,373</b>	<b>2,539</b>



## 4.6 – Summary of IRS FY 2016 Budget Request

	TAXPAYER SERVICES	ENFORCEMENT	OPERATIONS SUPPORT	BSM	TOTAL
	\$000	\$000	\$000	\$000	\$000
	FTE	FTE	FTE	FTE	FTE
<b>Bureau: Internal Revenue Service</b>					
Summary of Proposed FY 2016 Request					
FY 2015 Enacted	\$2,156,854	\$4,860,000	\$3,638,446	\$290,000	\$10,945,000
	28,274	40,564	12,043	398	81,279
Changes to Base:					
Maintaining Current Levels (MCL):	\$52,822	\$81,120	\$65,512	\$1,223	\$200,677
Pay Annualization	4,837	11,875	4,093	197	21,002
Pay Raise (1.3%)	18,910	46,428	16,004	770	82,112
Non-Pay	3,571	5,171	39,968		48,710
FERS Contribution Increase	7,362	16,488	5,447	256	29,553
Federal Employees Health Benefits (FEHB) Program Modification	18,142	1,168			19,300
Efficiencies/Savings:	(\$18,399)	(61)	(\$32)		(\$18,431)
Increase e-File Savings	(2,374)	(46)	(32)		(2,406)
HCTC Program Termination	(16,025)	(15)			(16,025)
Reinvestment:			16,025		16,025
Expand Telecom Infrastructure to Handle Increased Demand			16,025		16,025
<b>Subtotal FY 2016 Changes to Base</b>	<b>\$34,423</b>	<b>\$81,120</b>	<b>\$81,505</b>	<b>\$1,223</b>	<b>\$198,271</b>
<b>Program Changes:</b>	<b>\$2,190,977</b>	<b>\$4,941,120</b>	<b>\$3,719,951</b>	<b>\$291,223</b>	<b>\$11,143,271</b>
	<b>28,213</b>	<b>40,564</b>	<b>12,043</b>	<b>398</b>	<b>81,278</b>
<b>Taxpayer Service Initiatives:</b>					
Improve Taxpayer Services	183,142	2,806	118,381	164	301,523
Improve Uppfront Identification and Resolution of Identity Theft Returns	15,562	193	3,322		18,884
Enhance Service Options for Taxpayers	13,891	45	2,352	9	16,243
Increase Service for Low-Income Taxpayers and Taxpayers in Need of Hardship Relief	5,123	27	596		5,719
<b>Subtotal Taxpayer Service Initiatives</b>	<b>\$217,718</b>	<b>3,071</b>	<b>\$124,651</b>	<b>173</b>	<b>\$342,369</b>
					<b>3,244</b>
<b>Enforcement Initiatives:</b>					
Implement Foreign Account Tax Compliance Act (FATCA)		33,625	37,380	140	71,005
Implement Merchant Card and Basis Matching		28,212	6,041		34,253
Prevent Identity Theft and Refund Fraud		47,738	358	62	82,162
Address International and Offshore Compliance Issues		35,206	5,451		40,657
Increase Audit Coverage		97,353	1,038	61	161,809
Enhance Collection Coverage		83,236	986	48	122,830
Address Compliance Risks in the Tax-Exempt Sector		15,511	146	13	23,462
Improve Audit Coverage of Large Partnerships		13,722	107	2,527	16,249
Pursue Employment Tax and Abusive Tax Schemes		8,677	52	8,509	17,186
Enhance Investigations of Transnational Organized Crime (TOC)		37,161	194	5,367	42,528
Ensure Ethical Standards of Conduct for Practitioners		3,385	28	895	4,280
Leverage Data to Improve Case Selection		5,111	14	33,949	39,060
Address Impact of Affordable Care Act (ACA) Statutory Requirements	108	1	44,775	432	67,206
<b>Subtotal Enforcement Initiatives</b>	<b>\$108</b>	<b>1</b>	<b>\$268,867</b>	<b>419</b>	<b>\$722,687</b>
					<b>4,656</b>
<b>Infrastructure Initiatives:</b>					
Implement Information Technology (IT) Changes to Deliver Tax Credits and Other Requirements		305,645	818		305,645
Sustain Critical Information Technology (IT) Infrastructure		188,514	157		188,514
Implement Federal Investigative Standards		3,464	11		3,464
Consolidate and Modernize IRS Facilities		85,456	74		85,456
Implement Agency Wide Shared Services Priorities		10,992	9		10,992
Maintain Integrity of Revenue Financial Systems		12,162	7		12,162
Restore Staffing for Essential Support Programs		19,938	152		19,938
<b>Subtotal Infrastructure Initiatives</b>		<b>\$626,171</b>	<b>1,228</b>		<b>\$626,171</b>
					<b>1,228</b>
<b>Business Systems Modernization Initiative:</b>					
Leverage New Technologies to Advance the IRS Mission		3,618		178	91,573
<b>Subtotal Business Systems Modernization Initiative</b>		<b>\$3,618</b>		<b>178</b>	<b>\$91,573</b>
					<b>178</b>
<b>Alcohol and Tobacco Tax and Trade Bureau Program Integrity Transfer:</b>					
Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities		5,000			5,000
<b>Subtotal Alcohol and Tobacco Tax and Trade Bureau Program Integrity Transfer Initiative</b>		<b>\$5,000</b>			<b>\$5,000</b>
					<b>5,000</b>
<b>Subtotal Program Increases</b>	<b>\$217,826</b>	<b>3,072</b>	<b>\$1,023,307</b>	<b>1,820</b>	<b>\$1,787,800</b>
					<b>9,306</b>
<b>Total FY 2016 Budget Request</b>	<b>\$2,408,803</b>	<b>31,285</b>	<b>\$4,743,258</b>	<b>13,863</b>	<b>\$12,931,071</b>
					<b>90,524</b>
Dollar/FTE Change FY 2016 Budget Request over FY 2015 Enacted	\$52,249	3,011	\$1,104,812	1,820	\$1,966,071
Percent Change FY 2016 Budget Request over FY 2015 Enacted	11.70%	10.65%	30.38%	15.11%	18.15%
					11.37%

## 4.7 – Summary of IRS FY 2016 Program Integrity Cap Adjustment

	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT		BSM		TOTAL	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
<b>Bureau: Internal Revenue Service</b>										
Summary of Proposed FY 2016 Request										
FY 2015 Enacted	\$2,156,554	28,274	\$4,860,000	40,564	\$3,638,446	12,043	\$290,000	398	\$10,945,000	81,279
Changes to Base:										
Maintaining Current Levels (MCLs):										
Pay Annualization	\$52,822		\$81,120		\$65,512		\$1,223		\$200,677	
Pay Raise (1.3%)	4,837		11,875		4,093		197		21,002	
Non-Pay	18,910		46,428		16,004		770		82,112	
FEERS Contribution Increase	7,362		16,488		39,968		256		48,710	
Federal Employees Health Benefits (FEHB) Program Modification	18,142		1,158		5,447				29,553	
Efficiencies/Savings:										
Increase e-File Savings	(\$18,399)	(61)			(\$32)				(\$18,431)	(61)
HCTC Program Termination	(2,374)	(46)			(32)				(2,406)	(46)
Reinvestments:										
Expand Telecom Infrastructure to Handle Increased Demand	(16,025)	(15)			16,025				(16,025)	(15)
									\$16,025	
<b>Subtotal FY 2016 Changes to Base</b>	<b>\$34,423</b>	<b>(61)</b>	<b>\$81,120</b>	<b>40,564</b>	<b>\$81,505</b>	<b>12,043</b>	<b>\$1,223</b>	<b>398</b>	<b>\$198,271</b>	<b>(61)</b>
<b>FY 2016 Current Services (Base)</b>	<b>\$2,190,977</b>	<b>28,213</b>	<b>\$4,941,120</b>	<b>40,564</b>	<b>\$3,719,951</b>	<b>12,043</b>	<b>\$291,223</b>	<b>398</b>	<b>\$11,143,271</b>	<b>81,218</b>
Program Changes:										
<b>Before Cap Adjustment Program Increases:</b>										
Improve Taxpayer Services	18,3142	2,806			118,381	164			301,523	2,970
Leverage New Technologies to Advance the IRS Mission					3,618				91,573	178
Implement Information Technology (IT) Changes to Deliver Tax Credits and Other Requirements					305,645	818			305,645	818
Improve Upfront Identification and Resolution of Identity Theft Returns	15,562	193			3,322				18,884	193
Implement Foreign Account Tax Compliance Act (FAT CA)					37,380	140			71,005	461
Sustain Critical Information Technology (IT) Infrastructure					188,514	157			188,514	157
Address Impact of Affordable Care Act (ACA) Statutory Requirements	108	1	44,775	432	22,323	50			67,206	483
Enhance Service Options for Taxpayers	13,891	45			2,352	9			16,243	54
Restore Staffing for Essential Support Programs					19,938	152			19,938	152
Increase Service for Low-Income Taxpayers and Taxpayers in Need of Hardship Relief	5,123	27			596				5,719	27
Implement Merchant Card and Basis Matching					6,041				34,253	322
<b>Subtotal FY 2016 Before Cap Adjustment Program Increases</b>	<b>\$217,826</b>	<b>3,072</b>	<b>\$106,612</b>	<b>10,755</b>	<b>\$708,110</b>	<b>1,490</b>	<b>\$87,955</b>	<b>178</b>	<b>\$1,120,503</b>	<b>5,815</b>
<b>Total FY 2016 Request Before Cap Adjustment</b>	<b>\$2,408,803</b>	<b>31,285</b>	<b>\$5,047,732</b>	<b>41,639</b>	<b>\$4,428,061</b>	<b>13,533</b>	<b>\$379,178</b>	<b>576</b>	<b>\$12,263,774</b>	<b>87,033</b>
Cap Adjustment Program Increases:										
Enforcement Initiatives:										
Prevent Identity Theft and Refund Fraud			47,738	358	34,424	62			82,162	420
Increase Audit Coverage			97,353	1,038	64,456	61			161,809	1,099
Improve Audit Coverage of Large Partnerships			13,722	107	2,527				16,249	107
Address International and Offshore Compliance Issues			35,206	238	5,451				40,657	238
Enhance Collection Coverage			83,236	986	39,594	48			122,830	1,034
Leverage Data to Improve Case Selection			5,111	14	33,949	45			39,060	59
Address Compliance Risks in the Tax-Exempt Sector			15,511	146	7,951	13			23,462	159
Pursue Employment Tax and Abusive Tax Schemes			8,677	52	8,509				17,186	52
Enhance Investigations of Transnational Organized Crime (TOC)			37,161	194	5,367				42,528	194
Ensure Ethical Standards of Conduct for Practitioners			3,385	28	895				4,280	28
<b>Subtotal Enforcement Initiatives</b>			<b>\$347,100</b>	<b>3,161</b>	<b>\$203,123</b>	<b>229</b>			<b>\$550,223</b>	<b>3,390</b>
Infrastructure Initiatives:										
Consolidate and Modernize IRS Facilities					85,456	74			85,456	74
Maintain Integrity of Revenue Financial Systems					12,162	7			12,162	7
Implement Agency-Wide Shared Services Priorities					10,992	9			10,992	9
Implement Federal Investigative Standards					3,464	11			3,464	11
<b>Subtotal Infrastructure Initiatives</b>					<b>\$112,074</b>	<b>101</b>			<b>\$112,074</b>	<b>101</b>
<b>Alcohol and Tobacco Tax and Trade Bureau Program Integrity Transfer:</b>										
Transfer to TTB for High-Risk Return on Investment (ROI) Tax Enforcement Activities			5,000						5,000	
<b>Subtotal Alcohol and Tobacco Tax and Trade Bureau Program Integrity Transfer Initiative</b>			<b>\$5,000</b>						<b>\$5,000</b>	
<b>Subtotal FY 2016 Cap Adjustment</b>			<b>\$352,100</b>	<b>3,161</b>	<b>\$315,197</b>	<b>330</b>			<b>\$667,297</b>	<b>3,491</b>
<b>Total FY 2016 Budget Request</b>	<b>\$2,408,803</b>	<b>31,285</b>	<b>\$5,399,832</b>	<b>44,800</b>	<b>\$4,743,258</b>	<b>13,863</b>	<b>\$379,178</b>	<b>576</b>	<b>\$12,931,071</b>	<b>90,524</b>
Dollar/FTE Change FY 2016 Budget Request over FY 2015 Enacted	\$252,249	3,011	\$539,832	4,236	\$1,104,812	1,820	\$89,178	178	\$1,986,071	9,245
Percent Change FY 2016 Budget Request over FY 2015 Enacted	11.70%	10.65%	11.11%	10.44%	30.36%	15.11%	30.75%	44.72%	18.15%	11.37%