

Internal Revenue Service

FY 2017

President's Budget

February 9, 2016

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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		FY 2015 Actual		FY 2016 Enacted ¹		FY 2017 Request		Change FY 2016 to FY 2017 Request		% Change FY 2016 to FY 2017 Request	
Appropriated Resources		FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:											
Taxpayer Services		27,476	\$2,173,684	30,370	\$2,333,376	31,056	\$2,406,318	686	\$72,942	2.26%	3.13%
Pre-Filing Taxpayer Assistance and Education		5,349	609,196	5,499	629,920	5,532	643,197	33	\$13,277	0.60%	2.11%
Filing and Account Services		22,127	1,564,488	24,871	1,703,456	25,524	1,763,121	653	59,665	2.63%	3.50%
Enforcement		39,708	\$4,767,563	38,840	\$4,864,936	41,028	\$5,216,263	2,188	\$351,327	5.63%	7.22%
Investigations		3,399	601,665	3,425	604,620	3,849	714,208	424	109,588	12.38%	18.13%
Exam and Collections		35,258	4,018,292	34,402	4,108,566	36,163	4,347,684	1,761	239,118	5.12%	5.82%
Regulatory		1,051	147,606	1,013	151,750	1,016	154,371	3	2,621	0.30%	1.73%
Operations Support		10,614	\$3,601,436	11,922	\$3,746,688	12,250	\$4,314,099	328	\$567,411	2.75%	15.14%
Infrastructure			833,846		832,543		895,094		62,551		7.51%
Shared Services and Support		5,013	1,126,230	5,231	1,141,485	5,257	1,197,954	26	56,469	0.50%	4.95%
Information Services		5,601	1,641,360	6,691	1,772,660	6,993	2,221,051	302	448,391	4.51%	25.29%
Business Systems Modernization		309	\$107,745	440	\$290,000	469	\$343,415	29	\$53,415	6.59%	18.42%
Subtotal New Appropriated Resources		78,107	\$10,650,428	81,572	\$11,235,000	84,803	\$12,280,095	3,231	\$1,045,095	3.96%	9.30%
Other Resources:											
Reimbursables		612	103,474	643	133,987	675	140,686	32	6,699	4.98%	5.00%
Offsetting Collections - Non Reimbursables		11	10,314	12	42,797	12	44,937		2,140		5.00%
User Fees		1,344	438,557	876	509,309	1,530	399,730	654	(109,579)	74.66%	-21.52%
Recovery from Prior Years			1,908								
Unobligated Balances from Prior Years		428	294,625		453,357		384,544		(68,813)		-15.18%
Transfers In/Out ²			7				(5,000)		(5,000)		
Resources from Other Accounts ³		290		2		2					
Subtotal Other Resources		2,685	\$848,885	1,533	\$1,139,450	2,219	\$964,897	686	(\$174,553)	44.75%	-15.32%
Total Budgetary Resources		80,792	\$11,499,313	83,105	\$12,374,450	87,022	\$13,244,992	3,917	\$870,542	4.71%	7.03%

¹FY 2016 Enacted includes \$290 million in Section 113 Administrative Provision funding in the following amounts: \$176.8 million in Taxpayer Services, \$4.9 million in Enforcement, and \$108.2 million in Operations Support.

²Resources from Transfers In/Out include a FY 2015 transfers between IRS and the Office of National Drug Control Policy (ONDCP) High Intensity Drug Trafficking Area (HIDTA) Program (obligations \$7 thousand), and a 2017 transfer out to the Alcohol and Tobacco Tax and Trade Bureau (TTB) (\$5 million).

³Resources from Other Accounts include Other Direct FTE funded by the Department of Health and Human Services (287 FTE in FY 2015) and the Federal Highway Administration (3 FTE for FY 2015, and 2 FTE projected for FY 2016 and FY 2017).

1B – Vision, Priorities, and Context

Improving Tax Administration

The IRS administers the nation’s tax laws and collects the revenue to fund the government. In fiscal year (FY) 2015, the IRS processed 244 million tax returns and other forms, and collected \$3.3 trillion in gross taxes (gross receipts before tax refunds of \$403 billion), equating to 93 percent of total federal government receipts. The Budget will allow the IRS to make progress in rebuilding the robust capabilities necessary to administer the tax system, and make new investments to keep pace with technology, taxpayer expectations, criminal activity related to stolen identity/refund fraud, and preventing cyber crime. The IRS is focused on providing a more integrated and secure delivery of taxpayer services through the same efficient, customer-focused channels, that taxpayers have come to expect from other financial institutions. The IRS is also working toward a more streamlined compliance program that identifies issues sooner and resolves them faster. These plans are part of the IRS Future State Vision.

Customer feedback indicates the desire for more online tools to facilitate the delivery of taxpayer services. In the IRS Oversight Board’s 2015 Taxpayer Attitude Survey, 84 percent of taxpayers stated that they were likely to use the IRS website, and 85 percent of taxpayers who were under the age of 35 said IRS applications on mobile devices such as smartphones are valuable. To address this customer feedback, “increasing secure self-service options for taxpayers” was established as an Agency Priority Goal and investments in the FY 2017 request to enhance IRS’s online services will directly address this goal.

The IRS plans to more effectively and efficiently deliver services to more people at a lower cost, increase compliance, prepare for the future, and prevent identity theft. The plan to improve tax administration requires the IRS to invest in the following areas:

- **Integrated and Secure Taxpayer Experience**
 - Faster, simpler problem solving tools to identify issues such as math errors, decreasing taxpayer burden, and reducing the risk of penalties and interest;
 - Improved capabilities for both taxpayers and IRS employees to address issues through enhanced digital services; and
 - Communication channels that reduce wait times and empower taxpayers to take more control of their tax account. This includes technology enabling personal service without being physically present in the same location.
- **Streamlined Compliance Program**
 - Leveraging better data analytics to improve voluntary compliance;
 - Mechanisms and case management capabilities that enable activities to minimize taxpayer burden;
 - A shortened enforcement cycle so taxpayers quickly know their issues are resolved with as few contacts as necessary; and

- o Improved outreach and notifications prior to and during filing coupled with applications allowing taxpayers to validate and/or self-correct their accounts.
- **Stronger Foundational Capabilities** – Information technology building blocks to deliver services and enforcement actions efficiently and effectively; deliberate workforce planning to attract and retain a skilled workforce; and an enhanced learning evaluation technology and dynamic enterprise knowledge management system.
- **Strong Information and System Security** – Secure technologies to provide maximum protection of taxpayer information, combat identity theft, provide timely victim assistance, and allow for appropriate enforcement.

New Investment Review Process

IRS senior leadership developed and implemented a new investment process to ensure proposed investments align with the IRS Strategic Plan. The IRS leadership prioritized its new investments based on their alignment with the IRS's strategic themes and this submission includes the IRS's highest priority investments. This includes an array of lower cost, online services; early error detection; online self-correction tools; enhanced cybersecurity; and compressed, more virtualized enforcement with minimal taxpayer burden.

Strategic Goals	IRS Strategic Objectives	IRS Strategic Theme
<u>Strategic Goal I:</u> Deliver high quality and timely service to reduce taxpayer burden and encourage voluntary compliance.	- 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. - Provide timely assistance through a seamless, multichannel service environment to encourage taxpayers to meet their tax obligations and accurately resolve their issues. - Deliver clear and focused outreach, communications and education programs to assist taxpayer understanding of tax responsibilities and awareness of emerging tax laws.	Theme 1 - Facilitate voluntary compliance by empowering taxpayers with secure innovative tools and support Theme 3- Leverage and collaborate with external stakeholders
<u>Strategic Goal II:</u> Effectively enforce the law to ensure compliance with tax responsibilities and combat fraud.	- Enforce domestic and international compliance by strengthening expertise, adopting innovative approaches, and streamlining procedures. - Identify trends, detect high-risk areas of non-compliance, and prioritize enforcement approaches by applying research and advanced analytics.	Theme 2 -Understand non-compliant taxpayer behavior, and develop approaches to deter and change it
<u>Strategic Foundation for Organizational Excellence:</u> Invest in the IRS workforce and the foundational capabilities necessary to achieve its mission and deliver high performance for taxpayers and stakeholders.	- Invest in building a highly talented, diverse workforce & cultivating an inclusive & collaborative environment. - Realize operational efficiencies and effectively manage costs by improving enterprise-wide resource allocation and streamlining processes. - Implement enterprise-wide analytics and research capabilities to make timely, informed decisions.	Theme 4 - Cultivate a well-equipped, diverse, skilled and flexible workforce Theme 5 - Select highest value work using data analytics and a robust feedback loop Theme 6 – Drive more agility, efficiency, and effectiveness in IRS Operations Focus Area – Strengthen cybersecurity and eliminate identity theft

Themes in bold are supported by investments in the FY 2017 Budget Request.

Treasury Strategic and Agency Priority Goals

The IRS FY 2017 Budget 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.
- ***Treasury Strategic 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.
- ***Treasury Strategic Goal:*** Create a 21st-century approach to government by improving efficiency, effectiveness, and customer interaction.
- ***Treasury Strategic Objective:*** Create a culture of service through relentless pursuit of customer value.

Agency Priority Goal: Increasing Secure Self-Service Options for Taxpayers:

The IRS will introduce self-service and electronic-service taxpayer options to enable taxpayers to securely authenticate, view account status, view and print tax records online, pay outstanding debts, enter into installment agreements, get tax law information, and easily access all parts of IRS.gov. By September 2017, the percentage of service interactions processed electronically should reach 32%, and the percentage of electronic interactions completed by taxpayers should reach 47%.

The tax administration system of the future will promote and improve voluntary compliance by delivering better service to more people at a lower cost. Taxpayers will have a variety of service options with an emphasis on online tools and support, and will be able to obtain service when and where they want it. The IRS will strive to accelerate enforcement processes through early issue detection, resolution, and minimal taxpayer burden, while simultaneously maximizing revenue by targeting the highest value work. To achieve this future state of tax administration the IRS has established six strategic themes and one focus area to guide its investment strategy and resource allocation. These themes align with existing Strategic Goals and Objectives and provide a clearer articulation of the strategic outcomes the IRS seeks to achieve in the future. The FY 2017 Budget aligns new investments to subsets of these themes:

Theme 1: Facilitate voluntary compliance by empowering taxpayers with secure innovative tools and support - Investments that support this theme will drive the IRS towards better delivery of tax administration by developing a more taxpayer-centric service and compliance model with a variety of self-service options and early error detection and resolution tools to reduce taxpayer burden. Some of the cutting-edge technologies requested are:

- Secure e-authentication technologies to improve the identification of individual taxpayers as well as third parties and businesses;

- Event Driven Architecture (EDA) to transform the IRS IT software architecture to a more efficient and responsive means of processing tax returns, collecting tax revenue, and issuing tax refunds by treating each transaction as a single event as opposed to batch processing;
- Enterprise Case Management (ECM) to establish a single, integrated case management system; and
- Expanded functionality to critical systems projects such as the Customer Account Data Engine (CADE) 2 and Modernized E-file (MeF), including the electronic receipt and processing of Form 1040X, *Amended U.S. Individual Income Tax Return*.

Theme 2: Understand non-compliant taxpayer behavior and develop approaches to deter and change it - These investments will leverage data and behavioral analytics to target the most effective non-compliance work in collection and enforcement while delivering a compressed, efficient enforcement cycle with early, upfront error detection and resolution. These investments will fund the use of network analysis to investigate abusive tax schemes, the enforcement and deterrence of non-compliance abroad through the implementation of the FATCA, and appropriate, balanced coverage by improving audit and collection coverage rates.

With the next generation of analytics, the IRS will improve tax administration and the taxpayer experience by evaluating the effectiveness of data-driven approaches for identifying and resolving taxpayer issues accurately and early, thereby reducing taxpayer burden. The IRS will take data analytics into the tax-exempt sector by digitizing the Form 990 (Return of Organization Exempt from Income Tax), which will yield faster processing of returns and more data-driven decisions on enforcement treatments.

Theme 3: Leverage and collaborate with external stakeholders - While the IRS is not requesting new investments in this theme, the IRS is continuing existing efforts to improve partnerships with all its stakeholders.

Theme 4: Cultivate a well-equipped, diverse, skilled workforce - Although no new investments are being requested for this theme, the IRS will continue to advance it using available resources. Deliberate workforce planning and knowledge management are cornerstones to the IRS's ability to execute a new era of tax administration. Knowledge management and a diverse, skilled workforce will be achieved through active corporate workforce planning that identifies and closes skill gaps across the organization.

Theme 5: Select highest value work using data analytics and a robust feedback loop - The IRS is not requesting new investments for this theme. With the next generation of analytics, the IRS will continuously improve tax administration and the taxpayer experience by evaluating the effectiveness of data-driven approaches for identifying and resolving taxpayer issues accurately and early. This theme focuses on harnessing data to inform work streams and enhance case selection capabilities and also includes an internal and external feedback loop to avert or address compliance issues quickly.

Theme 6: Drive more agility, efficiency, and effectiveness in IRS Operations - Ensures compliance with Federal Records Act of 1950 as amended (44 U.S.C. Chapter 31), which requires all systems to implement an electronic retention policy and the Managing Government Records Directive (M-12-18) which instructs agencies to manage electronic records more efficiently and effectively. Investments in this area enable faster responses to customers. Investments include:

- A robust electronic records management program;
- New software for processing information returns from third parties;
- Improvements to the IRS revenue financial accounting systems; and
- Funds to keep IT infrastructure current for existing and newly deployed systems.

These investments will increase organizational performance by reducing and eliminating manual processes and improving the reliability of enterprise infrastructure to support new and changing requirements from legislation, presidential orders, Government Accountability Office (GAO) recommendations, and demands from taxpayers; and helping to secure the IRS's people and facilities.

Focus Area: Strengthen cybersecurity and eliminate identity theft –Provides investments that combat Stolen Identity Refund Fraud and includes detection and prevention, assistance to victims, and law enforcement. In addition, the IRS plans to institute multiple layers of electronic authentication, including multi-factor security for access to taxpayer-facing systems and authentication at the time of filing. The IRS will enhance the security of its networks via the use of a cyber-threat forensics, implementation of a comprehensive patch management system, and the adoption of government-wide information security continuous monitoring tools as parts of a layered defense.

Leveraging Funds to Advance Progress in Strategic Areas

The Consolidated Appropriations Act of 2016 provided much needed funding to improve performance in customer (telephone) Level of Service, to enhance cybersecurity, and to prevent identity theft and refund fraud. The IRS plans to build upon these funding levels to move forward with implementing a Future State Vision that delivers a better overall experience for the taxpayer.

Despite this increase for these specific areas, other areas of the IRS remain under-resourced compared to FY 2010 levels and continue to experience performance issues. For example, reductions in the enforcement budget resulted in a reduced examination program. The number of revenue agents fell seven percent, from 11,422 in FY 2014 to 10,657 in FY 2015, the lowest level in more than a decade. The correspondence audit program declined by 275 FTE in FY 2015, which limited the impact on voluntary compliance. The related loss in closures is approximately 109,129 cases and potentially \$539 million in revenue. In addition, examinations of large corporate taxpayers (with assets of more than \$10 million) declined to only 7,448 in FY 2015, also the fewest in over a decade.

Despite the three percent decline in its FY 2015 budget from the year before, the IRS made investment decisions that achieved positive results during the year in key strategic areas.

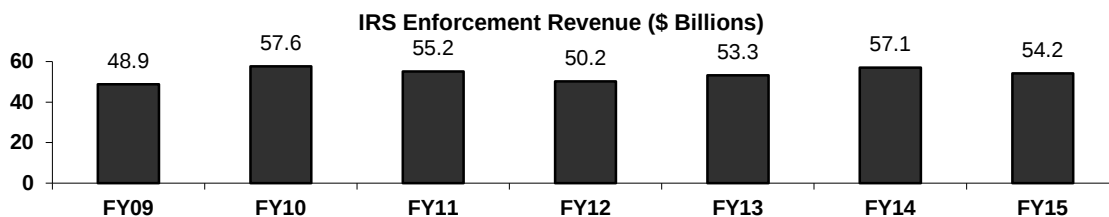
Theme 1 - Facilitate voluntary compliance by empowering taxpayers with secure innovative tools and support - The IRS is building an environment of multiple digital service options. In FY 2015, the IRS launched or enhanced an array of services:

- **IRS2Go Mobile, Version 5** which was launched at the start of the 2015 filing season, enables taxpayers to make electronic payments, find the nearest location offering free volunteer tax help, and uses responsive design to update the app for screen sizes of multiple devices. In FY 2015, IRS2GO was downloaded more than 2.3 million times and had over 3.8 million active users.
- **Third Party Data Services Pilot** enables the IRS to share refund status data with tax preparation firms, tax preparation software, and state and federal agencies that require individual taxpayer information. All information sharing was conducted with prior taxpayer consent.
- **Online Payment Agreement (OPA)** updates improved the individual taxpayer's user experience for a number of functions including log-in and authentication, expansion of the number of taxpayers eligible to set up installment agreements, and added analytics to better understand taxpayer experience within the application. Since its launch, more than 200,000 OPA agreements were completed representing more than \$650 million in balances owed.
- **IRS Direct Pay, Release 3** adds responsive design and enhancements for guest users (i.e., those taxpayers who do not create a username and password); email confirmations of payments, cancellations, or reversals, and a Spanish language version. Since the November 2013 launch, the IRS has collected \$17 billion through this application, of which \$14.9 billion was collected in FY 2015.

- **Directory of Federal Preparers with Credentials and Select Qualifications** provides a lookup tool to find return preparers by location. Since its launch in January 2015, customers performed more than 200,000 searches.
- **Payment Mix Comparison Tool** enables preparers, on behalf of the business taxpayer community, to compare the portion of gross receipts from credit card receipts to the business plans of similar businesses from prior years. This tool is intended to encourage accurate reporting by payment recipients and help close the tax gap.
- **Optimized Virtual Service Technology Delivery (VSD)** allows taxpayers to have face-to-face interactions with an IRS assistor who is working in a remote location by using video monitors stationed at non-IRS owned taxpayer support sites. So far, IRS has deployed this technology at five sites.

In addition, the IRS continues to implement the ACA. In FY 2015, the IRS successfully implemented two major provisions: the refundable premium tax credit and individual shared responsibility for both individual taxpayer returns and information returns from employers and insurers.

Theme 2 - Understand non-compliant taxpayer behavior and develop approaches to deter and change it - The IRS collected \$54.2 billion during FY 2015 through its enforcement programs.



In addition, the IRS:

- Completed 4,486 criminal investigations and obtained 2,879 convictions;
- Identified 1,281 questionable refund schemes reflecting \$1.2 billion in potentially fraudulent refunds claims and also imposed limits on the number of refunds that can be deposited in a single bank account. As a result, 205,019 refunds totaling \$863 million were converted to paper. and
- Received 28,635 taxpayer applications from the Offshore Voluntary Compliance Disclosure Program, which permits taxpayers to voluntarily disclose that they failed to report income in offshore bank accounts.

In moving towards three aspects of Theme 2 - integrated case management, early anomaly detection, and a compressed enforcement cycle - the IRS will establish a program management office to roll out the Enterprise Case Management system, which will incorporate business rules and filters for better case selection for exam, collection, and issue identification. Additionally, the IRS has re-engineered the examination process for corporate

taxpayers. The IRS uses data-driven analysis to develop early warnings of emerging areas of tax non-compliance.

A centerpiece of the IRS's enforcement strategy is the continued implementation of the FATCA. The IRS added additional capabilities to the FATCA registration website and released second-generation software for registration. It released the International Data Exchange Service – which consists of testing with foreign partners to enable them to conduct reporting. The IRS also initiated and deployed the International Compliance Management Model (ICMM), a new system that receives, processes, manages, and stores FATCA data and modernizes communications with foreign governments that have Intergovernmental Agreements (IGAs) and Competent Authority Arrangements (CAAs). ICMM processes FATCA reports filed electronically or on paper.

The IRS also implemented an initiative to improve the Fraud Referral Program and examinations of 501(c) tax exempt entities, allowing the IRS to identify 19 entities involved in illicit terrorist financing schemes.

Theme 3: Leverage and collaborate with external stakeholders - This past year, the IRS launched a major campaign in partnership with tax professional organizations focused on helping taxpayers choose tax return preparers wisely, while understanding the different categories of tax preparers. The IRS also used social media tools, such as YouTube, Twitter, and podcasts to share the latest information on tax changes, initiatives, products, and services. The IRS partnered with Volunteer Income Tax Assistance/Tax Counseling for the Elderly partners, to provide more than 3.7 million taxpayers with free tax preparation. The IRS introduced and launched a new Taxpayer Bill of Rights (TBOR) to enhance the taxpayers' understanding of their rights, incorporating the existing rights in the tax code, and grouping them into ten easily understandable categories. In addition, the IRS worked with key partners and stakeholders to establish a Security Summit Group this past March, composed of two dozen public and private sector leaders. It included the chief executive officers of Intuit, H&R Block and other tax and financial product companies. On June 11, 2015, Commissioner Koskinen joined the tax industry and state tax authorities to announce several Security Summit Group efforts to combat stolen identity refund fraud.

Focus Area: Strengthening cybersecurity and preventing identify theft/refund fraud has been an IRS priority for many years. While staying ahead of adaptive adversaries is a constant challenge and requires extreme vigilance, the IRS continues to build robust programs in these areas and has had success despite recent issues across the government. In FY 2015, the IRS identified and shut down 1,474 false IRS websites and deployed the second release of e-Authentication software, which handled a 275 percent increase in traffic from the same period last year, with 7.3 million unique users (registered and guest) and, 34.4 million proofing transactions requested.

Get Transcript provides a current digital display of an individual's tax record across five transcript types using enterprise-wide authentication. Since the January 2014 launch, over 45 million transcripts have been generated through this application. In FY 2015, the IRS experienced unauthorized accesses on the Get Transcript application when 390,000 attempts to access taxpayer data were made, of which nearly three out of five were successful. The

IRS sent letters to the affected taxpayers informing them of the issue, and offered victims free credit monitoring services. Within five days of recognizing the issue, the IRS also notified Congress. As a result of this response, the IRS was able to minimize unauthorized access. During the 2015 filing season, more than 23 million taxpayers successfully accessed their transcripts online and received immediate service. The Get Transcript application was shut down to prevent additional breaches. The IRS has partnered with the U.S. Digital Service to develop new authorization methodologies using cutting-edge security platforms. The IRS currently plans to put Get Transcript back online during calendar year 2016.

In addition to the aforementioned cybersecurity efforts, in 2014 the IRS deployed a new fraud/anomaly detection system, the Return Review Program (RRP), and successfully executed an ID theft/fraudulent return pilot project. By processing all refund returns through multiple analytic models and business rules, the RRP system scores and selects suspicious returns that have a high probability of identity-theft related fraud. RRP has successfully loaded and scored over 98 million electronic refund returns. Of those returns, nearly 800,000 were identified as potential identity theft fraud, representing potentially more than \$4.7 billion in government revenues protected. RRP was able to reduce the amount of manual analysis work by 20 percent, identifying suspicious cases earlier in the process. In its inaugural filing season, RRP operated without interruption

In addition to the identity theft prevention efforts focused on screening returns as potentially fraudulent, the IRS was also successful in stopping actual fraudulent refunds. The IRS stopped more than 1.7 million fraudulent returns with associated refunds of more than \$14 billion. The IRS prisoner program continues to be successful in preventing fraudulent refunds; the IRS stopped more than 30,000 fraudulent prisoner returns with associated refunds of more than \$1.2 billion.

The Electronic Fraud Detection System (EFDS) which is the IRS's current fraud protection system, has successfully loaded and analyzed 125 million individual income tax returns via Modernized e-File and 12.8 million paper returns in FY 2015. Of that number, nearly 1.1 million returns were identified as fraudulent, representing \$6.8 billion in revenue protection.

The IRS also continues to refine and develop new identity theft filters based on analytical models and data validation. As a result, potentially fraudulent returns are stopped much earlier in processing allowing the IRS to quickly resolve cases for identity theft victims. In FY 2015, the IRS selected 1,987,975 returns for further analysis via its enhanced analytics compared to 1,570,008 in FY 2014 (a 27 percent increase).

Tax Statistics at a Glance

Tax Stats at a Glance	FY 2014	FY 2015
Total Returns Processed	199 million	201 million
Total Returns and Other Forms Processed	242 million	244 million
Total Revenue Collected	\$3.1 trillion	\$3.3 trillion
Enforcement Revenue Collected	57.1 billion	54.2 billion
Total Refunds and Outlays	\$374 billion	\$403 billion
Avg. Individual Refund	\$2,748	\$2,735
e-File Rate - Individual	84.1%	85.3%
e-File Rate - Business	43.1%	47.0%
IRS.gov Page Views	1.8 billion	2.0 billion
"Where's My Refund?" Usage	189.1 million	234.7 million
Number of Downloads from IRS.gov	117.8 million	132.6 million

Tax Administration is at Risk

The IRS made substantial progress related to its strategic themes and will make additional progress as a result of the resources provided in FY 2016. Nonetheless, the IRS's progress with regard to preparing for the future state of tax administration proves challenging without additional resources to modernize its systems and deliver the type of customer service expected of any financial services provider. The world is changing, taxpayer expectations are changing, and given the continuing budget challenges, the IRS needs to look at the future in a more comprehensive way, and consider how it can take advantage of the latest technology to move the entire taxpayer experience to a new level. The IRS will do this in a way that meets the needs of taxpayers, helps IRS employees in their jobs, and is cost-effective for the government. A key part of this effort is for taxpayers to have a more complete online experience for all of their transactions with the IRS. The organization's ability to roll out capabilities such as enhanced digital services will prove very challenging without these additional resources.

The Road Ahead

The investments in this Budget request are needed for the IRS to succeed in the future with regard to tax administration, and the IRS will continue to target its investments towards the IRS's strategic themes and priorities. The IRS is also committed to a rigorous and continuous planning and investment decision process. To that end, the IRS will enhance its performance management process to monitor its progress towards achieving a new, improved taxpayer experience and streamlined compliance that aims to detecting errors and resolving issues as early as possible with the least amount of taxpayer burden. Efforts started in FY 2015 to identify a more definitive suite of enterprise goals and supporting intermediate performance measures to track progress toward the IRS future state vision and strategic themes have continued into FY 2016. These enterprise goals and intermediate measures will be finalized in FY 2016 and then woven into an effective and transparent strategic performance management system that will help guide senior level decision making at the IRS.

Program Integrity Cap Adjustment

In addition to the base appropriations request of \$11.8 billion, the FY 2017 Budget proposes a \$515 million cap adjustment to fund new and continuing investments in expanding and improving the effectiveness and efficiency of the IRS's and the Alcohol and Tobacco Tax and Trade Bureau's (TTB) overall tax enforcement program. The proposed FY 2017 enforcement investments will yield additional revenue as described within this document. The Budget also proposes additional cap adjustments for new investments each year through FY 2021 that are sustained with additional adjustments through 2026 to account for economic factors, such as inflation. The investments will generate approximately \$64 billion in additional revenue over 10 years and will cost about \$18 billion for an estimated net savings of \$46 billion. Notably, the return on investment (ROI) is likely understated because it only includes amounts directly recovered; it does not reflect the effect that 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 2017 Enforcement Investments

Enforcement efforts increase revenue by encouraging voluntary compliance for those taxpayers who would otherwise seek to avoid meeting their tax obligations under the law. The IRS calculates a return on investment for both revenue protecting investments and revenue generating investments. Protected revenue is revenue the IRS protects from being refunded erroneously. It is associated with activities that occur prior to the issuance of a taxpayer's refund, including the identification of fraud and questionable returns. Revenue generated is from compliance efforts that yield direct, measurable results through enforcement activities such as examination and collection returns.

FY 2017 Revenue-Producing Investments

The FY 2017 budget includes \$388.1 million in investments for traditional enforcement and strategic revenue programs, which are projected to generate \$2.6 billion in revenue once the investments reaches full potential in FY 2019, the expected total ROI is \$5.6 to \$1.

Return on Investment (ROI) for IRS FY 2017 Enforcement Initiatives

Dollars in Millions	First Year (FY 2017)			Full Performance (FY 2019)		
	Cost	Revenue	ROI	Cost	Revenue	ROI
FY 2017 Revenue Producing Enforcement Initiatives	\$388.1	\$397.5	1.0	\$475.1	\$2,643.1	5.6
Cap Adjustment Enforcement Initiatives	\$388.1	\$397.5	1.0	\$475.1	\$2,643.1	5.6
Immediate and Directly Measurable Revenue-Producing Initiatives	\$207.6	\$397.5	1.9	\$282.6	\$2,643.1	9.4
Increase Collection Coverage	90.5	160.5	1.8	127.3	1,216.4	9.6
Increase Audit Coverage	117.1	237.0	2.0	155.3	1,426.7	9.2
Strategic Revenue-Producing Initiatives (which do not have immediately measurable ROI, but clear long-term revenue effects)	\$180.5	\$0.0	0.0	\$192.5	\$0.0	0.0
Digitizing Form 990	2.4	0.0	0.0	3.1	0.0	0.0
FATCA: Implement, Expand Filing Coverage, and Combat Criminal Non-compliance	126.7	0.0	0.0	141.6	0.0	0.0
Pursue Employment Tax and Abusive Tax Schemes	15.8	0.0	0.0	10.1	0.0	0.0
Increase Investigations of Transnational Organized Crime (TOC)	35.6	0.0	0.0	37.7	0.0	0.0

The FY 2017 budget also includes an additional \$180.5 million to support strategic revenue-producing investments. These investments do not have an immediately measureable ROI, but have clear long-term revenue effects.

FY 2017 Revenue-Protecting Investments

In addition to the traditional revenue-producing investments, IRS activities to prevent the issuance of fraudulent returns related to identify theft will allow the IRS to identify and resolve issues before 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 \$1.5 billion in revenue at a lower cost than the downstream enforcement actions and achieve an FY 2019 ROI of \$12.3 to \$1.

FY 2017 Revenue-Protecting Enforcement Initiatives

Dollars in Millions	First Year (FY 2017)			Full Performance (FY 2019)		
	Cost	Revenue	ROI	Cost	Revenue	ROI
Revenue Protecting Initiatives (which protect taxpayer information, prevents identity theft, and results in long-term revenue protection)	\$101.3	\$676.0	6.7	\$124.3	\$1,526.0	12.3
Before Cap Adjustment Revenue Protecting Initiative	\$90.0	\$612.0	6.8	\$107.6	\$1,146.0	10.7
Prevent Identity Theft and Refund Fraud and Reduce Improper Payments	90.0	612.0	6.8	107.6	1,146.0	10.7
Cap Adjustment Revenue Protecting Initiative	\$11.3	\$64.0	5.7	\$16.7	\$380.0	22.8
Increase Audit Coverage (revenue-protecting portion)	11.3	64.0	5.7	16.7	380.0	22.8

Section 2 – Budget Adjustments and Appropriations Language

The IRS Budget Request for FY 2017 is \$11,765,347,000 in direct appropriations and 82,679 FTE. The request represents an increase of \$530,347,000, or 4.72 percent, and 1,107 FTE more than the FY 2016 Enacted level of \$11,235,000 and 81,572 FTE. The total Budget Request including the program integrity cap adjustment is \$12,280,095 and 84,803 FTE.

2.1 – Budget Adjustments Table

Summary of Proposed FY 2017 Request (Dollars in Thousands)

Internal Revenue Service	FTE	Amount
FY 2016 Enacted (before Administrative Provision 113)	78,919	\$10,945,000
FY 2016 Administrative Provision 113	2,653	\$290,000
Improve Taxpayer Service	2,483	178,422
Cyber Security	170	95,442
Strengthening the Prevention of Identity Theft		16,136
FY 2016 Enacted	81,572	\$11,235,000
Changes to Base:		
Maintaining Current Levels (MCLs):		\$170,348
Pay Annualization		26,975
Pay Raise		99,926
Non-Pay		43,447
Efficiencies/Savings:	(72)	(\$3,766)
Increase e-File Savings	(72)	(3,766)
Subtotal FY 2017 Changes to Base	(72)	\$166,582
FY 2017 Current Services (Base)	81,500	\$11,401,582
Program Increases:		
Budget Request Program Increases:		
<i>Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support</i>		
Implement Changes to Deliver Tax Credits and Other Requirements for the Affordable Care Act		153,240
Leverage New Technologies to Advance the IRS Mission	29	53,488
Improve Taxpayer Service	613	48,455
Subtotal	642	\$255,183
<i>Drive More Agility, Efficiency, and Effectiveness in IRS Operations</i>		
Enterprise Electronic Records Management Solution	46	18,543
Subtotal	46	\$18,543
<i>Focus Area: Strengthen Cybersecurity and Eliminate Identity Theft</i>		
Prevent Identity Theft and Refund Fraud and Reduce Improper Payments	491	90,039
Subtotal	491	\$90,039
Subtotal FY 2017 Budget Request Program Increases	1,179	\$363,765
Total FY 2017 Total Budget Request	82,679	\$11,765,347
Dollar/FTE Change FY 2017 Budget Request over FY 2016 Enacted	1,107	\$530,347
Percent Change FY 2017 Budget Request over FY 2016 Enacted	1.36%	4.72%
Cap Adjustment Program Increases:		
<i>Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support</i>		
Enterprise Case Management	22	7,967
Subtotal	22	\$7,967
<i>Understand Non-Compliant Taxpayer Behavior and Develop Approaches to Deter and Change It</i>		
Increase Collection Coverage	699	90,467
Increase Audit Coverage	856	128,435
Digitizing Form 990	7	2,378
FATCA: Implement, Expand Filing Coverage, and Combat Criminal Non-compliance	273	126,739
Pursue Employment Tax and Abusive Tax Schemes	37	15,786
Increase Investigations of Transnational Organized Crime (TOC)	130	35,564
Subtotal	2,002	\$399,369
<i>Drive More Agility, Efficiency, and Effectiveness in IRS Operations</i>		
Operations and Maintenance for Deployed Business Systems Modernization (BSM) Projects	73	92,174
Maintain Integrity of Revenue Financial Systems	27	10,238
Subtotal	100	\$102,412
<i>Alcohol and Tobacco Tax and Trade Bureau Transfer:</i>		
Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities		5,000
Subtotal		\$5,000
Subtotal FY 2017 Cap Adjustment Program Increases	2,124	\$514,748
Subtotal FY 2017 Total Program Increases Including Cap Adjustment	3,303	\$878,513
Total FY 2017 Total Budget Request Including Cap Adjustment	84,803	\$12,280,095
Dollar/FTE Change FY 2017 Budget Request including PIC over FY 2016 Enacted	3,231	\$1,045,095
Percent Change FY 2017 Budget Request including PIC FY 2016 Enacted	3.96%	9.30%

2A – Budget Increases and Decreases Description

FY 2017 Investment Labor Costing Methodology

The IRS uses a variety of methods to calculate the cost of its investments. Investments 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, based on known averages.

The FY 2017 investment FTE were estimated assuming an April 1 hire date except for front-line positions in Submission Processing and Account Management and Assistance – Electronic/Correspondence Assistance, which assumed an October 1 hire date. The primary function of the Submission Processing and Account Management and Assistance taxpayer service programs is to assist taxpayers during the filing season. They are not dependent on the typical hiring and training process affecting other IRS programs because there is a large existing seasonal workforce that is available to work additional hours as resources become available. To fully fund the FTE requested in this Budget request using an April 1 hire date, the IRS will require an additional \$256 million and 2,601 FTE for annualization in FY 2018.

FY 2016 Administrative Provision 113 (Public Law 114-113)

+\$290,000,000 / +2,653 FTE

Section 113 of the Department of the Treasury Appropriations Act of 2016 provided \$290,000,000 to: measurably improve the customer service representative level of service (LOS) rate (the percentage of callers to the IRS who receive service from an assistor or automated system), improve the identification and prevention of refund fraud and identity theft, and enhance cybersecurity to safeguard taxpayer data.

These resources, supplemented with user fees, will allow the IRS to achieve a 65 percent LOS during the filing season and 47 percent for FY 2016; this is a substantial improvement over FY 2015 levels. These resources will also increase staff and support technology innovation efforts in relation to cybersecurity; and improve methods of detecting and preventing identity theft/refund fraud patterns and schemes.

Maintaining Current Levels (MCLs)

+\$170,348,000 / 0 FTE

Pay Annualization +\$26,975,000 / 0 FTE

Funds are requested for annualization of the January 2016 pay raise.

Pay Raise +\$99,926,000 / 0 FTE

Funds are requested for the proposed January 2017 pay raise.

Non-Pay +\$43,447,000 / 0 FTE

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

Efficiencies and Savings

-\$3,766,000 / -72 FTE

Increase e-File Savings -\$3,766,000 / -72 FTE

These savings are a result of reduced paper returns. The IRS projects a total of 1,026,100 fewer returns filed on paper in FY 2017 (525,100 individual and 501,000 business returns).

Program Increases

FY 2017 Budget Request	+\$363,765,000	+1,179 FTE
FY 2017 Program Integrity Cap Adjustment	+\$514,748,000	+2,124 FTE
FY 2017 Budget Request Including Program Integrity Cap Adjustment	+\$878,513,000	+3,303 FTE

This section of the budget request is organized into themes. Each theme section provides an overview, and a description of challenges, and resources needed to support these themes. The IRS is moving toward a vision through a dynamic shift that is already being executed, and this budget request help steadily move the IRS toward accomplishing that vision.

The total FY 2017 budget request makes new investments in the following two themes and a focus area:

- **Theme 1:** Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support +\$255,183,000 / +642 FTE
- **Theme 6:** Drive More Agility and Efficiency in IRS Operations +\$18,543,000 / +46 FTE
- **Focus Area:** Strengthen Cybersecurity and Eliminate Identity Theft +\$90,039,000 / +491 FTE

The FY 2017 Program Integrity Cap Adjustment of +\$514,748,000 and +2,124 FTE consists of the following three themes and the TTB transfer:

- **Theme 1:** Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support +\$7,967,000 / +22 FTE
- **Theme 2:** Understand Non-Compliant Taxpayer Behavior, and Develop Approaches to Deter and Change It +\$399,369,000 / +2,002 FTE
- **Theme 6:** Drive More Agility and Efficiency in IRS Operations +\$102,412,000 / +100 FTE
- **Alcohol and Tobacco Tax and Trade Bureau Transfer** +\$5,000,000 / 0 FTE

Theme 1: Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support +\$263,150,000 / +664 FTE

Summary of Theme 1 Budget Request (by Component)

Initiative (dollars in thousands)	Implement Legislative Mandates		Facilitate Voluntary Compliance through Taxpayer Service		Develop Innovative Technology and Tools		Total Theme 1 Budget Request	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
Budget Request Program Increases	\$153,240		\$48,455	613.00	\$53,488	29.00	\$255,183	642.00
Implement Changes to Deliver Tax Credits and Other Requirements for the ACA	\$153,240						\$153,240	
Improve Taxpayer Service			\$48,455	613.00			\$48,455	613.00
Increase level of service (LOS)			41,420	590.00			41,420	590.00
Online Accounts			5,130	9.00			5,130	9.00
Other Direct Costs			1,905	14.00			1,905	14.00
Leverage New Technologies to Advance the IRS Mission					\$53,488	29.00	\$53,488	29.00
Expand business Systems Modernization					11,207	5.50	11,207	5.50
CADE-2					1,674	3.50	1,674	3.50
Web Applications					4,020		4,020	
Modernized e-File					4,549	2.00	4,549	2.00
Architecture, Integration and Management					61		61	
Management Reserve					903		903	
Event Driven Architecture					30,555	14.50	30,555	14.50
Enterprise Case Management (PMO)					11,726	9.00	11,726	9.00
Cap Adjustment Program Increases			\$7,967	22.00			\$7,967	22.00
Enterprise Case Management (PMO)			7,967	22.00			7,967	22.00
FY 2017 Total Program Increases	\$153,240		\$56,422	635.00	\$53,488	29.00	\$263,150	664.00

Voluntary compliance is the cornerstone of the nation's tax system, and is at its highest when the IRS is able to provide effective and timely service. Efforts associated with this theme will drive the IRS towards a new era of tax administration through taxpayer-centric service and compliance with a variety of self-service options, early error detection and resolution, and with minimal taxpayer burden.

In 2015, the IRS processed an estimated 27 million more returns than it did 17 years ago. Budget constraints affected customer service levels. Telephone Level of Service (LOS) dropped below 40 percent during the 2015 filing season, meaning more than 6 out of every 10 call attempts did not reach a live assistor. The number of taxpayers disconnected by the IRS phone system when it became overloaded with calls was over 17.682 million in FY 2015, compared with 1.401 million in FY 2014, and wait times in many cases were greater than 30 minutes.

The IRS's future state will enable taxpayers to interact with the IRS in ways similar to today's financial services companies, using capabilities built and proven successful in the private sector. The IRS is committed to improving taxpayer service and increasing the service options available through the IRS web site and mobile application.

This investment has three major components:

- Implement Legislative Mandates – Make major modifications to existing IRS systems and processes to administer new requirements from recent legislation.

- Facilitate Voluntary Compliance through Taxpayer Service – Increase LOS to 70 percent for the full FY 2017 (FY 2016 is expected to be 47 percent), handle additional workload from the expansion of enforcement programs, and develop innovative technology to support taxpayer services.
- Develop of Innovative Technology and Tools – Provide dynamic return processing, develop enterprise case management, and develop critical IT systems for taxpayer service programs. Increasing web services will help meet taxpayer demand for web-based self-service tools while reducing the number of phone and correspondence-based communication.

Implement Legislative Mandates Component (+\$153,240,000 / 0 FTE)

*Implement Changes to Deliver Tax Credits and Other Requirements for the ACA
(+153,240,000 / 0 FTE)*

This investment will allow the IRS to continue to implement the new tax law provisions contained in the Affordable Care Act. While the Department of Health and Human Services is responsible for 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. These requirements touch all tax administration processes, from submission processing to enforcement with both individual and business tax returns.

This investment funds advanced technology infrastructure and applications support and allows necessary, major modifications to existing IRS tax administration systems. It provides funds to support established ACA business capabilities by:

- Validating tax credits claimed on individual tax returns;
- Assessing and collecting penalties, taxes, and fees;
- Providing federal tax information to non-IRS entities in the insurance marketplaces; and
- Reconciling reported income, tax credits, and individual shared responsibility payments with information returns.

It will also allow the IRS to continue to develop and implement new capabilities in FY 2017, including:

- Assessing and supporting management of the employer shared responsibility payment;
- Expanding support for post-filing compliance activities for the employer shared responsibility payment;
- Mediating additional web services between systems;
- Expanding data analytics capabilities; and
- Initiating development activities related to the Excise Tax on High-Cost Health Plans.

Facilitate Voluntary Compliance through Taxpayer Service (+\$56,422,000 / +635 FTE)

Improve Taxpayer Service (+\$48,455,000 / +613 FTE)

Delivering high quality and timely service to reduce taxpayer burden is a core part of the IRS mission to facilitate voluntary compliance. Taxpayers increasingly expect to complete more of their day-to-day tasks and responsibilities online. This component provides funding to reverse the recent decline in taxpayer services and to implement technology to help transform the taxpayer experience through improved LOS, innovative technological support, and taxpayer advocacy support. This investment of \$41.4 million and 590 FTE, along with \$100 million in user fee resources, will achieve a 70 percent LOS in FY 2017, up from the FY 2016 level of 47 percent. If the full amounts requested in President's Budget are not enacted, this level of user fee resources may not be available, and the investment of \$41.4 million will achieve a 53 percent LOS.

The investment of \$5.1 million and 9 FTE for online accounts will modernize and improve self-service options for individual taxpayers, and ultimately business and international taxpayers, by creating an integrated and easy-to-use source for timely, accurate, and consolidated tax filing and tax account information. It will provide the ability to correct returns online, which will reduce the time and money spent on processing amended returns; it is estimated to save the IRS \$5.3 million.

This component also includes funding in the amount of \$1.9 million and 14 FTE to support both IRS's Taxpayer Service and Enforcement programs by handling the downstream impact in the Taxpayer Advocate Service (TAS) from increased collection and audit coverage. The additional TAS specialists will ensure that the IRS does not create unnecessary burdens or compromise taxpayers' rights.

*Enterprise Case Management (ECM) Project Management Office (PMO) - **Cap Adjustment** (+\$7,967,000 / +22 FTE)*

The PMO will serve as the integrator for ECM and will coordinate with IT and all IRS business units to provide strategic guidance in alignment with the IRS Strategic goals and business plan and drive collaboration and alignment with all aspects of case management.

Development of Innovative Technology and Tools (+\$53,488,000 / +29 FTE)

Leverage New Technologies to Advance the IRS Mission (+53,488,000 / +29 FTE)

The IRS must become more accessible to today's taxpayers by providing a consistent multichannel experience that includes significantly expanded digital service delivery. This component supports voluntary compliance through technology projects that will enable simpler and more consistent taxpayer interactions through the following three investments:

- Expand Business Systems Modernization

This investment of \$11.2 million and 5.5 FTE 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. It will provide funding for IT staff, hardware and software, contractual services, and infrastructure support for the following:

- o CADE 2 (Taxpayer Account Database) (+\$1,674,000 / +3.5 FTE)

A single, data-centric solution that provides daily processing of taxpayer accounts. It will enable analytical reporting for more meaningful business intelligence and expanded opportunities to increase compliance.

- o Web Applications (+\$4,020,000 / 0 FTE)

Simplify the taxpayer's online experience, provide secure digital communications, and add more interactive capabilities to existing web-based 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.

- o Modernized e-File (MeF) (+\$4,549,000 / +2 FTE)

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. Funds will be used for the development and testing of Release 11, Form 1040 – U.S. Nonresident Alien Income Tax Return. This change will allow taxpayers to file Form 1040NR returns related to their income from trade and/or business transactions conducted in the United States.

- o Architecture, Integration and Management (AI&M) (+\$61,000 / 0 FTE)

Essential IRS systems strategy, architecture, and engineering capabilities for the major modernization projects across all technology platforms.

- o Management Reserve (+\$903,000 / 0 FTE)

Funds not otherwise designated for specific projects to allow flexibility in responding to unexpected IT needs.

- Event Driven Architecture (EDA)

This investment of \$30.6 million and 14.5 FTE will cover software licenses, hardware, and contractor support to implement EDA. EDA will increase the average speed at which refunds are delivered to taxpayers who have submitted non-problematic returns by handling each return independently. Currently, tax returns are bundled and processed together in batches, according to the time at which they are submitted, which creates the potential for properly completed tax returns being held up by returns that have issues. EDA is a framework that manages each return independently and immediately upon arrival. Returns submitted with minor errors (such as simple arithmetic problems) will be addressed by EDA immediately at time of filing. The current process may take months to identify simple errors and notify the filer.

EDA is also a prerequisite for the following improvements:

- o A web-based individual tax return;
- o Taxpayer line-by-line self-correction of tax errors through an online tool;
- o Automated issue identification to notify a taxpayer instantly of an error prior to submitting a tax return; and

- Enterprise Case Management (ECM) Technology Development

This investment of \$11.7 million and 9 FTE funds ECM technology development. IRS has multiple aging case management systems that have operated independently for over 30 years. The current segmented approach is inefficient and does not allow the IRS to adapt quickly to changing taxpayer behavior or address changes that arise, such as new legislation or trends in non-compliance. ECM will use a common platform to improve data accessibility across the service and produce efficiencies.

Theme 2: Understand non-Compliant Taxpayer Behavior, and Develop Approaches to Deter and Change It +\$399,369,000 / +2,002 FTE

Summary of Theme 2 Budget Request (by Component)

Initiative (dollars in thousands)	Strengthen Core Enforcement Programs		Develop Innovative Technology		Total Theme 2 Budget Request	
	\$000	FTE	\$000	FTE	\$000	FTE
Cap Adjustment Program Increases	\$284,628	1,867.50	\$112,363	127.50	\$396,991	1,995.00
Increase Collection Coverage	\$81,355	680.00	\$9,112	19.00	\$90,467	699.00
Field Collection Coverage	39,779	261.00			39,779	261.00
Automated Collection System	22,537	246.50			22,537	246.50
Correspondence Collection	12,804	132.50			12,804	132.50
Withholding Compliance System (WHCS)			9,112	19.00	9,112	19.00
Other Direct Costs	6,235	40.00			6,235	40.00
Increase Audit Coverage	\$102,323	817.50	\$26,112	38.50	\$128,435	856.00
Examination Coverage	56,318	403.00			56,318	403.00
Specialty Programs	3,446	21.00			3,446	21.00
Correspondence Examination	19,848	212.00			19,848	212.00
Automated Underreporter (AUR)	9,598	100.00			9,598	100.00
Operations Support	2,837	14.50			2,837	14.50
Other Direct Costs	10,276	67.00			10,276	67.00
QuickBooks			3,325	7.50	3,325	7.50
Innocent Spouse Application in Accounts Management			2,801	7.00	2,801	7.00
Corporate Data Initiative			846	2.00	846	2.00
2D Barcoding			8,395	3.00	8,395	3.00
Correspondence Imaging for Compliance			10,745	19.00	10,745	19.00
Digitizing Form 990			2,378	7.00	2,378	7.00
FATCA: Impl, Exp Filing Coverage, & Combat Criminal Non-compliance	56,758	203.00	69,981	70.00	126,739	273.00
Pursue Employment Tax and Abusive Tax Schemes	\$8,628	37.00	\$7,158		\$15,786	37.00
Increase Investigations of Transnational Organized Crime (TOC)	\$35,564	130.00			\$35,564	130.00
FY 2017 Total Program Increases	\$284,628	1,867.50	\$114,741	134.50	\$399,369	2,002.00

This theme encompasses the IRS's approach to enforcement activities. Compliance is one of the most challenging problems facing the IRS. While most taxpayers voluntarily comply with their tax obligations, some do not. The IRS roots out non-compliance to protect revenue and ensure accurate revenue collection by carrying out a rigorous enforcement program. Since FY 2010, however, the IRS has seen appropriated resources to support this program cut by more than 10.5 percent, resulting in falling audit coverage rates and a growing inventory of collection cases. As a result of insufficient funding in FY 2015, the individual examination coverage rate fell to 0.8 percent, the lowest level in a decade. When the coverage rate is low, the secondary deterrent effect of enforcement activity also falls. This reduces revenue and threatens the integrity of the nation's voluntary tax compliance system. The FY 2017 Budget request will increase the coverage rate from FY 2016 planned levels. However, if not fully funded, the falling coverage rate could reduce the deterrent effect of enforcement activities in the future.

The FY 2017 Budget provides much needed staffing for the examination, collection, and investigation programs, and resources to develop innovative tools to improve both the efficiency and effectiveness of these programs. This investment has two major components:

- Strengthen Core Enforcement Programs - Additional enforcement staff will complete more than 500,000 additional audits, close more than 350,000 collection cases, strengthen the IRS's international enforcement efforts, and meet the increased workload related to tax schemes.

- Develop Innovative Technology – Investments in IT will build out systems that support the implementation of FATCA, improve efficiency in operations by streamlining and redesigning current technology infrastructure, and develop systems to digitize data allowing employees to collaborate and resolve cases more effectively.

Strengthen Core Enforcement Programs (+\$284,628,000 / +1,867.5 FTE)

Investments to strengthen core enforcement programs will help the IRS improve the resolution of non-compliance with fairness and integrity. Budget cuts over the last several years have led to rising case inventories and call volumes, preventing the IRS from bringing taxpayers who fail to pay their tax debt into compliance, and reducing individual audit coverage to 0.8 percent. This component will:

- Increase collection and audit coverage;
- Implement, expand filing coverage, and combat criminal non-compliance related to FATCA;
- Digitize form 990;
- Pursue employment tax and abusive tax schemes; and
- Increase investigations of transnational organized crime.

*Increase Collection Coverage – **Cap Adjustment** (+\$81,355,000 / +680 FTE)*

This will provide resources for the IRS to work the growing collection inventory and call volumes that resulted from reduced staffing levels in recent years and bring taxpayers who fail to pay their tax debt into compliance. This investment, including the \$9.1 million for technology costs outlined in the Summary of Theme 2 Budget Request (by Component) table (above), is expected to produce additional annual enforcement revenue of \$1,216.4 million, an ROI of \$9.6 to \$1, once the new hires reach full potential in FY 2019. It will:

- Provide nearly 400 additional field collection staff to expand programs that address non-filing and underpayment of taxes to handle more than 30,000 additional collection cases (currently there are more than one million cases in the queue with an aggregate assessed balance exceeding \$52 billion);
- Provide more than 350 additional Automated Collection System (ACS) staff to address an additional 302,000 ACS cases, including incoming calls generated by the issuance of levies, delinquent returns, and/or unpaid tax liabilities. ACS staffing has decreased by 25 percent since the end of FY 2011, resulting in a substantial increase in unhandled ACS cases; and
- Expand several Compliance Services Collection Operations (CSCO) programs that address nonfiling and underpayment of taxes through the notice process by more than 320,000 notice dispositions. CSCO investments will increase balance due work and expand the following programs: Automated Substitute for Return, Offers in Compromise, Withholding Compliance, Campus Notice, and the Campus Decedent Taxpayer Unit

*Increase Audit Coverage – **Cap Adjustment** (+\$102,323,000 / +817.5 FTE)*

Budget constraints have reduced the examination staff available to conduct audits, causing the individual audit coverage rate to decline to 0.8 percent, which is increasing risk to the integrity of the nation's voluntary tax compliance system. The IRS will invest a total of \$128.4 million in audit coverage, which is projected to produce more than \$1.4 billion in additional revenue annually, and protect \$380.0 million of revenue annually, once the new hires reach full potential in FY 2019. ROI details for this investment can be found in Section 1 of this document. The corresponding technology costs are outlined in the thematic cost table. These resources will help the IRS to:

- Close over 32,000 additional individual field examination cases (the number of field audit examiners has declined by 27 percent since 2011);
- Improve the audit coverage rate, and expand examination coverage on taxpayers claiming refundable credits (before the issuance of a refund), in order to prevent improper payments;
- Expand the Automated Underreporter (AUR) program to process more than 400,000 additional cases. Currently AUR processes approximately 3.6 million; and
- Implement a quality review program for penalty and interest computations to provide accurate administration of the interest and charges associated with more than 170 civil penalties, with assessments exceeding \$30 billion annually.

*Foreign Account Tax Compliance Act (FATCA) Implement, Expand Filing Coverage, and Combat Criminal Non-compliance – **Cap Adjustment** (+\$56,758,000 / +203 FTE)*

The requested resources will expand filing coverage and combat criminal non-compliance with FATCA. This investment provides the staffing required to:

- Identify and address high priority international issues with implementation, including improving systems to allow financial institutions and other entities to comply with their requirements under FATCA;
- Develop additional guidance, and conduct outreach activities, training, and monitoring;
- Create and maintain the programs and systems required to improve compliance, including a means to identify and address non-compliance of taxpayers, financial institutions, and other entities; and
- Develop enforcement and fraud prevention programs through data analysis reducing the likelihood of improper payments for erroneous refunds related to withholding under FATCA and Chapter 3.

*Pursue Employment Tax and Abusive Tax Schemes – **Cap Adjustment** (+\$8,628,000 / +37 FTE)*

Today's sophisticated schemes to defraud the government require financial investigators to wade through financial records. In order to ensure that employment tax and abusive tax schemes do not become a major source of criminal activity and lost revenue, resources must be dedicated to reinforcing the IRS's criminal investigative efforts. This investment will allow the IRS to close an additional 100 tax evasion and abusive tax scheme cases annually once new hires reach their full potential in FY 2019. Currently the IRS closes about 200 such cases per year.

*Increase Investigations of Transnational Organized Crime (TOC) – **Cap Adjustment** (+\$35,564,000 / +130 FTE)*

The threat of transnational organized crime (TOC) is becoming more severe as criminal networks use increasingly sophisticated tactics that exploit the borderless, interconnected nature of the global economy. IRS staff work with the Office of National Drug Control Policy (ONDCP) as well as several multi-agency task forces to support investigations of illegal drug trafficking and money laundering perpetrated by organizations involved in TOC. This investment is projected to allow the IRS to complete an additional 360 investigations annually once new hires reach full potential in FY 2019.

Develop Innovative Technology (+\$114,741,000 / +134.5 FTE)

Investments in technology will help the IRS to effectively analyze risks, address the right issues, and apply coordinated and efficient treatments to resolve non-compliance with fairness and integrity. This component provides \$114.7 million dollars to fund the following eight investments in technology:

*Increase Collection Coverage– **Cap Adjustment** (+\$9,112,000 / +19.0 FTE)*

The Withholding Compliance (WHC) Program brings taxpayers who have serious under-withholding problems into compliance with tax withholding requirements and currently relies on three separate inputs by tax examiners for each case action. This investment will provide a single entry system to populate multiple databases, will generate WHC correspondence letters, and will increase the efficiency of WHC employees and the accuracy of data. This investment is projected to allow WHC to correct withholding for an additional 90,000 taxpayers. A WHC case averages a \$1,200 increase in withholding, for a total potential revenue increase of \$108 million. Withholding behavior tends to show long-lasting improvements for affected taxpayers in future years.

*Increase Audit Coverage – **Cap Adjustment** (+\$26,112,000 / +38.5 FTE)*

- QuickBooks (+\$3,325,000 / +7.5 FTE)

Accounting software holds approximately 94 percent of the small business accounting software retail market, and is frequently encountered in the examination of taxpayer returns. This investment provides access to QuickBooks software to all revenue

agents enabling them to accept electronic accounting records and reducing taxpayer burden.

- Innocent Spouse Application (ISA) in Accounts Management (+\$2,801,000 / +7.0 FTE)

ISA is a tool within the Accounts Management System to work claims for relief associated with the Innocent Spouse Program that ensures that users address all of the necessary factors that will allow consistent application of the tax laws. This investment enhances the ISA to systemically issue letters, post case closing transactions, assign inventory, and create reports that can be queried.

- Corporate Data Initiative (CDI) (+\$846,000 / 2.0 FTE)

CDI will redesign Microsoft Access databases to Enterprise Architecture compliant design and infrastructure. This investment will allow CDI to establish an enterprise service model for developing, operating and maintaining small corporate databases and spreadsheets originally developed in Microsoft Access or Excel.

- 2D Barcoding for Paper Forms 1040, 1040X (+\$8,395,000 / 3.0 FTE)–

This investment will capture return data from the 1040 family of paper returns utilizing 2D barcodes and process paper payments electronically. Data captured will flow through to the Integrated Submission and Remittance Processing system resulting in faster, more accurate processing and improved audit effectiveness.

- Correspondence Imaging for Compliance (+\$10,745,000 / +19.0 FTE)

Legacy correspondence systems currently store imaged correspondence in disparate formats and locations. This investment will create a central repository for imaged correspondence and allow IRS employees to collaborate and resolve compliance cases more efficiently. It will also establish a common document and imaging infrastructure. The efficacy of search queries will be improved across applications, indices, and database servers by sharing server content. This investment is expected to reduce the time, complexity, and costs associated with current document and image management.

*Digitizing Form 990— **Cap Adjustment** (+\$2,378,000 / +7.0 FTE)*

This investment will allow the IRS to electronically capture data from paper-filed Forms 990, *Return of Organization Exempt from Income Tax*, and implement 2D barcodes on these returns. This will increase audit effectiveness and the speed of return processing, reduce transcription errors, and reduce the incidence of inadvertent disclosure of information resulting from manual redaction errors when posting Forms 990 to publicly available sources.

*FATCA: Implement, Expand Filing Coverage, and Combat Criminal Non-compliance – **Cap Adjustment** (+\$69,981,000 / +70.0 FTE)*

This investment of \$69.9 million and 70 FTE will support the build out of FATCA systems requirements. It will fund updates to the legacy electronic filing system to modify and process FATCA forms, additional capabilities in the web-based registration system, and

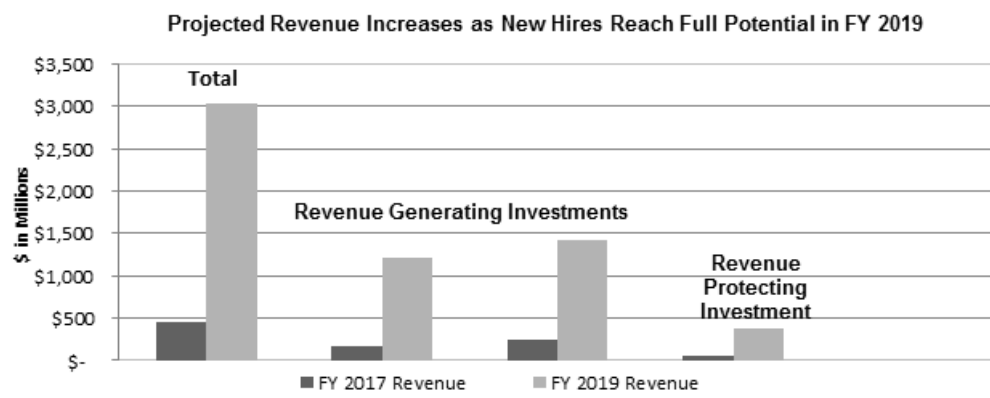
enhanced functionality in the systems that facilitate the exchange and processing of FATCA data to and from withholding agents, Foreign Financial Institutions (FFIs) and Host Country Tax Authorities and the United States.

*Pursue Employment Tax and Abusive Tax Schemes – **Cap Adjustment** (+\$7,158,000 / 0 FTE)*

A network analysis tool will enable 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 investment of \$7.2 million funds contractual services to acquire and implement network analysis.

Expected Outcomes

The FY 2017 budget includes \$399.4 million in investments to improve understanding of non-compliant taxpayer behavior, which support the IRS's traditional enforcement programs including audit and collection coverage. These investments are projected to generate and protect \$461.5 million in revenue in FY 2017, for an initial ROI of \$1.2 to \$1. Once the investment hires reach full potential, the expected ROI is \$6.1 to \$1. ROI for specific investments is identified in the table below.



	Total Costs and Revenue		Increase Collection Coverage		Increase Audit Coverage		Increase Audit Coverage (revenue-protecting portion)		Enforcement Investments with Long-Term Revenue Effects	
	FY 2017	FY 2019	FY 2017	FY 2019	FY 2017	FY 2019	FY 2017	FY 2019	FY 2017	FY 2019
Cost	\$ 399.4	\$ 491.9	\$ 90.5	\$ 127.3	\$ 117.1	\$ 155.3	\$ 11.3	\$ 16.7	\$ 180.5	\$ 192.5
Revenue	\$ 461.5	\$3,023.1	\$ 160.5	\$1,216.4	\$ 237.0	\$1,426.7	\$ 64.0	\$ 380.0		
Average ROI	1.2	6.1	1.8	9.6	2.0	9.2	5.7	22.8		

Theme 6: Drive More Agility and Efficiency in IRS Operations

+\$120,955,000 / +146 FTE

Summary of Theme 6 Budget Request (by Component)

Initiative (dollars in thousands)	Implement New Capabilities to Drive Agility, Efficiency and Effectiveness		Provide Support for Existing Systems		Total Theme 6 Budget Request	
	\$000	FTE	\$000	FTE	\$000	FTE
Budget Request Program Increases	\$18,543	46.00			\$18,543	46.00
Enterprise Electronic Records Management Solution	18,543	46.00			18,543	46.00
Cap Adjustment Program Increases	\$10,238	27.00	\$92,174	73.00	\$102,412	100.00
Maintain Integrity of Revenue Financial Systems	10,238	27.00			10,238	27.00
Operations and Maintenance for Deployed Business Systems Modernization (BSM) Projects			92,174	73.00	92,174	73.00
FY 2017 Total Program Increases	\$28,781	73.00	\$92,174	73.00	\$120,955	146.00

This theme provides a common case management solution, an improved revenue financial system, and maintenance funding for IT systems.

This theme has two major components:

- Implement New Capabilities and Systems – Create an enterprise records management solution and improve the IRS’s revenue financial accounting systems.
- Provide Support for Existing Systems – Acquire mainframes, servers, hardware, software, and contractual services for deployment of Business Systems Modernization (BSM) projects.

Implement New Capabilities and Systems (+\$18,543,000 / +46 FTE) Cap Adjustment (+\$10,238,000 / +27 FTE)

This component provides funding to manage official records more effectively by implementing new systems and creating a unified, searchable archive of IRS e-mails to avoid redundant archiving. This component also supports and improves the IRS’s revenue financial accounting systems to ensure timely and accurate reporting of tax data. This component funds the following investments:

Enterprise Electronic Records Management Solution - (+\$18,543,000 / +46 FTE)

This investment will allow the IRS to respond more timely to legal and Congressional inquiries, and FOIA requests. In FY 2016, using funding from projected user fee receipts, the IRS will invest in the infrastructure required to support this investment. This investment will continue the implementation of the solution for electronic records management. Over a multi-year period, the IRS will phase in enterprise content management processes for taxpayer-related records, records of policy, program, project development, and email. These actions will bring IRS into compliance with the Federal Records Act of 1950 as amended (44 U.S.C. Chapter 31), which requires all systems to implement an electronic records retention policy and the Managing Government Records Directive (M-12-18) which instructs agencies to manage electronic records more efficiently and effectively.

*Maintain Integrity of Revenue Financial Systems - **Cap Adjustment** (+\$10,238,000 / +27 FTE)*

The current revenue financial systems do not use commercial software, so the IRS is reliant on internal resources to maintain them. These systems reconcile and report to the Bureau of Fiscal Service on over \$3 trillion in revenue before refunds and are currently identified by GAO as a material weakness. This investment will merge multiple financial systems into one repository to ensure the integrity of the IRS's financial data and make necessary changes to ensure that systems comply with accounting and other requirements. This will automate reconciliations of the IRS ledger systems and assist in the gathering of data for creation of reports and for GAO and TIGTA audits. Consolidation and elimination of systems that support operational decision making and the financial audit will yield savings and efficiencies in future years.

Provide Support for Existing Systems Component Cap Adjustment (+\$92,174,000 / +73 FTE)

For the past few years, the IRS has experienced increased demand for IT projects and services, with significant resources going toward implementing legislative mandates, including the FATCA, the ACA, and other mandatory requirements. This has severely impacted the IRS capacity to address other operational areas, including maintenance for newly deployed IT infrastructure.

*Operations and Maintenance for Deployed Business Systems Modernization (BSM) Projects – **Cap Adjustment** (+\$92,174,000 / +73 FTE)*

This investment increases IRS IT operations funding for BSM projects. The IRS receives funding for major IT development and modernization projects through the BSM appropriation. Once development is completed, regular operations and maintenance begins, and the IRS is required to pay for this maintenance through its Operations Support appropriation. Since 2013, the IRS has incurred over \$95.5 million in increased annual requirements as a result of BSM systems deployments, but has not received commensurate increases to the Operations Support appropriation. This investment partially restores the Operations Support base so that the funding will not have to be redirected from other areas to pay for the deployed BSM projects. Resources will fund staff, hardware and software, and contractual services for these deployed systems.

Expected Outcomes

This investment will improve IRS operations by:

- Helping respond in a timely fashion to legal and Congressional inquiries;
- Helping to preserve institutional knowledge through the creation of an enterprise-wide electronic records management system; and
- Increasing organizational performance by improving revenue financial systems, in particular by reducing and eliminating manual processes and merging financial systemic data.

Focus Area: Strengthen Cybersecurity and Eliminate Identity Theft

+\$90,039,000 / +491 FTE

Summary of Focus Area Budget Request (by Component)

Initiative (dollars in thousands)	Address the Increased Workload Associated with Identity Theft, Refund Fraud, & Improper Payments		Strengthen Technology to Improve the Prevention of Refund Fraud & Improper Payments		Total Focus Area Budget Request	
	\$000	FTE	\$000	FTE	\$000	FTE
Budget Request Program Increases						
Prevent Identity Theft and Refund Fraud and Reduce Improper Payments	70,843	459.50	19,196	31.50	90,039	491.00
Improving the Prevention of Identity Theft and Refund Fraud	8,624	69.50			8,624	69.50
Expanding Identity Theft Victim Assistance	9,573	134.00			9,573	134.00
Expand External Leads	1,015	12.00			1,015	12.00
Prevention of False Tax Returns Filed by Inmates	524	3.00			524	3.00
Assess Preparer Penalties	1,545	16.00			1,545	16.00
Increase Criminal Investigation Identity Theft Support	46,655	204.50			46,655	204.50
Counsel and Taxpayer Services Support	2,907	20.50			2,907	20.50
Eliminate Social Security Numbers (SSN) from Taxpayer Mailings			7,100		7,100	0.00
Web-based Freedom of Information Act (FOIA)			3,436	3.50	3,436	3.50
Establish Centralized Repository for Fraud			2,785	1.00	2,785	1.00
Dishonored Check Processing			2,396	6.50	2,396	6.50
Preventing MeF Fraud and Improved Access to Social Security Administration Data			1,858	12.00	1,858	12.00
Integrated Automated Technology (IAT) Tools			1,621	8.50	1,621	8.50
FY 2017 Total Program Increases	\$70,843	459.50	\$19,196	31.50	\$90,039	491.00

This section describes investments to combat stolen identity refund fraud, including detection and prevention, assistance to victims, and law enforcement.

Due to the trillions of dollars that flow through the IRS each year and the vast amount of data it maintains, the IRS is subjected to continuous cyber-attacks by criminals attempting to steal taxpayer data or use the tax administration system for personal gain. Identity theft is a growing epidemic that impacts all federal agencies. Information security incidents in the federal government involving personally identifiable information increased more than 140 percent from FY 2009 to FY 2013. Cyber scams that result in identity theft and refund fraud, and the methods used to perpetrate them, continue to evolve, and require constant adaptation by the IRS. Additionally, data breaches occurring outside of the IRS have given criminals access to personal data, making it easier to impersonate legitimate taxpayers. The IRS is making progress against these crimes, but needs to make continuous investments in resources and tools to stay ahead of criminals.

The FY 2017 budget request will invest in the technology and workforce skills that allow for timely risk assessments, strong prevention techniques, and data analysis that can be used to develop solutions for stolen identity refund fraud and shorten reaction times risks and incidents. This investment has two major components:

- Address the Increased Workload Associated with Identity Theft, Refund Fraud, and Improper Payments – Funding for this component will provide additional staffing to reduce case inventories, protect revenue, and provide taxpayer service for victims of identity theft.

- Strengthen Technology to Improve the Prevention of Refund Fraud and Improper Payments – Funding for this component will build a suite of capabilities necessary to protect taxpayer data and the nation’s tax revenue.

Address the Increased Workload Associated with Identity Theft, Refund Fraud, and Improper Payments (+\$70,843,000 / +459.5 FTE)

Tax-related identity theft is increasingly complex and resource-intensive to combat. From the computer-based fraud detection filter that flags the return, to the accounts management employee that helps a victim regain control of his/her account, to the special agent who investigates the crime, identity theft impacts virtually every major IRS function. The IRS has struggled to meet the public’s expectations as identity theft continues to grow. This investment provides additional staffing to handle the increased workload associated with identity theft, refund fraud, and reducing improper payments. This component provides \$67.9 million to fund the following six investments and associated other direct costs:

*Prevent Identity Theft and Refund Fraud and Reduce Improper Payments
(+\$70,843,000 / +459.5 FTE)*

- Improving the Prevention of Identity Theft and Refund Fraud (+\$8,624,000 / +69.5 FTE)

These resources will allow the IRS to:

- o Establish Campus Fraud Technical Advisors to provide investigative leads and referrals to federal, state, and local law enforcement agencies to solve tax-related identity theft cases;
- o Employ staffing and contractor support to safeguard and effectively manage federal tax information shared externally, oversee compliance with safeguard agreements, and monitor unencrypted Personally Identifiable Information leaving the IRS enabling the timely assessment of identity theft risk or other potential harm to taxpayers; and
- o Hire additional staff to pursue more of the available leads from the Proactive Lead Analysis program, which obtains leads from industry partners and state departments of revenue based on their fraud and identity theft detection programs regarding returns that have not yet been filed. This protects revenue by stopping improper refunds before they are issued. The staff will also help resolve the related taxpayer account issues quickly. The IRS projects that the added Revenue Protected resulting from these analyses for calendar year (CY) 2014 and CY 2015 will be over \$1.3 billion.

- Expand Identity Theft Victim Assistance (+\$9,573,000 / +134 FTE)

Additional resources will expand the IRS’s ability to stop or suspend returns identified as potential identity theft cases. This helps taxpayers affected by tax-related identity theft to get their issues resolved more timely and prevent them from being burdened with the same issues from year to year.

Funds will also expand capacity to handle additional cases involving victims of tax related identity theft who have engaged the IRS for assistance. Receipts for these cases grew from about 188,000 receipts in FY 2010 to 730,000 in FY 2014.

FY 2017	Identity Theft Case Receipts		IPSU Case Receipts	
	<i>Current Resources</i>	<i>With Initiative Resources</i>	<i>Current Resources</i>	<i>With Initiative Resources</i>
Projected Beginning Inventory	70,000	70,000	40,000	40,000
Projected New Receipts	500,000	500,000	713,000	713,000
Projected Closures	409,000	500,000	704,000	713,000
Projected Ending Inventory	161,000	70,000	49,000	40,000

- Expand External Leads (+\$1,015,000 / +12 FTE)

The IRS External Leads staff recovers funds related to questionable refunds from external sources (e.g., financial institutions, state agencies, and tax providers). Expanding this staff enables the IRS to increase the number of lead sources, which have grown from 30 to 527 since 2010, that participate in this program and provide support for external leads pattern development. The IRS External Leads program recovered more than \$1.3 billion in fraudulent refunds in FY 2014 and FY 2015 and expects to recover an additional \$1 billion in FY 2016. With this FY 2017 request, the External Leads program expects to recover \$1.2 billion in fraudulent refunds.

- Prevention of False Tax Returns Filed by Inmates (+\$524,000 / +3 FTE)

The Bipartisan Budget Act of 2013 allows the IRS access to data in the Prisoner Update Processing System (PUPS) maintained by the Social Security Administration (SSA). Resources will allow the IRS to implement and improve filters and models used with the PUPS data that will detect prisoner fraud including the identification of fraudulent wages and withholding on returns. Currently inmates use fake SSNs, SSNs of the deceased, and other SSNs to file fraudulent tax returns. PUPS data would add over two million records to the IRS's Prisoner File, and is projected to result in \$1 billion in additional revenue protected annually.

- Assess Preparer Penalties (+\$1,545,000 / +16 FTE)

The IRS requests additional staff to expand enforcement efforts to help reduce improper payments and assess appropriate preparer penalties. Resources will help identify return preparers who are committing refund fraud by filing multiple returns claiming false refundable credits. The IRS will develop successful penalty assessment models and filters to improve program effectiveness, thus creating a deterrent effect.

- Increase Criminal Investigation Identity Theft Support (+\$46,655,000 / +204.5 FTE)

The IRS requests additional funding to:

- o Combat data breaches (+\$40,145,000 / +167.0 FTE) by hiring:
 - o 120 FTE to work criminal investigation cases related to identity theft and refund fraud which have grown by over 350 percent;

- o 45 FTE to increase staff at the IRS's Scheme Development Centers (SDCs) which identify and develop schemes for the purpose of referring and supporting high-impact criminal tax and related financial investigations; and
- o 2 FTE to support faster and more efficient fingerprint processing in the IRS's National Forensic Laboratory (NFL) Latent Fingerprint Section and to provide technical investigative assistance for data breach cases that operate in the "dark net."
- o Expand the Identity Theft Clearinghouse (+\$3,448,000 / +21.0 FTE) by increasing the IRS's participation in multi-agency task forces that obtain information about criminal activity involving federal and state tax refunds. These special agents will also extend outreach to state and local law enforcement to expand the Law Enforcement Assistance Program as recommended by TIGTA Audit 2015-40-003 *Law Enforcement Assistance Program Requests Are Not Always Processed Timely and Accurately*.
- o Criminal Investigation Support (+\$1,377,000 / +9.5 FTE) provides funding for additional analysts for the Cyber Crimes Unit to provide technical investigative assistance and coordination in working identity theft and refund fraud cases.
- o Refund Crimes Bank Secrecy Act (BSA) Review Project (+\$759,000 / +3.5 FTE). 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.
- o Initiative to Combat Temporary Work Visa Exploitation (+\$926,000 / +3.5 FTE). Combat Temporary Work Visa exploitation by collaborating with SSA, FinCEN, and State Department to gather identifying information for visa holders. The IRS has seen an increase in the use foreign exchange visitors' identities for filing false tax returns and facilitating the movement of false refunds.

Strengthen Technology to Improve the Prevention of Refund Fraud and Improper Payments (+\$19,196,000 / +31.5 FTE)

Investments in cyber defense technology are imperative in order to maintain both the integrity of tax administration and the confidence of the American people. The proliferation of online financial and personal data has enabled an explosion of identity theft as compromised third party data is more easily and cheaply stolen, warehoused, and sold online, greatly increasing the risk for fraud and improper payments. This component provides \$19.2 million dollars to fund the following investments:

Prevent Identity Theft and Refund Fraud and Reduce Improper Payments (+\$19,196,000 / +31.5 FTE)

- Eliminate Social Security Number (SSN) from Taxpayer Mailings (+\$7,100,000 / 0 FTE)

These funds will provide resources for software, infrastructure, and related support to continue to reduce the use of Social Security Numbers (SSNs) on IRS forms. 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 acquire and implement equipment 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.

- Web-based Freedom of Information Act (FOIA) (+\$3,436,000 / +3.5 FTE)

This investment will fund a web-based platform for Freedom of Information Act (FOIA) requests. The IRS processes over 30,000 annual FOIA requests using its Automated FOIA (AFOIA) system. AFOIA does not have a robust search and find feature and is not compliant with Section 508 provisions. A web-based platform will improve system stability and performance, provide the capability for additional enhancements such as a robust search and find feature that will protect against inadvertent disclosure of taxpayer information, comply with Section 508 provisions, and establish the foundation for taxpayers to submit, monitor, and track their requests for information online. This investment supports the tenets of National Institute of Standards and Technology (NIST) Appendix J by assessing and improving the privacy controls associated with the IRS FOIA system.

- Establish Centralized Repository for Fraud (+\$2,785,000 / +1.0 FTE)

This project funds labor and technology that will enhance multiple core tax enforcement areas within the IRS, including fraud referrals, corporate fraud, and abusive employment tax schemes. The centralized repository will expand the IRS's ability to identify significant tax cases; streamline and standardize the fraud referral process; and increase the number of fraud convictions thereby facilitating restitution orders that will lead to additional assessments. This system will allow the use of data and research across the organization. The repository database will aid in tracking, monitoring, and processing all fraud referrals including those related to identity theft.

- Dishonored Check Processing (DCP) (+\$2,396,000 / +6.5 FTE)

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 eliminate manual processes and create a fast, systemic transfer of insufficient fund information to the IRS Dishonored Check File with no manual process involved. By posting dishonored checks to tax accounts faster, it will expedite the process of monitoring identity thieves' activities.

- Preventing MeF Fraud and Improved Access to Social Security Administration Data (+\$1,858,000 / +12.0 FTE)

These resources will fund development and implementation of a means to reject attempts to e-file a return after five unsuccessful attempts. This will deter fraud perpetrators who are making multiple computerized attempts to file ID theft returns electronically. It also provides 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

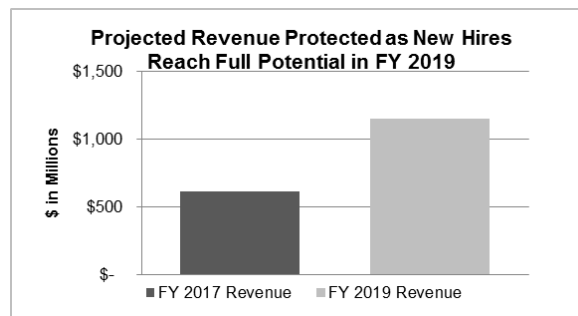
quickly will accelerate the verification of wages and withholding on potentially fraudulent tax returns, thereby catching more fraudulent returns before refunds are issued, and shortening the processing time for legitimate refunds. This means that legitimate filers will get their refunds faster.

- Integrated Automated Technology (IAT) Tools (+\$1,621,000 / +8.5 FTE)

IAT tools are desktop productivity-enhancing tools that automate certain taxpayer account processing activities completed by IRS staff. IATs save staff hours, improve accuracy, and save money. 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.

Expected Outcomes

The FY 2017 budget includes \$90 million in investments to prevent identity theft, refund fraud, and improper payments. These investments are projected to protect \$612 million in revenue in FY 2017, for an initial ROI of \$6.8 to \$1. Once the staff are fully trained and reach full potential, the expected ROI is \$10.7 to \$1 with \$1,146 million in projected annual revenue protected.



Measures	FY 2017		
	Prior to Initiative	After Initiative	Percent Improvement
Refunds Recovered (dollars in thousands)	\$362,838	\$387,299	6.74%
Revenue Protected - Prisoner Program (dollars in thousands)	\$1,939,088	\$2,028,170	4.59%
False Returns Prevented - Prisoner Program	29,644	225,801	661.71%
Refunds Stopped - Proactive Leads	241,272	327,684	35.82%
Revenue Protected - Proactive Leads (dollars in thousands)	\$1,174,645	\$1,697,611	44.52%
ID Theft Closures	409,000	509,000	24.45%
Investigations Completed	3,100	3,800	22.58%

Alcohol and Tobacco Tax and Trade Bureau Transfer +\$5,000,000

The 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. 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 2015 Actual	FY 2016 Enacted	FY 2017 Request
11.1 Full-Time Permanent Positions	5,757,996	6,061,196	6,346,976
11.3 Other than Full-Time Permanent Positions	78,545	85,525	86,844
11.5 Other Personnel Compensation	151,736	203,781	219,349
11.8 Special Personal Services Payments	23,504	16,799	17,059
11.9 Personnel Compensation (Total)	6,011,781	6,367,301	6,670,228
12.0 Personnel Benefits	2,020,457	2,005,273	2,110,081
13.0 Benefits to Former Personnel	51,147	52,266	53,054
Total Personnel and Compensation Benefits	\$8,083,385	\$8,424,840	\$8,833,363
21.0 Travel	84,025	93,859	129,553
22.0 Transportation of Things	18,482	21,407	29,748
23.1 Rental Payments to GSA	610,814	595,284	618,296
23.2 Rent Payments to Others	12,824	13,453	13,771
23.3 Communications, Utilities, & Misc	301,678	294,481	323,226
24.0 Printing & Reproduction	26,577	29,830	31,146
25.1 Advisory & Assistance Services	670,894	875,840	1,111,178
25.2 Other Services	97,504	144,134	344,782
25.3 Purchase of Goods & Services from Govt. Accounts	188,648	176,408	191,682
25.4 Operation & Maintenance of Facilities	173,022	157,775	168,283
25.5 Research & Development Contracts	2,462	1,555	1,576
25.6 Medical Care	14,180	13,640	15,063
25.7 Operation & Maintenance of Equipment	62,983	71,782	79,929
25.8 Subsistence & Support of Persons	930		
26.0 Supplies and Materials	39,242	41,050	46,475
31.0 Equipment	238,020	216,543	270,787
32.0 Land and Structures	2,625	25,015	32,514
41.0 Grants, Subsidies	18,254	33,500	33,500
42.0 Insurance Claims & Indemnities	1,183	1,601	1,626
91.0 Unvouchered	2,696	3,003	3,597
Total Non-Personnel	\$2,567,043	\$2,810,160	\$3,446,732
New Appropriated Resources	\$10,650,428	\$11,235,000	\$12,280,095
Appropriations:			
Taxpayer Services	2,173,684	2,333,376	2,406,318
Enforcement	4,767,563	4,864,936	5,216,263
Operations Support	3,601,436	3,746,688	4,314,099
Business Systems Modernization	107,745	290,000	343,415
Trade Adjustment Assistance Health Coverage Tax Credit			
New Appropriated Resources	\$10,650,428	\$11,235,000	\$12,280,095
FTE	78,107	81,572	84,803

2B – Appropriation Language and Explanation of Changes

Appropriations Language	Explanation of Changes
DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE TAXPAYER SERVICES 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] \$2,406,318,000, of which not less than \$6,500,000 shall be for the Tax Counseling for the Elderly Program, of which not less than \$12,000,000 shall be available for low-income taxpayer clinic grants, [and] of which not less than [\$15,000,000, to] \$191,822,000 shall remain available until September 30, [2017, shall be available for a Community Volunteer Income Tax Assistance matching grants program for tax return preparation assistance] 2018, and 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>Provided further, That, of the amounts made available until September 30, 2018, not less than \$15,000,000 shall be available for a Community Volunteer Income Tax Assistance matching grants program for tax return preparation assistance.</i>	New two-year authority was provided in Section 113 of the Department of the Treasury Appropriations Act, 2016. \$176,822,000 of this amount was allocated to Taxpayer Services. This same amount is requested in FY 2017 and is added to the existing two-year authority in the Budget request, for a total request of \$191,822,000 in two-year authority. The total Budget request for Taxpayer Services is \$2,406,318,000.
ENFORCEMENT 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] \$5,216,263,000, of which not to exceed [\$50,000,000] \$54,936,000 shall remain available until September 30, [2017] 2018, and of which not less than \$60,257,000 shall	New two-year authority was provided in Section 113 of the Department of the Treasury Appropriations Act, 2016. \$4,936,000 of this amount was allocated to Enforcement. This same amount is requested in FY 2017, and is added to the existing two-year authority in the Budget request, for a total request of \$54,936,000 in two-year authority.

be for the Interagency Crime and Drug Enforcement program: *Provided, That, of the amounts provided under this heading, not less than \$231,344,000, of which \$5,000,000 shall be transferred to the Alcohol and Tobacco Tax and 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.*

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)); the operations of the Internal Revenue Service Oversight Board; 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~~] *\$4,314,099,000*, of which not to exceed [~~\$50,000,000~~] *\$158,242,000* shall remain available until September 30, [~~2017~~]2018; of which not to exceed \$10,000,000 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, [~~2018~~]2019, for research; of which not to exceed [~~\$20,000~~] *\$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*

The Budget Request for the Enforcement account is \$5,216,263,000 including a program integrity cap adjustment of \$231,344,000 which, when combined with the \$283,404,000 cap adjustment in the Operations Support account, totals \$514,748,000 in additional appropriation for tax enforcement and compliance activities.

New two-year authority was provided in Section 113 of the Department of the Treasury Appropriations Act, 2016. \$108,242,000 of this amount was allocated to Operations Support. This same amount is requested in FY 2017, and is added to the existing two-year authority in the Budget request, for a total request of \$158,242,000 in two-year authority.

The Budget Request for the Operations Support account is \$4,314,099,000 including a program integrity cap adjustment of \$283,404,000.

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 [2017]2018, a summary of cost and schedule performance information for its major information technology systems: Provided further, That, of the amounts provided under this heading, such sums as are necessary shall be available to fully support tax enforcement and compliance activities, including not less than \$283,404,000, 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.*

BUSINESS SYSTEMS MODERNIZATION

For necessary expenses of the Internal Revenue Service's business systems modernization program, [\$290,000,000] \$343,415,000, to remain available until September 30, [2018] 2019, 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.

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] <i>notification</i> 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.]	Section 105 is no longer needed. In 2013, the IRS established policy and standards for video use and the Service-Wide 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.
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[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 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 in this Act to the Internal Revenue Service may be obligated or expended—(1) to make a payment to any employee under a bonus, award, or recognition program; or (2) under any hiring or personnel selection process with respect to re-hiring a former employee, unless such program or process takes into account the conduct and Federal tax compliance of such employee or former employee.] [SEC. 111. 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).] [SEC. 112. Except to the extent provided in section 6014, 6020, or 6201(d) of the Internal Revenue Code of 1986, no funds in this or any other Act shall be available to the Secretary of the Treasury to provide to any person a proposed final return or statement for use by such person to satisfy a filing or reporting requirement under such Code.] [SEC. 113. In addition to the amounts otherwise made available in this Act for the Internal Revenue Service, \$290,000,000, to be available until September 30, 2017, shall be transferred by the Commissioner to the "Taxpayer Services", "Enforcement", or "Operations Support" accounts of the Internal Revenue Service for an additional amount to be used solely for measurable improvements in the customer service representative level of service rate, to improve the identification and prevention of refund fraud and identity theft, and to enhance cybersecurity to safeguard taxpayer data: <i>Provided</i>, That such funds shall supplement, not supplant any other amounts made available by the Internal Revenue Service for such	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 employee records are already considered according to agency processes prior to hiring or award issuance. Section 111 is unnecessary since these behaviors are prohibited under existing, permanent law. Section 112 is unnecessary because the IRS does not currently complete these activities. Section 113 is unnecessary. The amounts provided in FY 2016 are accounted for in the FY 2017 Budget request for the four main appropriations accounts. The IRS requests Streamlined Critical Pay (SCP) authority through September 30, 2021. This SCP authority expired
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purpose: <i>Provided further</i>, That such funds shall not be available until the Commissioner submits to the Committees on Appropriations of the House of Representatives and the Senate a spending plan for such funds: <i>Provided further</i>, That such funds shall not be used to support any provision of Public Law 111–148, Public Law 111–152, or any amendment made by either such Public Law.] <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, 2021".</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".</i> <i>SEC. 108. Section 1344(b)(6) of title 31, United States Code, is amended by adding a comma before "the Administrator of the Drug Enforcement Administration", by striking "and" after "Drug Enforcement Administration", and by inserting ", and the Commissioner of Internal Revenue" after "National Aeronautics and Space Administration".</i>	September 30, 2013. Currently there are 14 senior employees under SCP appointments, down from a high of 30. If the SCP is not renewed, the IRS will face challenges recruiting and retaining top-level talent through FY 2017 as the remaining SCP term appointments expire , especially IT professionals who can help protect taxpayer data from cyber-attacks and who are working to modernize the IRS’s IT infrastructure. The IRS requests that the IRS Commissioner position be permanently added to 31 U.S.C § 1344(b)(6) as one of the government officials with authorized home-to-work transportation. This is due to security concerns.
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2C – Legislative Proposals

Streamlined Critical Pay Authority

The IRS requests Streamlined Critical Pay (SCP) authority through September 30, 2021. The authority to make new SCP appointments expired September 30, 2013. Currently there are approximately 14 senior employees under SCP appointments, down from a high of 30. If the SCP is not renewed, the IRS will face challenges recruiting and retaining top-level talent through FY 2017 as the remaining SCP term appointments expire , 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.”

Commissioner Transportation

The IRS requests that the IRS Commissioner position be permanently added to 31 U.S.C § 1344(b)(6) as one of the government officials authorized home-to-work transportation. The IRS Criminal Investigations unit completed an extensive assessment of

the Commissioner's threat environment and has classified the threat status as high. The Treasury Inspector General for Tax Administration (TIGTA) has also recommended that precautions continue to be taken regarding the Commissioner's safety due to the elevated threat environment.

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 2017 President's Budget were estimated by the Treasury Office of Tax Analysis (OTA) to increase revenue by \$82.2 billion over the next 10 years. The majority of the estimated revenue includes revenue generated by the FY 2017 program integrity cap adjustment investments. 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 2017 President's Budget tax gap proposals to be \$57.2 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). In a few cases, estimates are not yet available due to timing.

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 a certified Taxpayer Identification Number (TIN) from contractors and allow certain withholding (\$11.5 million);
- Require information reporting for private separate accounts of life insurance companies (\$0);
- Provide an exception to the limitation on disclosing tax return information to expand TIN matching beyond forms where payments are subject to backup withholding;
- Provide for reciprocal reporting of information in connection with the implementation of the FATCA (\$4.2 million); and
- Require Form W-2 reporting for employer contributions to defined contribution plans (\$1.7 million).

Improve compliance by businesses – Improving compliance by businesses of all sizes is important due to their role in tax administration (through employment taxes) and to ensure equity across the tax system. Specific proposals to improve compliance by businesses would:

- Increase certainty with respect to worker classification (\$1.9 million);
- Increase information sharing to administer excise taxes (\$0); and
- 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);
- Implement a program integrity statutory cap adjustment for tax administration (\$17.5 billion);
- Revise offer-in-compromise application rules (\$17.8 million);
- Make repeated willful failure to file a tax return a felony (\$0);
- Facilitate tax compliance with local jurisdictions (\$1.2 million);
- Improve investigative disclosure statute (\$0);
- 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);
- Enhance electronic filing of returns (\$0);
- Improve the whistleblower program (\$0);
- Index all penalties for inflation (\$0.8 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)
- Accelerate information return filing due dates (\$0);
- Increase oversight of paid tax return preparers (\$0);
- Enhance feasibility of the administration of the appraiser penalty (\$0);

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 Objective Annual Review (SOAR), conducted across Treasury with participation from the IRS, serves as an annual assessment of progress 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 FY 2015 SOAR, the IRS identified two next steps: (1) Implement first ACA filing season, and (2) Concisely articulate IRS enforcement and service priorities.

In FY 2015, the IRS made significant progress in addressing these SOAR focus areas through the successful delivery of several Quarterly Performance Review (QPR) priority projects. Actions completed to date include:

Provided outreach communications, customer service, and stakeholder collaboration on the ACA tax provisions during the second ACA open enrollment period and the first ACA Filing Season. The IRS integrated technology to support ACA Filing Season 2015 tax administration processing, allowing taxpayers to report health insurance coverage, claim health coverage exemptions, report a shared responsibility payment, and claim the ACA Premium Tax Credit. The IRS built a new system, the ACA Verification Service (AVS), to enable at-filing checks of tax returns for reporting the Premium Tax Credit, leveraging third-party data from the Insurance Marketplaces, and validating ACA-related tax forms. This system, which processed millions of tax returns, helped identify fraudulent and erroneous returns at the initial processing stage, reducing the number of refunds disbursed in error. In addition to making progress in completing the SOAR next steps, the IRS also completed major milestones on the following priority initiatives tracked through the Department's Quarterly Performance Reviews (QPRs)

- Achieved a major milestone by opening the first release of the International Data Exchange Service (IDES) Gateway. IDES enables both Financial Institutions and Host Country Tax Administrations to comply with their Foreign Account Tax Compliance Act (FATCA) reporting obligations by safely and securely sending electronic FATCA reports to the IRS.
- Initiated the Return Review Program (RRP) pilot project. The RRP successfully loaded and scored over 99 million electronic refund returns. Of those returns, nearly 800,000 were identified as potential ID theft fraud, representing over \$4.7 billion in government revenues protected. By identifying suspicious cases up front, RRP was able to reduce the amount of manual analysis work by 19 percent. In its inaugural filing season, RRP did not miss a single day of processing returns, identifying potential ID theft, and protecting taxpayer revenues.
- Received Executive Steering Committee approval of the Customer Account Data Engine (CADE) 2 Transition State 2 (TS2) five-year release plan. In addition to continued support of the IRS's current tax processing needs, the plan includes expansion of CADE 2 capabilities. The TS2 five-year release plan will address the

Unpaid Assessment Financial Material Weakness, leverage the CADE 2 database as the Authoritative Source for Financial Statement Audit and Reporting, and begin the migration of core Individual Master File (IMF) functions from Assembly Language Code (ALC) to a modern computer language. Notably, an update in FY 2015 prevented issuance of erroneous notices for limited Failure to Pay Penalties and another enabled capturing historic financial data expected to be useful in audit processes.

- Completed 10 cross-organizational projects to upgrade and improve existing website content to better meet the needs of online audiences, continually improving the online experience provided to taxpayers on many IRS.gov website pages. The IRS developed a multi-year strategy to convert many tax publications and instructions into the user-friendly e-Pub electronic format. This digital publishing standard adapts traditional paper formats into a format readable by mobile devices such as tablets, e-readers, and smartphones and also meets accessibility requirements.

A summary of IRS accomplishments that directly support the SOAR can be found in Section 1B, Vision, Priorities, and Context. A detailed discussion of the performance measures associated with the above focus areas can be found in Section 3. More detailed information on the IRS FY 2015 accomplishments can be found in the Management's Discussion and Analysis section of the audit report, *Financial Audit - IRS's Fiscal Years 2015 and 2014 Financial Statements* dated November 2015 (GAO-16-146).

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 model is used to inform the campus exam plan along with the design and analysis of nonfiler outreach and enforcement treatments. The underlying research study is being updated based on more recent taxpayer experience and is also being extended to cover the experience of corporate and partnership taxpayers.
- Behavioral Economics Research: The IRS is engaged in a set of pilots and research studies aiming to better align treatments to taxpayer behavior. These include randomized controlled trials of outreach programs to encourage compliant participation in the Earned Income Tax Credit and the American Opportunities Tax Credit, filing compliance outreach and pre-emptive communication, and collection treatments. The research applies principles of behavioral economics in the design and analysis of the treatments. The analysis further considers the salience and flow of information to and among taxpayers in evaluating both direct and indirect effects of IRS treatments.

Highest Priorities

Improving the Effectiveness of the IRS

- Evaluation of Statistics of Income (SOI) Major Programs: The IRS SOI office will continue evaluations of its income tax products, determine projected future needs, and identify areas of potential cost savings. The evaluations conducted to date have 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 to continue evaluating the remainder of its products in FY 2016. The Division is also incorporating customer feedback and the effects of the changing data landscape into its 5-year business plan; a draft will be available by the end of the fiscal year.
- Creating More Accessible Statistics: SOI is developing a comprehensive plan to modernize its public communications efforts. Planned initiatives include extensive data visualizations, social media outreach, and redesigned web pages. A redesign of the *IRS Data Book* is already in process.

- Linking Data across Forms: SOI is initiating new projects to increase its ability to link data across tax and information returns. Linked data products will assist users in developing more comprehensive analysis and better understanding taxpayer behavior.

Implementation Updates for OMB Memo M-14-06

- Incarceration Data: SOI provided Treasury with a copy of an IRS administrative data file containing information on 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 2015, SOI released the 2012 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 2012 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.

To date in FY 2015, SOI has also released more than 380 additional tables containing detailed information on a wide range of topics. Significantly, SOI released the 2012 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 time-series tables showing number of returns, adjusted gross income, and total income tax for individual taxpayers, by percentile, for TY 2001 to TY 2012, as well as TY 2012-updated data for corporations, partnerships, and sole proprietorships.

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, providing taxpayer assistance, and providing taxpayer advocacy services.

The Taxpayer Services budget request for FY 2017 is \$2,406,318,000 in direct appropriations and 31,056 FTE. This is an increase of \$72,942,000 or 3.13 percent, and 686 FTE more than the FY 2016 Enacted level of \$2,333,376,000 and 30,370 FTE.

The performance measures reflected in this section align with *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 Treasury's Strategic Plan for FY 2014 – FY 2017 Strategic Plan.

2.1 – Budget Adjustments Table

Dollars in Thousands

Taxpayer Services	FTE	Amount
FY 2016 Enacted (before Administrative Provision 113)	27,887	\$2,156,554
FY 2016 Administrative Provision 113	2,483	\$176,822
Improve Taxpayer Service	2,483	176,622
Strengthening the Prevention of Identity Theft		200
FY 2016 Enacted	30,370	\$2,333,376
Changes to Base:		
Maintaining Current Levels (MCLs):		\$33,446
Pay Annualization		6,440
Pay Raise		23,856
Non-Pay		3,150
Efficiencies/Savings:	(72)	(\$3,708)
Increase e-File Savings	(72)	(3,708)
Subtotal FY 2017 Changes to Base	(72)	\$29,738
FY 2017 Current Services (Base)	30,298	\$2,363,114
Program Increases:		
Budget Request Program Increases:		
<i>Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support</i>		
Improve Taxpayer Service	604	33,503
Subtotal	604	\$33,503
Focus Area: Strengthen Cybersecurity and Eliminate Identity Theft		
Prevent Identity Theft and Refund Fraud and Reduce Improper Payments	154	9,701
Subtotal	154	\$9,701
Subtotal FY 2017 Budget Request Program Increases	758	\$43,204
Total FY 2017 Total Budget Request	31,056	\$2,406,318
Dollar/FTE Change FY 2017 Budget Request over FY 2016 Enacted	686	\$72,942
Percent Change FY 2017 Budget Request over FY 2016 Enacted	2.26%	3.13%

2.2 – Operating Levels Table

Dollars in Thousands

Taxpayer Services Object Classification	FY 2015 Actual	FY 2016 Enacted	FY 2017 Request
11.1 Full-Time Permanent Positions	1,457,204	1,606,843	1,656,581
11.3 Other than Full-Time Permanent Positions	40,876	43,497	44,168
11.5 Other Personnel Compensation	35,485	66,350	69,662
11.8 Special Personal Services Payments	617	886	899
11.9 Personnel Compensation (Total)	1,534,182	1,717,576	1,771,310
12.0 Personnel Benefits	494,627	420,188	435,578
13.0 Benefits to Former Personnel	70		
Total Personnel and Compensation Benefits	\$2,028,879	\$2,137,764	\$2,206,888
21.0 Travel	12,184	18,415	19,314
22.0 Transportation of Things	754	709	720
23.2 Rent Payments to Others			
23.3 Communications, Utilities, & Misc	1,213	1,490	1,515
24.0 Printing & Reproduction	7,955	8,843	8,983
25.1 Advisory & Assistance Services	26,007	22,735	23,141
25.2 Other Services	6,854	37,312	38,400
25.3 Purchase of Goods & Services from Govt. Accounts	65,813	64,459	65,516
25.4 Operation & Maintenance of Facilities	2	2	3
25.7 Operation & Maintenance of Equipment		1,510	1,535
25.8 Subsistence & Support of Persons	177		
26.0 Supplies and Materials	5,031	5,666	5,815
31.0 Equipment	185	332	338
41.0 Grants, Subsidies	18,254	33,500	33,500
42.0 Insurance Claims & Indemnities	376	639	650
Total Non-Personnel	\$144,805	\$195,612	\$199,430
New Appropriated Resources	\$2,173,684	\$2,333,376	\$2,406,318
Budget Activities:			
Pre-filing Taxpayer Assistance & Education	609,196	629,920	643,197
Filing & Account Services	1,564,488	1,703,456	1,763,121
New Appropriated Resources	\$2,173,684	\$2,333,376	\$2,406,318
FTE	27,476	30,370	31,056

2.3 – Appropriation Detail Table

Dollars in thousands

Taxpayer Services		FY 2015 Actual		FY 2016 Enacted ¹		FY 2017 Request		Change FY 2016 to FY 2017 Request		% Change FY 2016 to FY 2017 Request	
Appropriated Resources		FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:											
Pre-Filing Taxpayer Assistance and Education		5,349	\$609,196	5,499	\$629,920	5,532	\$643,197	33	\$13,277	0.60%	2.11%
Filing and Account Services		22,127	1,564,488	24,871	1,703,456	25,524	1,763,121	653	59,665	2.63%	3.50%
Subtotal New Appropriated Resources		27,476	\$2,173,684	30,370	\$2,333,376	31,056	\$2,406,318	686	\$72,942	2.26%	3.13%
Other Resources:											
Reimbursables		464	30,198	487	34,729	512	36,465	25	1,736	5.13%	5.00%
Offsetting Collections - Non Reimbursables											
User Fees		71	44,694	661	103,496	1,377	116,841	716	13,345	108.32%	12.89%
Recovery from Prior Years											
Unobligated Balances from Prior Years		110	14,304		11,000		12,000		1,000		9.09%
Transfers In/Out											
Resources from Other Accounts ²		287									
Subtotal Other Resources		932	\$89,196	1,148	\$149,225	1,889	\$165,306	741	\$16,081	64.55%	10.78%
Total Budgetary Resources		28,408	\$2,262,880	31,518	\$2,482,601	32,945	\$2,571,624	1,427	\$89,023	4.53%	3.59%

¹ FY 2016 Enacted includes \$176.8 million in Section 113 Administrative Provision funding for Taxpayer Services.

² Resources from Other Accounts include Other Direct FTE funded by the Department of Health and Human Services (287 FTE in FY 2015).

3A – Pre-Filing Taxpayer Assistance and Education (\$643,197,000 in direct appropriations, \$83,000 from reimbursable programs, and an estimated \$3,386,000 from user fees): This budget activity funds services to assist taxpayers with understanding and meeting their tax obligations, 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

In FY 2015, the IRS timely delivered 89 percent (97 out of 109) of the Critical Individual Filing Season Tax Products to the public by the fifth workday of January. The Tax Increase Prevention Act of 2014; the Tax Technical Corrections Act of 2014; and the Achieving a Better Life Experience (ABLE) Act of 2014, were enacted on December 19, 2014, and had major implications and directly impacted reaching the FY 2015 goal of 95 percent. While 89 percent of the tax products were made available to the public by January 8, 2015 date, 93 percent (101 of 109) of them were available to the public by the January 20th filing season start date. While IRS cannot control the timeliness of tax-related legislation, procedures are in place to mitigate the impact of late legislation. For example, in early January 2015, a Joint Committee on Taxation report, identified 52 tax provisions that expired on

December 31, 2014 that may be extended by legislation before the start of the 2016 filing season. The IRS plans to implement its “best practice” of reserving lines on tax returns in advance of anticipated extended legislation for the coming year. Reserving lines provides flexibility and expedites the process for implementing legislative changes due to extenders rather than initiating new development at the end of the tax year. The practice also allows for the most productive and efficient use of resources. IRS will continue to release products not affected by legislation early to devote more time to analyze, develop, and post or print the tax products affected by late changes to legislation. To achieve future targets IRS will continue to employ this strategy. In FY 2016 and FY 2017, the IRS will lower the target to 87 percent due to anticipated legislation passed late in the year that will impact form and product development.

In FY 2015, the IRS Timeliness of Critical Tax Exempt and Government Entities (TE/GE) and Business Filing Season Tax products to the Public was 92.6 percent (151 of 163), falling short of the FY 2015 target of 95 percent. As discussed above, the passage of late legislation negatively impacted reaching the year-end target. To ensure meeting future targets, the IRS will plan, monitor, and coordinate all product development and delivery activities. The IRS will also continue to evaluate its processes so that mitigation strategies can be implemented quickly, as necessary. In FY 2016 and FY 2017, the IRS will lower the target to 87 percent for providing Critical TE/GE and Business Tax Products to the Public due to anticipated legislation passed late in year.

Taxpayer Self-Assistance Rate reached 88.7 percent through FY 2015, exceeding the FY 2014 rate of 84.7 percent and the FY 2015 target of 85 percent. This increase is primarily attributed to a 28 percent increase in web services including significantly more taxpayers using the *Where’s My Refund?* application to request the status of their refund. Self-Service channels continue to experience an increase in demand due to shifting customer preferences as more taxpayers choose to use automated applications to resolve issues and questions instead of traditional methods of contacting the IRS including telephone and written correspondence or walk-in visits to Taxpayer Assistance Centers. In FY 2016 and FY 2017, the IRS is devoting substantial resources to bolster traditional methods in order to better meet demand. Through continued use of automation, the IRS expects to achieve the FY 2016 goal of 90 percent and FY 2017 target of 89 percent. The IRS will continue to look for new applications that support the needs of the taxpayer as well as its ability to manage resources efficiently as possible in order to meet all future goals.

FY 2017 Changes by Budget Activity

Dollars in Thousands

Pre-Filing Taxpayer Assistance & Education	FTE	Amount
FY 2016 Enacted (before Administrative Provision 113)	5,499	\$629,920
FY 2016 Administrative Provision 113		
Improve Taxpayer Service		
Cyber Security		
Strengthening the Prevention of Identity Theft		
FY 2016 Enacted	5,499	\$629,920
Changes to Base:		
Maintaining Current Levels (MCLs):		\$9,776
Pay Annualization		1,817
Pay Raise		6,729
Non-Pay		1,230
Efficiencies/Savings:		
Increase e-File Savings		
Subtotal FY 2017 Changes to Base		\$9,776
FY 2017 Current Services (Base)¹	5,499	\$639,696
Program Increases:		
Budget Request Program Increases:		
<i>Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support</i>		
Implement Changes to Deliver Tax Credits and Other Requirements for the Affordable Care Act		
Leverage New Technologies to Advance the IRS Mission		
Improve Taxpayer Service	14	1,482
Subtotal	14	\$1,482
<i>Drive More Agility and Efficiency in IRS Operations</i>		
Enterprise Electronic Records Management Solution		
Subtotal		
<i>Strategic Focus: Strengthen Cybersecurity and Eliminate Identity Theft</i>		
Prevent Identity Theft and Refund Fraud and Reduce Improper Payments	18	2,019
Subtotal	18	\$2,019
Subtotal FY 2017 Budget Request Program Increases	32	\$3,501
Total FY 2017 Total Budget Request	5,531	\$643,197
Dollar/FTE Change FY 2017 Budget Request over FY 2016 Enacted	32	\$13,277
Percent Change FY 2017 Budget Request over FY 2016 Enacted	0.58%	2.11%

3.1.1 – Budget and Performance Report and Plan

Pre-Filing Taxpayer Assistance & Education Budget and Performance Plan

Dollars in Thousands

Pre-Filing Taxpayer Assistance & Education Resource Level	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Enacted	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Enacted	FY 2017 Request
Appropriated Resources ¹	\$679,924	\$678,204	\$625,189	\$605,761	\$610,496	\$621,516	\$629,920	\$643,197
Reimbursable Resources ²	862	1,135	96		46	51	79	83
User Fees ²	5,514		22,460	6,400	22,400	4,141	11,039	3,386
Budget Activity Total	\$686,300	\$679,339	\$647,745	\$612,161	\$632,942	\$625,708	\$641,038	\$646,666

¹The FY 2010 - FY 2015 appropriated resources represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

²The FY 2010 - FY 2015 columns represent realized resources for reimbursables and user fees.

Pre-Filing Taxpayer Assistance & Education Measure	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2015 Target	FY 2016 Target	FY 2017 Target
Timeliness of Critical Filing Season Tax Products to the Public (Ot)	95.3%	96.3%	97.2%	58.9%	99.1%	89.0%	95.0%	87.0%	87.0%
Timeliness of Critical TE/GE & Business Tax Products to the Public (Ot)	97.7%	96.4%	94.5%	83.6%	98.7%	92.6%	95.0%	87.0%	87.0%
Taxpayer Self-Assistance Rate (E) (L)	64.4%	70.1%	78.5%	83.3%	84.7%	88.7%	85.0%	90.0%	89.0%

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

3B – Filing and Account Services (\$1,763,121,000 in direct appropriations, an estimated \$36,382,000 from reimbursable programs, and an estimated \$113,455,000 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* 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.

Description of Performance

Millions of individual and business taxpayers file their returns electronically. In FY 2015, the IRS achieved an 85.3 percent individual e-file rate and a 47 percent business e-file rate. Both the individual and business e-file rates exceed the FY 2015 targets. The overall benefits of e-file (i.e. faster refunds, greater accuracy, secure and confidential submission, quick confirmation, and the ability to file online) continue to drive performance. The IRS is also promoting the benefits of e-filing via social media. The IRS will increase the individual e-filing target to 86 percent for FY 2016 and FY 2017 and the business e-filing target will increase to 48 percent for FY 2016 and FY 2017. IRS will continue to process individual and business returns as efficiently as possible to meet future plans.

In FY 2015, Customer Accuracy – Tax Law was at 95 percent, exceeding the target of 92 percent. IRS will continue to monitor results through data driven analysis of reports obtained from Embedded Quality Review System (EQRS) to ensure achievement of the FY 2016 goal. The IRS will continue to hold weekly conference calls to discuss quality defects/errors and procedures to ensure the target is met. For FY 2016 and FY 2017, the IRS will keep the tax law accuracy targets at 92 percent, as responding to legislative changes in tax laws will continue to be a major challenge moving forward.

In FY 2015, the IRS correctly answered 95.5 percent of account questions via the telephone, exceeding the target of 94 percent. The IRS expects to maintain high performance on the Customer Accuracy – Accounts (Phones) and will achieve the FY 2016 and FY 2017 target of 94 percent through ongoing efforts to focus on promoting coding consistency of product reviews and providing training to managers and employees to ensure quality service.

In FY 2015, the IRS Customer Contacts Resolved per Staff Year reached 26,245, exceeding last year's result and the FY 2015 target of 21,000. This measure includes activities such as automated and assistor calls answered and web services completed. The increase is attributed to a 28 percent increase in web usage including a significant jump in *Where's My Refund?* usage. The FY 2016 target is set at 28,000 with an expected increase in web usage. The FY 2017 target is set at 25,700, as IRS expects more employee assisted calls. To achieve these targets, the IRS will continue to provide efficient responses to customer contacts with the resources available and provide more self-service applications on IRS.gov.

In FY 2015, the Customer Service Representative Level of Service (LOS) was 38.1 percent, exceeding the FY 2015 target of 38.0 percent. Additional funding provided in FY 2016, and supplemented with user fees, will allow the IRS to achieve a projected LOS of 47.0 percent for the full year, including 65.0 percent LOS during filing season. The FY 2017 Budget, supplemented with approximately \$100 million in user fees, provides sufficient funding to

achieve a projected 70.0 percent LOS for the full year including filing season. Sustained reductions in funding have led to a long-term decline in LOS. In FY 2015, low LOS, coupled with limited telephone port capacity, led to a higher demand than could be adequately handled. When demand exceeds available system capacity, callers are disconnected. These Courtesy Disconnects increased 1,162 percent in FY 2015 compared to FY2014 (17.7 million vs. 1.4 million). Weather related closures during the second quarter and several system outages in the third quarter caused a 162 percent increase in emergency closure messages.

Refund timeliness is defined as the percentage of paper refunds issued within 40 days or less. In FY 2015, Refund Timeliness reached 98.8 percent, exceeding the FY 2015 target of 94 percent as the number of paper refunds continued to decline. There was a 7.5 percent decrease in the number of paper refunds compared to the same period in FY 2014. IRS will continue to monitor IMF return cycles and inventories through various reports and production meetings to ensure this target is met. For FY 2016 and FY 2017, the IRS expects to achieve a target of 97 percent.

FY 2017 Changes by Budget Activity

Dollars in Thousands

Filing and Account Services	FTE	Amount
FY 2016 Enacted (before Administrative Provision 113)	22,388	\$1,526,634
FY 2016 Administrative Provision 113	2,483	\$176,822
Improve Taxpayer Service	2,483	176,622
Cyber Security		
Strengthening the Prevention of Identity Theft		200
FY 2016 Enacted	24,871	\$1,703,456
Changes to Base:		
Maintaining Current Levels (MCLs):		\$23,670
Pay Annualization		4,623
Pay Raise		17,127
Non-Pay		1,920
Efficiencies/Savings:	(72)	(\$3,708)
Increase e-File Savings	(72)	(3,708)
Subtotal FY 2017 Changes to Base	(72)	\$19,962
FY 2017 Current Services (Base)¹	24,799	\$1,723,418
Program Increases:		
Budget Request Program Increases:		
<i>Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support</i>		
Implement Changes to Deliver Tax Credits and Other Requirements for the Affordable Care Act		
Leverage New Technologies to Advance the IRS Mission		
Improve Taxpayer Service	590	32,021
Subtotal	590	\$32,021
<i>Drive More Agility and Efficiency in IRS Operations</i>		
Enterprise Electronic Records Management Solution		
Subtotal		
<i>Strategic Focus: Strengthen Cybersecurity and Eliminate Identity Theft</i>		
Prevent Identity Theft and Refund Fraud and Reduce Improper Payments	136	7,682
Subtotal	136	\$7,682
Subtotal FY 2017 Budget Request Program Increases	726	\$39,703
Total FY 2017 Total Budget Request	25,525	\$1,763,121
Dollar/FTE Change FY 2017 Budget Request over FY 2016 Enacted	654	\$59,665
Percent Change FY 2017 Budget Request over FY 2016 Enacted	2.63%	3.50%

3.1.2 – Budget and Performance Report and Plan

Filing and Account Services Budget and Performance Plan

Dollars in Thousands

Filing and Account Services Resource Level	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Enacted	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Enacted	FY 2017 Request
Appropriated Resources ¹	\$1,614,418	\$1,630,549	\$1,614,514	\$1,529,792	\$1,546,058	\$1,565,038	\$1,703,456	\$1,763,121
Reimbursable Resources ²	21,993	27,857	20,759	37,535	28,555	30,147	34,650	36,382
User Fees ²	115,998	128,966	152,136	184,599	160,342	40,553	92,457	113,455
Budget Activity Total	\$1,752,409	\$1,787,372	\$1,787,409	\$1,751,926	\$1,734,955	\$1,635,738	\$1,830,563	\$1,912,958

¹The FY 2010 - FY 2015 appropriated resources represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

²The FY 2010 - FY 2015 columns represent realized resources for reimbursables and user fees.

Filing and Account Services Measures	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2015 Target	FY 2016 Target	FY 2017 Target
Percent Individual Returns Processed Electronically (Oe) (L)	69.3%	76.9%	80.5%	82.5%	84.1%	85.3%	84.6%	86.0%	86.0%
Percent of Business Returns Processed Electronically (Oe)	25.5%	31.8%	36.7%	40.2%	43.1%	47.0%	46.5%	48.0%	48.0%
Customer Accuracy - Tax Law (Phones) (Ot)	92.7%	93.4%	93.2%	95.7%	95.0%	95.0%	92.0%	92.0%	92.0%
Customer Accuracy - Accounts (Phones) (Ot)	95.7%	96.0%	95.6%	96.0%	96.2%	95.5%	94.0%	94.0%	94.0%
Customer Contacts Resolved per Staff Year (E)	10,744	12,419	16,320	20,767	21,018	26,245	21,000	28,000	25,700
Customer Service Representative Level of Service (Oe) (L)	74.0%	70.1%	67.6%	60.5%	64.4%	38.1%	38.0%	47.0%	70.0%
Refund Timeliness - Individual (Paper) (Ot)	96.1%	99.4%	99.7%	99.0%	98.7%	98.8%	94.0%	97.0%	97.0%
Cost per Taxpayer Served (\$) (HCTC) (E)	\$9.52	\$12.36	\$14.43	\$13.41	N/A	N/A	N/A	N/A	N/A
Sign-up Time (Days) - Customer Engagement (HCTC) (Ot)	124.0	117.0	116.0	125.2	N/A	N/A	N/A	N/A	N/A

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - 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 2017 is \$4,984,919,000 in direct appropriations and 39,141 FTE. This is an increase of \$119,983,000, or 2.47 percent, and 301 FTE more than the FY 2016 Enacted level of \$4,864,936,000 and 38,840 FTE. The total Enforcement budget request including the program integrity cap adjustment is \$5,216,263,000 and 41,028 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 Patient Protection and Affordable Care Act and Foreign Account Tax Compliance Act, and improve the execution of the tax code* of the Department of the Treasury's FY 2014 – FY 2017 Strategic Plan.

2.1 – Budget Adjustments Table

Dollars in Thousands

Enforcement	FTE	Amount
FY 2016 Enacted (before Administrative Provision 113)	38,840	\$4,860,000
FY 2016 Administrative Provision 113		\$4,936
Strengthening the Prevention of Identity Theft		4,936
FY 2016 Enacted	38,840	\$4,864,936
Changes to Base:		
Maintaining Current Levels (MCLs):		\$75,008
Pay Annualization		14,952
Pay Raise		55,386
Non-Pay		4,670
Subtotal FY 2017 Changes to Base		\$75,008
FY 2017 Current Services (Base)	38,840	\$4,939,944
Program Increases:		
Budget Request Program Increases:		
<i>Focus Area: Strengthen Cybersecurity and Eliminate Identity Theft</i>		
Prevent Identity Theft and Refund Fraud and Reduce Improper Payments	301	44,975
Subtotal	301	\$44,975
Subtotal FY 2017 Budget Request Program Increases	301	\$44,975
Total FY 2017 Total Budget Request	39,141	\$4,984,919
Dollar/FTE Change FY 2017 Budget Request over FY 2016 Enacted	301	\$119,983
Percent Change FY 2017 Budget Request over FY 2016 Enacted	0.78%	2.47%
Cap Adjustment Program Increases:		
<i>Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support</i>		
Enterprise Case Management	22	7,369
Subtotal	22	\$7,369
<i>Understand Non-Compliant Taxpayer Behavior and Develop Approaches to Deter and Change It</i>		
Increase Collection Coverage	678	58,213
Increase Audit Coverage	816	74,161
Digitizing Form 990	1	80
FATCA: Implement, Expand Filing Coverage, and Combat Criminal Non-compliance	203	49,889
Pursue Employment Tax and Abusive Tax Schemes	37	7,210
Increase Investigations of Transnational Organized Crime (TOC)	130	29,422
Subtotal	1,865	\$218,975
<i>Alcohol and Tobacco Tax and Trade Bureau Transfer:</i>		
Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activ		5,000
Subtotal		\$5,000
Subtotal FY 2017 Cap Adjustment Program Increases	1,887	\$231,344
Subtotal FY 2017 Total Program Increases Including Cap Adjustment	2,188	\$276,319
Total FY 2017 Total Budget Request Including Cap Adjustment	41,028	\$5,216,263
Dollar/FTE Change FY 2017 Budget Request including PIC over FY 2016 Enacted	2,188	\$351,327
Percent Change FY 2017 Budget Request including PIC FY 2016 Enacted	5.63%	7.22%

2.2 – Operating Levels Table

Dollars in Thousands

Enforcement Object Classification	FY 2015 Actual	FY 2016 Enacted	FY 2017 Request
11.1 Full-Time Permanent Positions	3,238,319	3,231,404	3,411,336
11.3 Other than Full-Time Permanent Positions	31,184	32,727	33,235
11.5 Other Personnel Compensation	99,942	114,087	124,871
11.8 Special Personal Services Payments	22,642	15,678	15,921
11.9 Personnel Compensation (Total)	3,392,087	3,393,896	3,585,363
12.0 Personnel Benefits	1,133,218	1,131,180	1,202,298
13.0 Benefits to Former Personnel	1		
Total Personnel and Compensation Benefits	\$4,525,306	\$4,525,076	\$4,787,661
21.0 Travel	60,041	66,676	98,152
22.0 Transportation of Things	7,198	9,060	16,591
23.1 Rental Payments to GSA	11	30	31
23.2 Rent Payments to Others	472	411	491
23.3 Communications, Utilities, & Misc	2,493	2,708	3,050
24.0 Printing & Reproduction	2,221	2,822	3,080
25.1 Advisory & Assistance Services	65,721	147,319	157,580
25.2 Other Services	29,396	48,219	65,059
25.3 Purchase of Goods & Services from Govt. Accounts	45,123	37,984	40,799
25.4 Operation & Maintenance of Facilities	20	17	18
25.5 Research & Development Contracts	2,462	1,555	1,576
25.6 Medical Care	67	43	44
25.7 Operation & Maintenance of Equipment	533	1,940	6,047
25.8 Subsistence & Support of Persons	735		
26.0 Supplies and Materials	15,814	14,888	18,473
31.0 Equipment	6,713	2,409	13,228
32.0 Land and Structures	13	12	12
42.0 Insurance Claims & Indemnities	528	764	774
91.0 Unvouchered	2,696	3,003	3,597
Total Non-Personnel	\$242,257	\$339,860	\$428,602
New Appropriated Resources	\$4,767,563	\$4,864,936	\$5,216,263
Budget Activities:			
Investigations	601,665	604,620	714,208
Exam & Collections	4,018,292	4,108,566	4,347,684
Regulatory	147,606	151,750	154,371
New Appropriated Resources	\$4,767,563	\$4,864,936	\$5,216,263
FTE	39,708	38,840	41,028

2.3 – Appropriation Detail Table

Dollars in thousands

Enforcement Appropriated Resources	FY 2015 Actual		FY 2016 Enacted ¹		FY 2017 Request		Change FY 2016 to FY 2017 Request		% Change FY 2016 to FY 2017 Request	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources: ²										
Investigations	3,399	\$601,665	3,425	\$604,620	3,849	\$714,208	424	\$109,588	12.38%	18.13%
Exam and Collections	35,258	4,018,292	34,402	4,108,566	36,163	4,347,684	1,761	239,118	5.12%	5.82%
Regulatory	1,051	147,606	1,013	151,750	1,016	154,371	3	2,621	0.30%	1.73%
Subtotal New Appropriated Resources	39,708	\$4,767,563	38,840	\$4,864,936	41,028	\$5,216,263	2,188	\$351,327	5.63%	7.22%
Other Resources:										
Reimbursables	56	30,960	59	44,973	62	47,222	3	2,249	5.08%	5.00%
Offsetting Collections - Non Reimbursables	11	10,314	12	42,797	12	44,937		2,140		5.00%
User Fees	86	18,485	116	10,151	116	14,594		4,443		43.77%
Recovery from Prior Years										
Unobligated Balances from Prior Years	284	22,883		17,741		30,147		12,406		69.93%
Transfers In/Out ³		7				(5,000)		(5,000)		
Resources from Other Accounts ⁴	3		2		2					
Subtotal Other Resources	440	\$82,649	189	\$115,662	192	\$131,900	3	\$16,238	1.59%	14.04%
Total Budgetary Resources	40,148	\$4,850,212	39,029	\$4,980,598	41,220	\$5,348,163	2,191	\$367,565	5.61%	7.38%

¹FY 2016 Enacted includes \$4.9 million in Section 113 Administrative Provision funding for Enforcement.

²This includes the Program Integrity Cap Adjustment.

³Resources from Transfers In/Out include a FY 2015 transfers between IRS and the Office of National Drug Control Policy (ONDCP) High Intensity Drug Trafficking Area (HIDTA) Program (obligations \$7K), and a 2017 transfer out to the Alcohol and Tobacco Tax and Trade Bureau (TTB) (\$5M).

⁴Resources from Other Accounts include Other Direct FTE funded by the Federal Highway Administration (3 FTE projected for FY 2015, and 2 FTE projected for FY 2016 and FY 2017).

3C – Investigations (\$714,208,000 in direct appropriations and an estimated \$45,789,000 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 enforcement of violations 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 Investigations (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.

In FY 2015, results for criminal investigation completions are 18.1 percent above the year-end target (3,800) and reflect a 2.6 percent decrease compared to FY 2014. Results exceeded the target mostly due to a higher than expected number of multi-defendant narcotics related investigations, which were initiated and completed earlier in FY 2015. Overall performance in FY 2015 was impacted by a significant decrease in the number of Special Agents in recent years as well as a re-focus on more complex tax case programs, which take longer to complete, and on inventory still in the judicial process. To re-focus, the Chief of CI wrote a letter to all U.S. Attorney Offices describing the overall decrease in staffing and the reduction of resources in several program areas as well as the need for IRS-CI to concentrate on core tax cases, as IRS CI is the only agency with jurisdiction over tax crimes.

CI's continued significant attrition in FY 2015 coupled with little to no hiring authority in FY 2016 will continue to negatively impact the number of completions for FY 2016 and FY 2017. CI utilized its performance projection model to establish its FY 2016 and FY 2017 year-end targets. This project model accounts for attrition, average cases per case-working agent, projected case initiations and average time to complete cases. Accumulated impact of minimal hiring in fiscal years prior to FY 2016, which led to lower staffing, case initiations and inventories, negatively influenced the performance project model for future years. The additional special agent hiring under the FY 2017 budget request will have minimal impact on CI's performance until at least FY 2018 or FY 2019 due to the length of special agent law enforcement training (6 months) and average case cycle time (300-400 days). 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 to meet the FY 2016 target of 3,800 and the FY 2017 target of 3,600.

In FY 2015, results for the number of convictions are 6.6 percent above the year-end target (2,700) and reflect a 7.4 percent decrease compared to FY 2014. A large number of quality investigations initiated and completed in previous years (many of which were ID Theft cases) continue to be processed by the Department of Justice (DOJ). Recent decreases to the Judicial Process (pipeline) inventory will have an impact on the number of convictions in future years as well as the approximately 15 percent decrease in open inventory in FY 2015 (a decline of over 600 cases). Additional factors such as unforeseen legislative and prosecutorial priorities will also have an impact on future performance. CI management will continue to ensure appropriate and consistent contact with DOJ Tax Division and U.S. Attorney Offices regarding prosecutorial priorities and appropriate movement of pipeline investigations to meet the FY 2016 target of 2,500 and the FY 2017 target of 2,400.

In FY 2015, conviction rate is slightly lower (0.17 percent) than FY 2014 and 1.3 percent above the year-end target (92 percent). Acquittals and dismissals decreased by 32 percent and

1.5 percent, respectively, compared to FY 2014. 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 DOJ to accept its cases for prosecution and move such cases through the courts. CI management will continue its current efforts of appropriate and consistent contact with DOJ Tax Division and U.S. Attorney Offices regarding prosecutorial priorities and appropriate movement of pipeline investigations, to ensure a high rate of conviction and meet the FY 2016 and FY 2017 target of 92 percent.

The Conviction Efficiency Rate is determined by taking the cost of the CI program divided by the number of convictions. FY 2015 results (\$221,782) are 8.7 percent better than the year-end target (\$243K) and 4.0 percent better compared to FY 2014. CI's overall financial plan and FTEs (which contribute to the numerator) decreased by 2.8 percent and 7.7 percent respectively, compared to FY 2014. CI will continue to monitor its budget and coordinate with DOJ Tax Division and U.S. Attorney Offices regarding prosecutorial priorities - which affect convictions - to ensure this measure is at or below future target. CI expects to meet the FY 2016 and FY 2017 target of \$272,000.

FY 2017 Changes by Budget Activity

Dollars in Thousands

Investigations	FTE	Amount
FY 2016 Enacted (before Administrative Provision 113)	3,425	\$604,620
FY 2016 Administrative Provision 113		
FY 2016 Enacted	3,425	\$604,620
Changes to Base:		
Maintaining Current Levels (MCLs):		\$9,311
Pay Annualization		1,817
Pay Raise		6,730
Non-Pay		764
Subtotal FY 2017 Changes to Base		\$9,311
FY 2017 Current Services (Base)	3,425	\$613,931
Program Increases:		
Budget Request Program Increases:		
<i>Focus Area: Strengthen Cybersecurity and Eliminate Identity Theft</i>		
Prevent Identity Theft and Refund Fraud and Reduce Improper Payments	208	39,106
Subtotal	208	\$39,106
Subtotal FY 2017 Budget Request Program Increases	208	\$39,106
Total FY 2017 Total Budget Request	3,633	\$653,037
Dollar/FTE Change FY 2017 Budget Request over FY 2016 Enacted	208	\$48,417
Percent Change FY 2017 Budget Request over FY 2016 Enacted	6.06%	7.89%
Cap Adjustment Program Increases:		
<i>Understand Non-Compliant Taxpayer Behavior and Develop Approaches to Deter and Change It</i>		
Increase Collection Coverage		
Increase Audit Coverage		
Digitizing Form 990		
FATCA: Implement, Expand Filing Coverage, and Combat Criminal Non-	51	19,837
Pursue Employment Tax and Abusive Tax Schemes	35	6,912
Increase Investigations of Transnational Organized Crime (TOC)	130	29,422
Subtotal	216	\$56,171
<i>Alcohol and Tobacco Tax and Trade Bureau Transfer:</i>		
Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities		5,000
Subtotal		\$5,000
Subtotal FY 2017 Cap Adjustment Program Increases	216	\$61,171
Subtotal FY 2017 Total Program Increases Including Cap Adjustment	424	\$100,277
Total FY 2017 Total Budget Request Including Cap Adjustment	3,849	\$714,208
Dollar/FTE Change FY 2017 Budget Request including PIC over FY 2016 Enacted	424	\$109,588
Percent Change FY 2017 Budget Request including PIC FY 2016 Enacted	12.37%	18.13%

3.1.3 – Budget and Performance Report and Plan

Investigations Budget and Performance Plan

Dollars in Thousands

Investigations Resource Level	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Enacted	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Enacted	FY 2017 Request
Appropriated Resources ¹	\$639,363	\$644,479	\$636,386	\$589,751	\$599,193	\$602,144	\$604,620	\$714,208
Reimbursable Resources ²	67,549	63,146	56,895	28,582	27,133	29,957	43,608	45,789
User Fees ²			6,935	4,709				
Budget Activity Total	\$706,912	\$707,625	\$700,216	\$623,042	\$626,326	\$632,101	\$648,228	\$759,997

¹The FY 2010 - FY 2015 appropriated resources represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

²The FY 2010 - FY 2015 columns represent realized resources for reimbursables and user fees.

Investigations Measures	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2015 Target	FY 2016 Target	FY 2017 Target
Criminal Investigations Completed (Ot) (L)	4,325	4,697	4,937	5,557	4,606	4,486	3,800	3,800	3,600
Number of Convictions (Oe) (L)	2,184	2,350	2,634	3,311	3,110	2,879	2,700	2,500	2,400
Conviction Rate (Oe) (L)	90.2%	92.7%	93.0%	93.1%	93.4%	93.2%	92.0%	92.0%	92.0%
Conviction Efficiency Rate (\$) (E) (L)	\$324,776	\$310,029	\$270,511	\$211,048	\$231,103	\$221,782	\$243,000	\$272,000	\$272,000

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

3D – Exam and Collections (\$4,347,684,000 in direct appropriations, \$606,000 from reimbursable program, and an estimated \$574,000 from user fees): 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* supports 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 Assistance* was recently reorganized to consolidate nearly all identity theft work into one IRS program. This program activity has end-to-end responsibility and accountability for identity theft victim assistance, including policy and operations, which includes 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's performance are discussed below.

The IRS met its FY 2015 Individual Exam Coverage target of 0.8 percent. In FY 2015, there were approximately 14,400 fewer individual audits compared to FY 2014, a 1.2 percent decrease. The decrease in audits was due, in part, to the SBSE Compliance Realignment. IRS-wide emphasis is to continue monitoring base inventory levels and decrease cycle times through process improvements while focusing on improving quality. The IRS will reduce the coverage rate for FY 2016 to 0.6 percent, due to budget reductions necessitating a reduction in FTE through attrition. In order to mitigate this decrease, Examination will monitor starts and the mix of discretionary inventory more closely in FY 2016. The FY 2017 target is set at 0.7 percent.

In FY 2015, the Field Exam National Quality Review Score is at 86.7 percent, falling short of the FY 2015 target of 89.6 percent. The decline in quality was driven by declines in 16 of the 17 quality attributes. Beginning in FY 2016, Exam will hold bi-monthly calls to address developing issues with respect to the return preparer visits and to ensure all agents understand actions required of them. Attribute 112 (Required Filing Checks) is the only attribute to reflect improvement. The IRS expects to achieve a quality score of 86.7 percent in FY 2016 and FY 2017.

In FY 2015, Office Exam Quality is at 88.3 percent, falling short of the FY 2015 target of 90.2 percent. The overall decline in quality was driven by declines in 14 of the 17 quality attributes. To assist examiners with documenting their audit activities, lead sheets for minimum income probes, required filing checks, and innocent spouse will be updated during FY 2016. The IRS expects to achieve its FY 2016 and FY 2017 target of 88.3 percent. Both the Field Exam National Quality Review and the Office Exam Quality continue to focus on reducing the leading errors in their two weakest attributes 510 (Time Span) and 112 (Required Filing Checks).

The Examination Quality – Large Business measure is calculated through a review of a statistically valid random sample of closed Large Business Return cases. Case scores are based on the percentage of elements passed within each of the four audit standards (Planning; Inspection; Development; Work Papers and Reports). In FY 2015, Examination Quality – Large Business is 86 percent, 4 percentage points below the FY 2015 target of 90 percent.

The 86 percent was a result of low scores in Standard 1 (Planning), Standard 2 (Inspection) and Standard 4 (Work papers and Reports). Actions currently underway to improve the score include direct feedback to Revenue Agents, outreach presenting the Quality Standards and ways to affect case quality improvement, conducting quarterly meetings to highlight and discuss actions for areas of improvement, and one-on-one report outs to Industry Analysts. The FY 2016 and FY 2017 target was set at 90 percent.

The Examination Coverage – Business (Assets > \$10 million) measure is calculated by taking the total number of Large Business & International (LB&I) returns with assets over \$10 million (including all partnerships) examined and closed by LB&I during the current fiscal year, divided by total filings for the preceding calendar year. In FY 2015, Business Examination Coverage is 3.9 percent. While corporate closures are down slightly, S-Corporation and partnership closures are up 3.5 percent and 6.3 percent, respectively, compared to FY 2014. The IRS expects to achieve the FY 2016 target of 3.5 percent. The FY 2016 and FY 2017 targets were lowered to 3.5 percent and 3.2 percent, respectively, based on a reduction in FTE and as the IRS is projecting an increase in partnership returns filed.

The Individual Exam Efficiency measure is calculated by taking the sum of all individual 1040 return examinations and audit reconsideration cases divided by the total staff years expended in relation to those individual 1040 returns. In 2015, Exam Efficiency - Individual is 148, exceeding the FY 2015 target of 135. SBSE Campus Exam realized greater efficiency due to changes in the processing of TEFRA inventory. The same level of efficiency gains is not anticipated in FY 2016 or FY 2017 due to a reduction in Exam FTE and efficiency adjustments based on workload considerations due to the reduction in staffing. The IRS expects to achieve the FY 2016 and FY 2017 target of 122, as the IRS expects new staff to require time for training before reaching full efficiency.

The Automated Underreporter (AUR) Efficiency measure is calculated by taking the total number of W&I and SB/SE contact closures divided by the total FTEs, including overtime. AUR Efficiency is 2,209 through FY 2015, above the FY 2015 target of 2,032. While total AUR closures decreased 3.5 percent, total FTEs decreased at a much higher rate at 9.3 percent resulting in improved AUR efficiency compared to FY 2014 (2,209 vs. 1,935). SBSE Campus Automated Underreporter realized efficiency gains in FY 2015 from new processes put in place allowing work to close more quickly. The inclusion of the Premium Tax Credit (PTC) in FY 2016 will require manual calculations for a significant number of cases resulting in a lower projected number of closures next year compared to FY 2015. The IRS expects to achieve the FY 2016 target of 2,036. The FY 2017 target is set at 2,006, as new staff will not have an immediate impact on performance due to the need for training.

The AUR Coverage measure is calculated by taking the total number of contact closures divided by total prior calendar year individual filings. In FY 2015, AUR Coverage is 2.3 percent and below the FY 2015 target of 2.6 percent. An overall decrease in FTE, caused by the inability to cover attrition losses throughout the year, resulted in fewer contact closures in FY 2015 than in previous years. Due to a shift in FTE and work streams and the additional resources needed to work ACA cases, SBSE lowered the Coverage targets for FY 2016 and FY 2017. The IRS expects to achieve the FY 2016 target of 2.2 percent and the FY 2017 target of 2.3 percent.

Description of Performance - Collection

The Collection program collects delinquent taxes, secures delinquent tax returns through the fair and equitable application of tax laws, and provides education to promote future compliance, thereby protecting and instilling public confidence in the American tax system. The performance goals that the IRS uses to gauge collection program performance are:

The Collection Coverage measure is calculated by taking the total volume of collection work disposed divided by total collection work available. In FY 2015, Collection Coverage is 46.3 percent, exceeding the FY 2015 target of 43.8 percent and last year's performance of 45.9 percent. The FY 2015 net dispositions increased 2.6 percent compared to FY 2014 (23.62 million vs. 23.03 million). Beginning Inventory, New Issuance Receipts, and Reactivated Currently-Not-Collectable cases increased 1.3 percent, 1.8 percent, and 57.6 percent, respectively, while Returned to Inventory cases decreased 2.7 percent compared to FY 2014. The IRS will continue to market and promote the use of the online Installment Agreement and Direct Pay tools available to taxpayers. The IRS expects to achieve the FY 2016 target of 41.8 percent, as additional employees are hired to process a steady projected volume of available collection casework. The FY 2017 target is set at 41.1 percent, as new staff will not have an immediate impact on performance due to the need for training.

The Collection Efficiency measure is calculated by dividing total collection case closures by the total number of FTEs devoted to working the closures. In FY 2015, Collection Efficiency is 2,448 exceeding the FY 2015 target of 2,173. The Collection Coverage measure was updated based on FY 2015 performance and the current disposition and inventory targets in the collection work plan for FY 2016 and FY 2017. The planned reduction in overall dispositions in FY 2016 is expected to have a negative impact, due to the lack of hiring, on overall Collection Coverage. Through planned improvements, including the realignment of the Collection function, IRS expects to achieve the FY 2016 target of 2,208 and the FY 2017 target of 2,124, as new hires are brought on board and trained.

The Field Collection Quality measure is the percentage of quality attributes reviewed by an independent quality reviewer that are determined to be correct. In FY 2015, the Field Collection National Quality Review Score is 79.2 percent, below the FY 2014 actual and behind the FY 2015 target of 81.6 percent. The shortfall in Field Collection Quality is primarily related to a decline in the timeliness attributes. This is largely a result of changing the training delivery method, due to budgetary considerations, from a traditional classroom format to a virtual setting, which resulted in delayed delivery. More than one third of the Field Revenue Officers (ROs) were off-line for almost two weeks and all ROs were off-line for another week due to training. This training interrupted case timeliness, resulting in missed follow-up deadlines. Timeliness was also impacted by the delayed movement of 100 ROs into the specialty programs necessitating reassignment of those inventories. In order to improve quality all Field Collection Areas developed and implemented action plans to ensure focus on workload management and case actions critical to timely case resolution. However, due to the timing of case closures and reviews, it could take up to ten months after implementation before the score results begin to reflect the benefit of these plans. With a continued emphasis on improving timeliness and the quality of work products, the IRS expects to achieve the FY 2016 and FY 2017 target of 79.7 percent.

The IRS achieved the FY 2015 Automated Collection System (ACS) Accuracy target of 94.0 percent, reaching 95.3 percent. The ACS Accuracy measure reflects the percentage of correct responses from a weighted random 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 issues and trends affecting Customer Accuracy. Additionally, increased oversight will continue as former W&I sites transition into taking various SB/SE calls. The expectation is that this will help reduce Customer Accuracy errors and enable the FY 2016 and FY 2017 target of 95 percent to be achieved.

FY 2017 Changes by Budget Activity

Dollars in Thousands

Exam and Collections	FTE	Amount
FY 2016 Enacted (before Administrative Provision 113)	34,402	\$4,103,630
FY 2016 Administrative Provision 113		\$4,936
Improve Taxpayer Service		
Cyber Security		
Strengthening the Prevention of Identity Theft		4,936
FY 2016 Enacted	34,402	\$4,108,566
Changes to Base:		
Maintaining Current Levels (MCLs):		\$63,349
Pay Annualization		12,655
Pay Raise		46,879
Non-Pay		3,815
Subtotal FY 2017 Changes to Base		\$63,349
FY 2017 Current Services (Base)	34,402	\$4,171,915
Program Increases:		
Budget Request Program Increases:		
<i>Strategic Focus: Strengthen Cybersecurity and Eliminate Identity Theft</i>		
Prevent Identity Theft and Refund Fraud and Reduce Improper Payments	92	5,699
Subtotal	92	\$5,699
Subtotal FY 2017 Budget Request Program Increases	92	\$5,699
Total FY 2017 Total Budget Request	34,494	\$4,177,614
Dollar/FTE Change FY 2017 Budget Request over FY 2016 Enacted	92	\$69,048
Percent Change FY 2017 Budget Request over FY 2016 Enacted	0.27%	1.68%
Cap Adjustment Program Increases:		
<i>Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support</i>		
Enterprise Case Management	22	7,369
Subtotal	22	\$7,369
<i>Understand Non-Compliant Taxpayer Behavior and Develop Approaches to Deter and Change It</i>		
Increase Collection Coverage	677	58,185
Increase Audit Coverage	815	74,086
Digitizing Form 990	1	80
FATCA: Implement, Expand Filing Coverage, and Combat Criminal Non-compliance	152	30,052
Pursue Employment Tax and Abusive Tax Schemes	2	298
Subtotal	1,647	\$162,701
Subtotal FY 2017 Cap Adjustment Program Increases	1,669	\$170,070
Subtotal FY 2017 Total Program Increases Including Cap Adjustment	1,761	\$175,769
Total FY 2017 Total Budget Request Including Cap Adjustment	36,163	\$4,347,684
Dollar/FTE Change FY 2017 Budget Request including PIC over FY 2016 Enacted	1,761	\$239,118
Percent Change FY 2017 Budget Request including PIC FY 2016 Enacted	5.12%	5.82%

3.1.4 – Budget and Performance Report and Plan

Exam and Collections Budget and Performance Plan

Dollars in Thousands

Exam and Collections Resource Level	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Enacted	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Enacted	FY 2017 Request
Appropriated Resources ¹	\$4,700,345	\$4,689,220	\$4,504,885	\$4,210,108	\$4,196,794	\$4,019,123	\$4,108,566	\$4,347,684
Reimbursable Resources ²	8,729	11,163	6,385	804		640	577	606
User Fees ²	49						918	574
Budget Activity Total	\$4,709,123	\$4,700,383	\$4,511,270	\$4,210,912	\$4,196,794	\$4,019,763	\$4,110,061	\$4,348,864

¹The FY 2010 - FY 2015 appropriated resources represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

²The FY 2010 - FY 2015 columns represent realized resources for reimbursables and user fees.

Exam and Collections Measures	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2015 Target	FY 2016 Target	FY 2017 Target
Examination Coverage - Individual (Oe) (L)	1.1%	1.1%	1.0%	1.0%	0.9%	0.8%	0.8%	0.6%	0.7%
Field Exam National Quality Review Score (Oe) (L)	84.9%	85.8%	87.4%	89.2%	88.4%	86.7%	89.6%	86.7%	86.7%
Office Exam National Quality Review Score (Oe) (L)	91.6%	90.4%	91.3%	90.3%	90.6%	88.3%	90.2%	88.3%	88.3%
Examination Quality - Large Business ⁺ (Oe) (L) (New in FY 2013)				92.0%	83.0%	86.0%	90.0%	90.0%	90.0%
Examination Coverage - Business (Assets > \$10 million) (C)	5.7%	6.2%	6.2%	5.6%	4.3%	3.9%	3.8%	3.5%	3.2%
Automated Underreporter (AUR) Efficiency (E) (L)	1,924	2,007	2,041	2,025	1,935	2,209	2,032	2,036	2,006
Automated Underreporter (AUR) Coverage (E) (L)	3.0%	3.3%	3.2%	2.8%	2.6%	2.3%	2.6%	2.2%	2.3%
Examination Efficiency - Individual (E) (L)	140	139	142	142	138	148	135	122	122
Collection Coverage - Units (Ot) (L)	50.1%	50.0%	48.1%	47.0%	45.9%	46.3%	43.8%	41.8%	41.1%
Collection Efficiency - Units (E) (L)	1,822	1,952	1,997	2,057	2,051	2,448	2,173	2,208	2,124
Field Collection National Quality Review Score (Ot) (L)	80.6%	80.3%	80.4%	81.4%	81.6%	79.2%	81.6%	79.7%	79.7%
Automated Collection System (ACS) Accuracy (Oe)	95.9%	94.9%	94.7%	94.4%	95.2%	95.3%	94.0%	95.0%	95.0%

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

⁺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 -

3E – Regulatory (\$154,371,000 in direct appropriations, \$827,000 from reimbursable programs, and an estimated \$14,020,000 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 activities include:

- *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 tax-exempt status for employee retirement plans (EP) 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.

TE/GE exceeded the plan for total determination closures in FY 2015, as the number of determination cases completed reached 111,940. EO closed over 15,000 more Form 1023-EZ applications than initially anticipated due to a higher adoption rate by the public than expected. In EP, FY 2015 closures fell short of plan as resources were diverted to other priorities such as processing voluntary compliance applications and developing the TE/GE Knowledge Management initiative. In FY 2016, both programs anticipate further implementing recommendations stemming from Lean Six Sigma reviews of EP and EO case processing to improve timeliness and maintain consistent case treatment. TEGE will increase the FY 2016 and FY 2017 targets to 103,852 and 109,768, respectively.

FY 2017 Changes by Budget Activity

Dollars in Thousands

Regulatory	FTE	Amount
FY 2016 Enacted (before Administrative Provision 113)	1,013	\$151,750
FY 2016 Administrative Provision 113		
FY 2016 Enacted	1,013	\$151,750
Changes to Base:		
Maintaining Current Levels (MCLs):		\$2,348
Pay Annualization		480
Pay Raise		1,777
Non-Pay		91
Subtotal FY 2017 Changes to Base		\$2,348
FY 2017 Current Services (Base)	1,013	\$154,098
Program Increases:		
Budget Request Program Increases:		
<i>Strategic Focus: Strengthen Cybersecurity and Eliminate Identity Theft</i>		
Prevent Identity Theft and Refund Fraud and Reduce Improper Payments	1	170
Subtotal	1	\$170
Subtotal FY 2017 Budget Request Program Increases	1	\$170
Total FY 2017 Total Budget Request	1,014	\$154,268
Dollar/FTE Change FY 2017 Budget Request over FY 2016 Enacted	1	\$2,518
Percent Change FY 2017 Budget Request over FY 2016 Enacted	0.13%	1.66%
Cap Adjustment Program Increases:		
<i>Understand Non-Compliant Taxpayer Behavior and Develop Approaches to Deter and Change It</i>		
Increase Collection Coverage	1	28
Increase Audit Coverage	1	75
Subtotal	2	\$103
Subtotal FY 2017 Cap Adjustment Program Increases	2	\$103
Subtotal FY 2017 Total Program Increases Including Cap Adjustment	3	\$273
Total FY 2017 Total Budget Request Including Cap Adjustment	1,016	\$154,371
Dollar/FTE Change FY 2017 Budget Request including PIC over FY 2016 Enacted	3	\$2,621
Percent Change FY 2017 Budget Request including PIC FY 2016 Enacted	0.33%	1.73%

3.1.5 – Budget and Performance Report and Plan

Regulatory Budget and Performance Plan

Dollars in Thousands

Regulatory Resource Level	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Enacted	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Enacted	FY 2017 Request
Appropriated Resources ¹	\$164,292	\$159,293	\$158,096	\$149,319	\$156,991	\$147,733	\$151,750	\$154,371
Reimbursable Resources ²	574	654	660	631	792	363	788	827
User Fees ²		13,249	12,482	15,700	13,241	18,485	9,233	14,020
Budget Activity Total	\$164,866	\$173,196	\$171,238	\$165,650	\$171,024	\$166,581	\$161,771	\$169,218

¹The FY 2010 - FY 2015 appropriated resources represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

²The FY 2010 - FY 2015 columns represent realized resources for reimbursables and user fees.

Regulatory Measure	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2015 Target	FY 2016 Target	FY 2017 Target
TE/GE Determination Case Closures (Ot)	105,247	91,205	87,000	65,877	136,746	111,940	99,942	103,852	109,768

Key: Ot - 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 2017 is \$4,030,695,000 in direct appropriations and 12,013 FTE. This is an increase of \$284,007,000 or 7.58 percent, and 91 FTE more than the FY 2016 Enacted level of \$3,746,688,000 and 11,922 FTE. The Operations Support total budget request for FY 2017 including the program integrity cap adjustment is \$4,314,099,000 and 12,250 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 the Department of the Treasury's FY 2014 – FY 2017 Strategic Plan.

2.1 – Budget Adjustments Table

Dollars in Thousands		
Operations Support	FTE	Amount
FY 2016 Enacted (before Administrative Provision 113)	11,752	\$3,638,446
FY 2016 Administrative Provision 113	170	\$108,242
Improve Taxpayer Service		1,800
Cyber Security	170	95,442
Strengthening the Prevention of Identity Theft		11,000
FY 2016 Enacted	11,922	\$3,746,688
Changes to Base:		
Maintaining Current Levels (MCLs):		\$60,994
Pay Annualization		5,392
Pay Raise		19,975
Non-Pay		35,627
Efficiencies/Savings:		(\$58)
Increase e-File Savings		(58)
Subtotal FY 2017 Changes to Base		\$60,936
FY 2017 Current Services (Base)	11,922	\$3,807,624
Program Increases:		
Budget Request Program Increases:		
<i>Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support</i>		
Implement Changes to Deliver Tax Credits and Other Requirements for the Affordable Care Act		153,240
Leverage New Technologies to Advance the IRS Mission		973
Improve Taxpayer Service	9	14,952
Subtotal	9	\$169,165
<i>Drive More Agility, Efficiency, and Effectiveness in IRS Operations</i>		
Enterprise Electronic Records Management Solution	46	18,543
Subtotal	46	\$18,543
<i>Focus Area: Strengthen Cybersecurity and Eliminate Identity Theft</i>		
Prevent Identity Theft and Refund Fraud and Reduce Improper Payments	36	35,363
Subtotal	36	\$35,363
Subtotal FY 2017 Budget Request Program Increases	91	\$223,071
Total FY 2017 Total Budget Request	12,013	\$4,030,695
Dollar/FTE Change FY 2017 Budget Request over FY 2016 Enacted	91	\$284,007
Percent Change FY 2017 Budget Request over FY 2016 Enacted	0.76%	7.58%
Cap Adjustment Program Increases:		
<i>Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support</i>		
Enterprise Case Management		598
Subtotal		\$598
<i>Understand Non-Compliant Taxpayer Behavior and Develop Approaches to Deter and Change It</i>		
Increase Collection Coverage	21	32,254
Increase Audit Coverage	40	54,274
Digitizing Form 990	6	2,298
FATCA: Implement, Expand Filing Coverage, and Combat Criminal Non-compliance	70	76,850
Pursue Employment Tax and Abusive Tax Schemes		8,576
Increase Investigations of Transnational Organized Crime (TOC)		6,142
Subtotal	137	\$180,394
<i>Drive More Agility, Efficiency, and Effectiveness in IRS Operations</i>		
Operations and Maintenance for Deployed Business Systems Modernization (BSM) Projects	73	92,174
Maintain Integrity of Revenue Financial Systems	27	10,238
Subtotal	100	\$102,412
<i>Alcohol and Tobacco Tax and Trade Bureau Transfer:</i>		
Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities		
Subtotal		
Subtotal FY 2017 Cap Adjustment Program Increases	237	\$283,404
Subtotal FY 2017 Total Program Increases Including Cap Adjustment	328	\$506,475
Total FY 2017 Total Budget Request Including Cap Adjustment	12,250	\$4,314,099
Dollar/FTE Change FY 2017 Budget Request including PIC over FY 2016 Enacted	328	\$567,411
Percent Change FY 2017 Budget Request including PIC FY 2016 Enacted	2.75%	15.14%

2.2 – Operating Levels Table

Dollars in Thousands

Operations Support Object Classification	FY 2015 Actual	FY 2016 Enacted	FY 2017 Request
11.1 Full-Time Permanent Positions	1,025,551	1,169,563	1,221,731
11.3 Other than Full-Time Permanent Positions	6,100	9,227	9,366
11.5 Other Personnel Compensation	15,721	20,303	21,659
11.8 Special Personal Services Payments	245	235	239
11.9 Personnel Compensation (Total)	1,047,617	1,199,328	1,252,995
12.0 Personnel Benefits	381,526	438,472	455,608
13.0 Benefits to Former Personnel	51,076	52,266	53,054
Total Personnel and Compensation Benefits	\$1,480,219	\$1,690,066	\$1,761,657
21.0 Travel	11,765	8,175	11,006
22.0 Transportation of Things	10,530	11,638	12,437
23.1 Rental Payments to GSA	610,803	595,254	618,265
23.2 Rent Payments to Others	12,352	13,042	13,280
23.3 Communications, Utilities, & Misc	297,972	290,283	318,661
24.0 Printing & Reproduction	16,401	18,165	19,083
25.1 Advisory & Assistance Services	526,886	524,393	701,466
25.2 Other Services	61,220	58,104	240,801
25.3 Purchase of Goods & Services from Govt. Accounts	77,712	73,930	85,332
25.4 Operation & Maintenance of Facilities	173,000	157,756	168,262
25.5 Research & Development Contracts			
25.6 Medical Care	14,113	13,597	15,019
25.7 Operation & Maintenance of Equipment	59,759	65,956	69,971
25.8 Subsistence & Support of Persons	18		
26.0 Supplies and Materials	18,396	20,428	22,036
31.0 Equipment	227,399	180,700	224,119
32.0 Land and Structures	2,612	25,003	32,502
42.0 Insurance Claims & Indemnities	279	198	202
Total Non-Personnel	\$2,121,217	\$2,056,622	\$2,552,442
New Appropriated Resources	\$3,601,436	\$3,746,688	\$4,314,099
Budget Activities:			
Infrastructure	833,846	832,543	895,094
Shared Services & Support	1,126,230	1,141,485	1,197,954
Information Services	1,641,360	1,772,660	2,221,051
New Appropriated Resources	\$3,601,436	\$3,746,688	\$4,314,099
FTE	10,614	11,922	12,250

2.3 – Appropriation Detail Table

Dollars in thousands

Operations Support Appropriated Resources	FY 2015 Actual		FY 2016 Enacted ¹		FY 2017 Request		Change FY 2016 to FY 2017 Request		% Change FY 2016 to FY 2017 Request	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources: ²										
Infrastructure		\$833,846		\$832,543		\$895,094		\$62,551		7.51%
Shared Services and Support	5,013	1,126,230	5,231	1,141,485	5,257	1,197,954	26	56,469	0.50%	4.95%
Information Services	5,601	1,641,360	6,691	1,772,660	6,993	2,221,051	302	448,391	4.51%	25.29%
Subtotal New Appropriated Resources	10,614	\$3,601,436	11,922	\$3,746,688	12,250	\$4,314,099	328	\$567,411	2.75%	15.14%
Other Resources:										
Reimbursables	92	42,316	97	54,285	101	56,999	4	2,714	4.12%	5.00%
Offsetting Collections - Non Reimbursables										
User Fees	1,187	375,378	99	395,662	37	268,295	(62)	(127,367)	-62.63%	-32.19%
Recovery from Prior Years		1,908								
Unobligated Balances from Prior Years	3	123,655		148,173		66,200		(81,973)		-55.32%
Transfers In/Out										
Resources from Other Accounts										
Subtotal Other Resources	1,282	\$543,257	196	\$598,120	138	\$391,494	(58)	(\$206,626)	-29.59%	-34.55%
Total Budgetary Resources	11,896	\$4,144,693	12,118	\$4,344,808	12,388	\$4,705,593	270	\$360,785	2.23%	8.30%

¹FY 2016 Enacted includes \$108.2 million in Section 113 Administrative Provision funding for Operations Support.

²This includes the Program Integrity Cap Adjustment.

3F – Infrastructure (\$895,094,000 in direct appropriations and an estimated \$772,000 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 service's needs, and non-IT equipment.
- *Security* covers building security costs related to contract guard services.

Description of Performance

In FY 2015, there were 59 space reduction projects completed that resulted in the release of 624,306 Rentable Square Feet (RSF) of space with Annualized Rent Savings (ARS) of \$17.6 million that will support lower rent costs in the future.

Approximately 45 space reduction projects were approved for implementation in FY 2016, which will result in the release of 550,757 RSF of space and ARS of approximately \$15 million that will support lower rent costs in the future. In addition, the IRS embarked on a program to aggressively reduce the IRS space footprint nationwide and set, as a goal, the annual reduction of 800,000 RSF for the period FY 2016 through FY 2020. Achievement of this goal however, is contingent on the availability of funds to complete the projects that will

enable realization of these savings. Project identification will continue during this budget year and into the future.

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 limit the projected rent costs in the future.

FY 2017 Changes by Budget Activity

Dollars in Thousands

Infrastructure	FTE	Amount
FY 2016 Enacted (before Administrative Provision 113)		\$832,543
FY 2016 Administrative Provision 113		
FY 2016 Enacted		\$832,543
Changes to Base:		
Maintaining Current Levels (MCLs):		\$15,161
Pay Raise	1	
Non-Pay	15,160	
Subtotal FY 2017 Changes to Base		\$15,161
FY 2017 Current Services (Base)		\$847,704
Program Increases:		
Budget Request Program Increases:		
<i>Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support</i>		
Leverage New Technologies to Advance the IRS Mission	405	
Improve Taxpayer Service	4,508	
Subtotal		\$4,913
<i>Drive More Agility and Efficiency in IRS Operations</i>		
Enterprise Electronic Records Management Solution	646	
Subtotal		\$646
<i>Strategic Focus: Strengthen Cybersecurity and Eliminate Identity Theft</i>		
Prevent Identity Theft and Refund Fraud and Reduce Improper Payments	6,014	
Subtotal		\$6,014
Subtotal FY 2017 Budget Request Program Increases		\$11,573
Total FY 2017 Total Budget Request		\$859,277
Dollar/FTE Change FY 2017 Budget Request over FY 2016 Enacted		\$26,734
Percent Change FY 2017 Budget Request over FY 2016 Enacted		3.21%
Cap Adjustment Program Increases:		
<i>Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support</i>		
Enterprise Case Management	306	
Subtotal		\$306
<i>Understand Non-Compliant Taxpayer Behavior and Develop Approaches to Deter and Change It</i>		
Increase Collection Coverage	9,911	
Increase Audit Coverage	12,148	
Digitizing Form 990	92	
FATCA: Implement, Expand Filing Coverage, and Combat Criminal Non-compliance	3,876	
Pursue Employment Tax and Abusive Tax Schemes	518	
Increase Investigations of Transnational Organized Crime (TOC)	1,839	
Subtotal		\$28,384
<i>Drive More Agility and Efficiency in IRS Operations</i>		
Operations and Maintenance for Deployed Business Systems Modernization (BSM) Projects	1,037	
Maintain Integrity of Revenue Financial Systems	6,090	
Subtotal		\$7,127
Subtotal FY 2017 Cap Adjustment Program Increases		\$35,817
Subtotal FY 2017 Total Program Increases Including Cap Adjustment		\$47,390
Total FY 2017 Total Budget Request Including Cap Adjustment		\$895,094
Dollar/FTE Change FY 2017 Budget Request including PIC over FY 2016 Enacted		\$62,551
Percent Change FY 2017 Budget Request including PIC FY 2016 Enacted		7.51%

3.1.6 – Budget and Performance Report and Plan

Infrastructure Budget and Performance Plan

Dollars in Thousands

Infrastructure Resource Level	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Enacted	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Enacted	FY 2017 Request
Appropriated Resources ¹	\$895,202	\$926,190	\$929,634	\$886,535	\$849,025	\$841,243	\$832,543	\$895,094
Reimbursable Resources ²	505	880	1,016	701	16,694	928	735	772
User Fees ²		23,290	57,477	5,414	17,137			
Budget Activity Total	\$895,707	\$950,360	\$988,127	\$892,650	\$882,856	\$842,171	\$833,278	\$895,866

¹The FY 2010 - FY 2015 appropriated resources represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

²The FY 2010 - FY 2015 columns represent realized resources for reimbursables and user fees.

3G – Shared Services and Support (\$1,197,954,000 in direct appropriations, \$23,152,000 from reimbursable programs, and an estimated \$19,574,000 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 utilization of Treasury Franchise Fund services. 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.
- *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 non-compliance, and for the implementation of successful strategies to address taxpayer non-compliance.
- *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, security, and research, the IRS continues to provide shared services to all IRS programs.

Human Capital

The IRS's employees are its greatest asset and the IRS is committed to building a diverse and high performing workforce by recruiting and hiring top talent. In FY 2015, the IRS:

- Focused on enhancing communication, cultivating an inclusive and collaborative environment, and encouraging employee engagement. To do that, the IRS developed and retained current employees by relying on their expertise to improve systems and processes and also by focusing on knowledge management, staff training, data analytics, and training for new ACA and FATCA requirements. Although under an exception-only hiring freeze, the IRS successfully hired seasonal staff to support filing season, recruited veterans and employees with targeted disabilities, and hired experts in the international area.
- Developed the FY 2015 Leadership Engagement Action Plan (LEAP) to tie numerous planned employee engagement efforts throughout the IRS into a single, corporate engagement strategy. The LEAP focuses on aligning engagement activities to a strategic vision, investing in employees and building support systems and tools to equip both leaders and employees for success. It is founded upon the Four Pillars of Engagement: Lead, Listen, Develop, and Support.

- Encouraged an inclusive and collaborative environment through its robust employee communications, including more than 50 Commissioner or Deputy Commissioner employee email messages, articles in the IRS all-employee and manager newsletters, and moderated panel discussions with IRS executives. The IRS also conducted a number of special events for employees including a Leadership Forum featuring Commissioner Koskinen with then NTEU national president Colleen Kelley, Commissioner's Award and Deputy Commissioners' Awards programs, and an open office hours program that allowed employees to have one-on-one face time with the Deputy Commissioner of Operations Support.
- Shifted the conversation about diversity to focus on the business benefits of a highly diverse, multi-talented workforce. This includes training programs for IRS leaders about managing a diverse workforce and embracing the diversity of thought, perspective, experience, and cultural background within their staff.

The IRS will continue to support its mission by investing in human capital strategies and tools that support an agile workforce. Engaging, recruiting, hiring, developing, and retaining a flexible workforce with foundational skill sets, along with specialized knowledge will position the IRS to more easily adapt to a changing landscape where taxpayers' interactions will be more technologically-driven.

Security

Security of taxpayer data and providing a secure environment for employees are of utmost importance to the IRS. In FY 2015, the IRS continued efforts at protecting employees. In 2015, the IRS:

- Enhanced employee awareness in service-wide emergency response training and education through the development of an Active Shooter/Threat and Workplace Violence mandatory briefing. IRS delivered this face-to-face training to employees at 175 large Posts of Duty (PODs) and Campuses and completed 155 facilities security risk assessments.
- Amended existing contracts to require that favorable background investigations be obtained for all relevant contract employees before routine, unescorted, unsupervised physical access to taxpayer information is granted.
- Maintained perimeter security controls within its Trusted Internet Connection environment that block an average of more than two million malicious, suspicious, or prohibited events targeting IRS employees, systems, or networks on a daily basis. Over the past year, the IRS Cybersecurity Computer Security Incident Response Center (CSIRC) also identified, mitigated, and responded to 1,128 cyber incidents and produced 540 advisories and bulletins informing responsible business units, system administrators, and users of mitigation actions to address current vulnerabilities and threats affecting the IRS enterprise.
- Refined and developed new identity theft filters based on analytical models and data validation. As a result, potentially fraudulent returns were stopped much earlier in processing, allowing the IRS to more quickly resolve cases for ID theft victims.

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 non-compliance.

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.

The Office of Research, Analysis, and Statistics is conducting research on behavioral responses to IRS actions. This research included a pilot on the use of outreach methods designed to encourage taxpayers to participate in the tax system. An FY 2014 pilot demonstrated that generic informational postcards could influence filing behaviors among taxpayers who appear to be eligible for the Earned Income Tax Credit but have not filed a return in recent years in order to claim it. The increased participation seems to have resulted in increased compliance; the outreach appears to move two key indicators in a positive direction for the IRS: the Voluntary Filing Rate and the EITC participation rate. The FY 2015 outreach tested variations in the language used and the timing of the postcard messages to increase participation; preliminary FY 2015 results indicate that there were increases in participation, even among those who owed tax and/or did not receive a refund.

The Nonfiler/Late-filer Survey is designed to help the IRS understand the drivers of nonfiling and gather burden data to inform the IRS Taxpayer Compliance Burden Model (TCBM). The study is conducted as an expansion of the Tax Year (TY) 2014 Taxpayer [post-filing] Compliance Burden Survey. The TCBM is used to estimate taxpayer post-filing burden and inform tax policy and tax law administration. The data from the study will provide additional insights into the issues associated with individuals who are at risk to stop filing and inform refinement of treatments for those individuals who do fail to file a required return.

FY 2017 Changes by Budget Activity

Dollars in Thousands

Shared Services and Support	FTE	Amount
FY 2016 Enacted (before Administrative Provision 113)	5,231	\$1,141,485
FY 2016 Administrative Provision 113		
FY 2016 Enacted	5,231	\$1,141,485
Changes to Base:		
Maintaining Current Levels (MCLs):		\$18,488
Pay Annualization		2,356
Pay Raise		8,725
Non-Pay		7,407
Subtotal FY 2017 Changes to Base		\$18,488
FY 2017 Current Services (Base)	5,231	\$1,159,973
Program Increases:		
Budget Request Program Increases:		
<i>Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support</i>		
Leverage New Technologies to Advance the IRS Mission		199
Improve Taxpayer Service		1,460
Subtotal		\$1,659
<i>Drive More Agility and Efficiency in IRS Operations</i>		
Enterprise Electronic Records Management Solution	5	5,397
Subtotal	5	\$5,397
<i>Strategic Focus: Strengthen Cybersecurity and Eliminate Identity Theft</i>		
Prevent Identity Theft and Refund Fraud and Reduce Improper Payments	13	7,439
Subtotal	13	\$7,439
Subtotal FY 2017 Budget Request Program Increases	18	\$14,495
Total FY 2017 Total Budget Request	5,249	\$1,174,468
Dollar/FTE Change FY 2017 Budget Request over FY 2016 Enacted	18	\$32,983
Percent Change FY 2017 Budget Request over FY 2016 Enacted	0.34%	2.89%
Cap Adjustment Program Increases:		
<i>Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support</i>		
Enterprise Case Management		90
Subtotal		\$90
<i>Understand Non-Compliant Taxpayer Behavior and Develop Approaches to Deter and Change It</i>		
Increase Collection Coverage	2	7,092
Increase Audit Coverage	1	8,839
Digitizing Form 990		43
FATCA: Implement, Expand Filing Coverage, and Combat Criminal Non-compliance		2,541
Pursue Employment Tax and Abusive Tax Schemes		557
Increase Investigations of Transnational Organized Crime (TOC)		3,086
Subtotal	3	\$22,158
<i>Drive More Agility and Efficiency in IRS Operations</i>		
Operations and Maintenance for Deployed Business Systems Modernization (BSM) Projects		481
Maintain Integrity of Revenue Financial Systems	5	758
Subtotal	5	\$1,239
<i>Alcohol and Tobacco Tax and Trade Bureau Transfer:</i>		
Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities		
Subtotal		
Subtotal FY 2017 Cap Adjustment Program Increases	8	\$23,487
Subtotal FY 2017 Total Program Increases Including Cap Adjustment	26	\$37,982
Total FY 2017 Total Budget Request Including Cap Adjustment	5,257	\$1,197,955
Dollar/FTE Change FY 2017 Budget Request including PIC over FY 2016 Enacted	26	\$56,470
Percent Change FY 2017 Budget Request including PIC FY 2016 Enacted	0.50%	4.95%

3.1.7 – Budget and Performance Report and Plan

Shared Services and Support Budget and Performance Plan

Dollars in Thousands

Shared Services and Support Resource Level	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Enacted	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Enacted	FY 2017 Request
Appropriated Resources ¹	\$1,311,127	\$1,291,568	\$1,214,514	\$1,111,317	\$1,188,067	\$1,138,910	\$1,141,485	\$1,197,954
Reimbursable Resources ²	20,315	19,957	31,486	17,175	19,886	17,126	22,050	23,152
User Fees ²	17,887	4,588	14,938	33,826	7,819	1,768	3,722	19,574
Budget Activity Total	\$1,349,329	\$1,316,113	\$1,260,938	\$1,162,318	\$1,215,772	\$1,157,804	\$1,167,257	\$1,240,680

¹The FY 2010 - FY 2015 appropriated resources represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

²The FY 2010 - FY 2015 columns represent realized resources for reimbursables and user fees.

3H – Information Services (\$2,221,051,000 in direct appropriations, \$33,075,000 in reimbursable resources, and an estimated \$248,721,000 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.

Information Systems (IT) is responsible for IRS information 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 resources 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: 1) 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; 2) 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; 3) 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 4) 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 service-wide. 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 investment 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 toll-free telephone system that provides access to tax information.

In FY 2015, the IRS provided new and improved applications and services to make it easier for taxpayers to get assistance and secure tax information.

- Completed transition of the Joint Operations Center (JOC) information systems support from contractor to the IRS. The transition included hardware, communications, and systems management with servers being moved to the IRS's Enterprise Computing Center and Operations Support providing software and third party data acquisition, data management, Federal Information Security Management Act (FISMA) security support, and analytic tools to the JOC.
- Integrated technology to support the Affordable Care Act with 2015 Filing Season tax administration processing, allowing taxpayers to report health insurance coverage, claim health coverage exemptions, report a shared responsibility payment, and claim the ACA Premium Tax Credit. The IRS built the ACA Verification Service (AVS) to enable at-filing checks of tax returns for reporting the Premium Tax Credit, leveraging third-party data from the Insurance Marketplaces, and validating ACA-related tax forms. This system processed millions of tax returns, and helped identify fraudulent and erroneous returns at the initial processing stage, reducing erroneous refunds.
- Opened the first release of the new International Data Exchange Service (IDES) Gateway. The IDES enables both Financial Institutions and Host Country Tax Administrations to comply with their FATCA reporting obligations by safely and securely sending electronic FATCA reports to the IRS.
- Deployed new capabilities associated with Online Bill Pay, IRS Direct Pay, Online Payment Agreement, Return Preparer Lookup, and the IRS2Go mobile application; in time for the start of the 2015 tax filing season.
- Starting in FY 2015, the Cost and Schedule Variance measure that the IRS uses to gauge performance includes all major investments (BSM and non-BSM). This can be found on table 3.1.9. There are 19 major investments currently in progress or delivered to date in FY 2015.

In FY 2016, and beyond, the IRS will continue to focus efforts on expanding its capabilities to identify fraudulent returns and prevent identity theft, enhance cyber monitoring and IT security controls, and enhance services options to taxpayers and practitioners through the development of a customer-centric strategy known as Service on Demand (SOD). In addition to supporting required changes for filing season, major investments for FY 2016 include delivering ACA and FATCA releases.

FY 2017 Changes by Budget Activity

Dollars in Thousands

Information Services	FTE	Amount
FY 2016 Enacted (before Administrative Provision 113)	6,522	\$1,664,418
FY 2016 Administrative Provision 113	170	\$108,242
Improve Taxpayer Service		1,800
Cyber Security	170	95,442
Strengthening the Prevention of Identity Theft		11,000
FY 2016 Enacted	6,691	\$1,772,660
Changes to Base:		
Maintaining Current Levels (MCLs):		\$27,345
Pay Annualization		3,036
Pay Raise		11,249
Non-Pay		13,060
Efficiencies/Savings:		(\$58)
Increase e-File Savings		(58)
Subtotal FY 2017 Changes to Base		\$27,288
FY 2017 Current Services (Base)	6,691	\$1,799,948
Program Increases:		
Budget Request Program Increases:		
<i>Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support</i>		
Implement Changes to Deliver Tax Credits and Other Requirements for the Affordable Care Act		153,240
Leverage New Technologies to Advance the IRS Mission		369
Improve Taxpayer Service	9	8,984
Subtotal	9	\$162,593
<i>Drive More Agility and Efficiency in IRS Operations</i>		
Enterprise Electronic Records Management Solution	41	12,500
Subtotal	41	\$12,500
<i>Strategic Focus: Strengthen Cybersecurity and Eliminate Identity Theft</i>		
Prevent Identity Theft and Refund Fraud and Reduce Improper Payments	23	21,910
Subtotal	23	\$21,910
Subtotal FY 2017 Budget Request Program Increases	73	\$197,003
Total FY 2017 Total Budget Request	6,764	\$1,996,951
Dollar/FTE Change FY 2017 Budget Request over FY 2016 Enacted	73	\$224,291
Percent Change FY 2017 Budget Request over FY 2016 Enacted	1.09%	12.65%
Cap Adjustment Program Increases:		
<i>Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support</i>		
Enterprise Case Management		202
Subtotal		\$202
<i>Understand Non-Compliant Taxpayer Behavior and Develop Approaches to Deter and Change It</i>		
Increase Collection Coverage	19	15,251
Increase Audit Coverage	39	33,287
Digitizing Form 990	6	2,163
FATCA: Implement, Expand Filing Coverage, and Combat Criminal Non-compliance	70	70,433
Pursue Employment Tax and Abusive Tax Schemes		7,501
Increase Investigations of Transnational Organized Crime (TOC)		1,217
Subtotal	134	\$129,852
<i>Drive More Agility and Efficiency in IRS Operations</i>		
Operations and Maintenance for Deployed Business Systems Modernization (BSM) Projects	73	90,656
Maintain Integrity of Revenue Financial Systems	22	3,390
Subtotal	95	\$94,046
Subtotal FY 2017 Cap Adjustment Program Increases	229	\$224,100
Subtotal FY 2017 Total Program Increases Including Cap Adjustment	302	\$421,103
Total FY 2017 Total Budget Request Including Cap Adjustment	6,993	\$2,221,051
Dollar/FTE Change FY 2017 Budget Request including PIC over FY 2016 Enacted	302	\$448,391
Percent Change FY 2017 Budget Request including PIC FY 2016 Enacted	4.51%	25.29%

3.1.8 – Budget and Performance Report and Plan

Information Services Budget and Performance Plan

Dollars in Thousands

Information Services Resource Level	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Enacted	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Enacted	FY 2017 Request
Appropriated Resources ¹	\$1,877,555	\$1,838,958	\$1,803,268	\$1,803,091	\$1,831,050	\$1,719,293	\$1,772,660	\$2,221,051
Reimbursable Resources ²	17,231	16,286	5,154	8,850	4,734	24,262	31,500	33,075
User Fees ²	36,081	26,764	59,823	145,036	198,206	373,610	391,940	248,721
Budget Activity Total	\$1,930,867	\$1,882,008	\$1,868,245	\$1,956,977	\$2,033,990	\$2,117,165	\$2,196,100	\$2,502,847

¹The FY 2010 - FY 2015 appropriated resources represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

²The FY 2010 - FY 2015 columns represent realized resources for reimbursables 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 2017 is \$343,415,000 in direct appropriations and 469 FTE. This is an increase of \$53,415 or 18.42 percent, and 29 FTE more than the FY 2016 Enacted level of \$290,000,000 and 440 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 Patient Protection and Affordable Care Act and Foreign Account Tax Compliance Act, and improve the execution of the tax code* of the Department of the Treasury's FY 2014 – FY 2017 Strategic Plan.

2.1 – Budget Adjustments Table

Dollars in Thousands

Business Systems Modernization	FTE	Amount
FY 2016 Enacted (before Administrative Provision 113)	440	\$290,000
FY 2016 Enacted	440	\$290,000
Changes to Base:		
Maintaining Current Levels (MCLs):		\$900
Pay Annualization		191
Pay Raise		709
Subtotal FY 2017 Changes to Base		\$900
FY 2017 Current Services (Base)	440	\$290,900
Program Increases:		
Budget Request Program Increases:		
<i>Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support</i>		
Leverage New Technologies to Advance the IRS Mission	29	52,515
Subtotal	29	\$52,515
Subtotal FY 2017 Budget Request Program Increases	29	\$52,515
Total FY 2017 Total Budget Request Including Cap Adjustment	469	\$343,415
Dollar/FTE Change FY 2017 Budget Request over FY 2016 Enacted	29	\$53,415
Percent Change FY 2017 Budget Request over FY 2016 Enacted	6.64%	18.42%

2.2 – Operating Levels Table

Dollars in Thousands

Business Systems Modernization Object Classification	FY 2015 Actual	FY 2016 Enacted	FY 2017 Request
11.1 Full-Time Permanent Positions	36,922	53,386	57,328
11.3 Other than Full-Time Permanent Positions	385	74	75
11.5 Other Personnel Compensation	588	3,041	3,157
11.9 Personnel Compensation (Total)	37,895	56,501	60,560
12.0 Personnel Benefits	11,086	15,433	16,597
Total Personnel and Compensation Benefits	\$48,981	\$71,934	\$77,157
21.0 Travel	35	593	1,081
22.0 Transportation of Things			
23.3 Communications, Utilities, & Misc			
24.0 Printing & Reproduction			
25.1 Advisory & Assistance Services	52,280	181,393	228,991
25.2 Other Services	34	499	522
25.3 Purchase of Goods & Services from Govt. Accounts		35	35
25.4 Operation & Maintenance of Facilities			
25.7 Operation & Maintenance of Equipment	2,691	2,376	2,376
26.0 Supplies and Materials	1	68	151
31.0 Equipment	3,723	33,102	33,102
Total Non-Personnel	\$58,764	\$218,066	\$266,258
New Appropriated Resources	\$107,745	\$290,000	\$343,415
Budget Activities:			
IT Investments	107,745	290,000	343,415
New Appropriated Resources	\$107,745	\$290,000	\$343,415
FTE	309	440	469

2.3 – Appropriation Detail Table

Dollars in thousands

Business Systems Modernization						Change		% Change		
Appropriated Resources						FY 2016 to FY 2017 Request		FY 2016 to FY 2017 Request		
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Business Systems Modernization	309	\$107,745	440	\$290,000	469	\$343,415	29	\$53,415	6.59%	18.42%
Subtotal New Appropriated Resources	309	\$107,745	440	\$290,000	469	\$343,415	29	\$53,415	6.59%	18.42%
Other Resources:										
Reimbursables										
Offsetting Collections - Non Reimbursables										
User Fees										
Recovery from Prior Years										
Unobligated Balances from Prior Years	31	133,783		276,443		276,197		(246)		-0.09%
Transfers In/Out										
Resources from Other Accounts										
Subtotal Other Resources	31	\$133,783		\$276,443		\$276,197		(\$246)		-0.09%
Total Budgetary Resources	340	\$241,528	440	\$566,443	469	\$619,612	29	\$53,169	6.59%	9.39%

3I – Business Systems Modernization (\$343,415,000 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 the technology sectors to develop a world-class tax administration system. The program provides value to taxpayers, the business community, and the 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 2017 BSM request of \$343.3 million:

CADE 2 (Taxpayer Account Database): 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 provides the foundation for more efficient and effective tax administration. In Transition State 2 of the CADE 2 initiative, the modernized database will become the 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. In addition, 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): Addresses 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.

Event Driven Architecture (EDA): Funds the development of a framework that processes tax returns immediately upon arrival, which will provide a scalable infrastructure and the ability to balance distributed workflows, resulting in a more efficient infrastructure model and improved customer service.

Modernized e-File (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): Delivers an integrated and unified system that enhances IRS capabilities to detect, resolve, and prevent criminal and civil tax non-compliance. The RRP provides a flexible and accessible system capable of supporting a cross-functional approach to address criminal and civil tax non-compliance. 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)): 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): 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: 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: 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.

FY 2017 BSM Project Activities

Dollars in Thousands

Business Systems Modernization	FY 2015 Enacted	FY 2016 Enacted	FY 2017 Budget Request	Difference 2016 to 2017
CADE 2 (Taxpayer Account Database) 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.	100,000	91,000	100,000	9,000
Enterprise Case Management Provide an enterprise-wide strategic approach to case management that will implement standard case management functions, an infrastructure platform, and common services that a case management application will leverage. The anticipated results are to streamline processes, reduce the number of duplicative applications and improve data accessibility and usability.	2,000	25,000	35,000	10,000
Event Driven Architecture A framework that processes the tax return immediately upon arrival. Just-in-time processing will allow each individual return to flow independently through the system at its own pace. This will allow the IRS to move away from batch processing, view returns dynamically, and understand the status of a return as it is processed.	0	2,500	30,000	27,500
Modernized e-File Fund Milestone 4b (development and testing) of Release 11, Form 1040NR BMF Components & Shared Components (to include Dual Status and Fiscal Year Returns).	28,500	7,700	12,000	4,300
Return Review Program Provide leading-edge technologies to advance IRS effectiveness in detecting, addressing, and preventing tax refund fraud and protecting US Treasury revenue. The RRP system contains multiple data sources combined with sophisticated modeling and business rule analytics to support pre-refund revenue protection, compliance and post-refund criminal investigation and prosecution.	38,475	32,000	32,000	0
Web Applications Drive the IRS transition to digital government and supports the long-term vision of migrating services from expensive traditional channels to the internet. To keep pace with the ever changing state of web technology and increasing taxpayer demand for IRS service, the IRS must create and enhance online self-service capabilities for taxpayers, tax practitioners, and internal IRS stakeholders. Web Applications will continue to enhance the taxpayer's experience by providing additional self-service options within a secure communications infrastructure.	12,500	13,000	17,000	4,000
Architecture, Integration, and Management 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.	28,900	26,000	20,000	-6,000
Core Infrastructure 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.	15,465	15,000	15,000	0
Management Reserve	4,284	2,500	3,470	970
Subtotal Capital Investments	\$230,124	\$214,700	\$264,470	\$49,770
Labor ¹	58,872	71,933	77,155	5,222
Support	1,004	3,367	1,790	(1,577)
Total BSM	\$290,000	\$290,000	\$343,415	\$53,415

¹ FY 2017 labor includes \$900K of MCLs and excludes \$973K of corporate costs which are reflected in the Operations Support appropriation.

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 projects that are within the +/-10 percent Cost and Schedule variance threshold.

Starting in FY 2015, the measure includes all major investments (BSM and non-BSM). There are 19 major investments currently in progress or delivered to date in FY 2015.

Major IT (BSM and Non-BSM) Investments		
Fiscal Year	Percent within +/- 10% Cost Variance	Percent within +/- 10% Schedule Variance
2015	73.7%	89.5%

In FY 2015, 14 of 19 major investments (73.7 percent) were within 10 percent cost variance. Reductions in the budget have caused hiring freezes and have necessitated changes in scope, realignment, rescheduling, and consolidation of activities. This has resulted in less spending than planned. Baseline Change Requests (BCRs) are in process to address these updated plans. Four of the five investments that did not meet the cost variance threshold were due to under spending; e-Services (e-SVS), Account Management Services (AMS), FATCA, and IRS End User Systems and Services (EUSS). The Electronic Fraud Detection System (EFDS) investment is slightly over budget due to the delay of planned FY 2014 work until FY 2015 and expiration of a work contract that had to be renewed. In FY 2016, IRS will continue to rigorously monitor program activities and address any issues associated with cost to meet the FY 2016 and FY 2017 target of 90 percent.

In FY 2015, 17 of 19 major investments (89.5 percent) were within the schedule variance.

FY 2017 Changes by Budget Activity

Dollars in Thousands

Business Systems Modernization	FTE	Amount
FY 2016 Enacted (before Administrative Provision 113)	440	\$290,000
FY 2016 Administrative Provision 113		
FY 2016 Enacted	440	\$290,000
Changes to Base:		
Maintaining Current Levels (MCLs):		\$900
Pay Annualization		191
Pay Raise		709
Subtotal FY 2017 Changes to Base		\$900
FY 2017 Current Services (Base)	440	\$290,900
Program Increases:		
Budget Request Program Increases:		
<i>Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support</i>		
Leverage New Technologies to Advance the IRS Mission	29	52,515
Subtotal	29	\$52,515
Subtotal FY 2017 Budget Request Program Increases	29	\$52,515
Total FY 2017 Total Budget Request	469	\$343,415
Dollar/FTE Change FY 2017 Budget Request over FY 2016 Enacted	29	\$53,415
Percent Change FY 2017 Budget Request over FY 2016 Enacted	6.64%	18.42%

3.1.9 – Budget and Performance Report and Plan

Business Systems Modernization Budget and Performance Plan

Dollars in Thousands

Business Systems Modernization Resource Level	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Enacted	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Enacted	FY 2017 Request
Appropriated Resources ¹	\$263,897	\$263,369	\$330,210	\$312,938	\$312,938	\$290,000	\$290,000	\$343,415
Reimbursable Resources ²								
User Fees ²		88,948						
Budget Activity Total	\$263,897	\$352,317	\$330,210	\$312,938	\$312,938	\$290,000	\$290,000	\$343,415

¹The FY 2010 - FY 2015 appropriated resources represents the approved operating plan.

²The FY 2010 - FY 2015 columns represent realized resources for reimbursable resources and user fees.

Business Systems Modernization Measures	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2015 Target	FY 2016 Target	FY 2017 Target
Percent of BSM Projects within +/- 10% Cost Variance (E)	40.0%	71.4%	50.0%	0.0%	66.7%	NA		NA	NA
Percent of BSM Projects within +/- 10% Schedule Variance (E)	100.0%	100.0%	90.0%	83.3%	100.0%	NA		NA	NA
Percent of Major IT Investments within +/- 10% Cost Variance at the Investment Level ¹ - new for FY 2015						73.7%	90.0%	90.0%	90.0%
Percent of Major IT Investments within +/- 10% Schedule Variance at the Investment Level ¹ - new for FY 2015						89.5%	90.0%	90.0%	90.0%

Key: E - Efficiency Measure

Starting in FY 2015, these measures, currently reflected in the Performance Summary Table, include all major investments (BSM and non-BSM) whereas in the previous fiscal years it

Section 4 – Supplemental Information

4.1 – Summary of Capital Investments

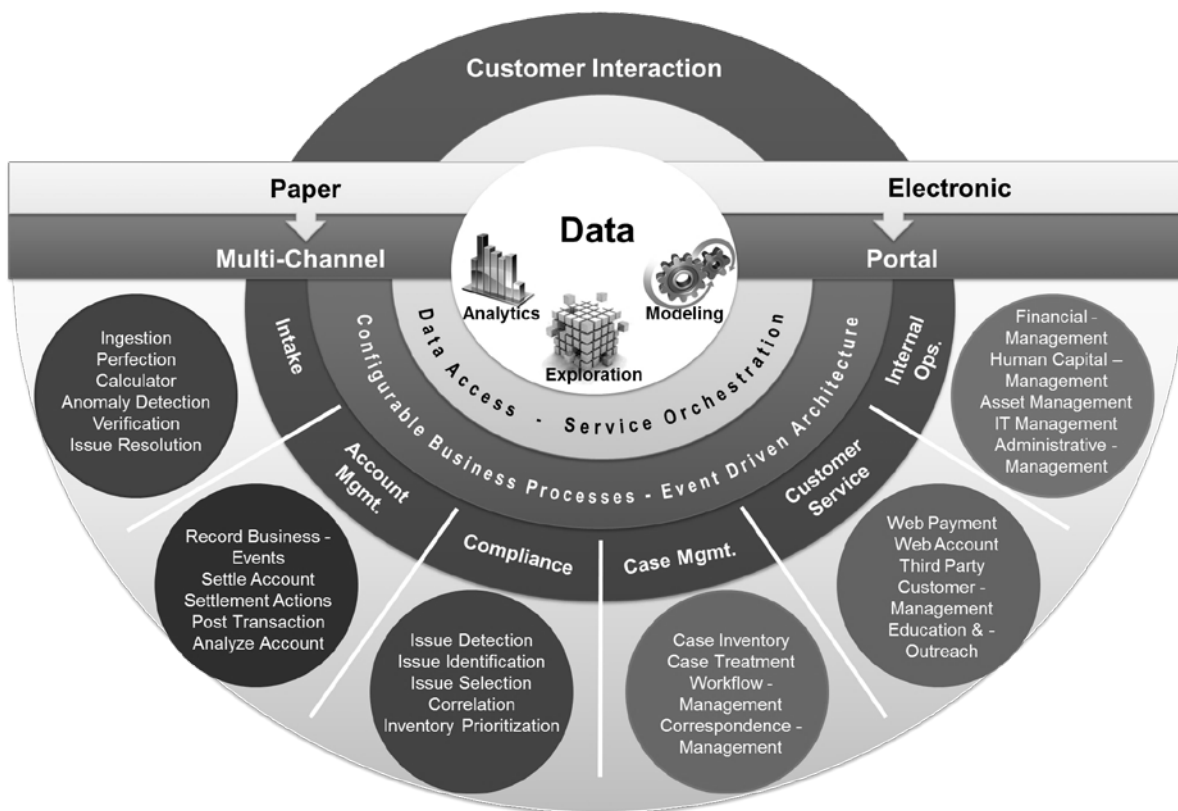
A summary of capital investment resources, including major information technology and non-technology investments, can be viewed/downloaded at:

<http://www.treasury.gov/about/budget-performance/pages/summary-of-capital-investments.aspx>.

This website also contains a digital copy of this document.

4A – Capital Investment Strategy

2015 IRS Technology Roadmap - Conceptual View



The conceptual, top-level view of the *Technology Roadmap* identifies the major services that support each core business area along with the major architectural principles and constructs. Critical components of the *Technology Roadmap* include:

- **Data:** In response to the complex information ecosystem required for tax administration, the very core of the conceptual view is data. The *Technology*

Roadmap envisions a future where all six of the core business areas – *Intake, Accounts Management, Compliance, Case Management, Customer Service, and Internal Operations* – consume a shared, centralized, authoritative set of data seamlessly, with the ability to easily and efficiently organize, manage, store, retrieve, manipulate, analyze and share data.

- **Data Access / Service Orchestration:** The long-term architectural vision for IRS is to move toward complete service orientation. In contrast to the monolithic, stove-piped applications of today, users from any business area will seamlessly invoke services and reach to data on demand. The move toward service orientation will allow system developers to reuse component services in many different contexts, improving agility in meeting user needs.
- **Multi-Channel Portal:** In response to user demands, cost constraints, and the changing technology landscape, the *Technology Roadmap* provides a secure, multi-channel portal for both internal and external stakeholders as a single point of entry to access IRS services and data from “any device, any place, any time.”
- **Business Areas:** The six IRS business areas – *Intake, Accounts Management, Compliance, Case Management, Customer Service, and Internal Operations* – encompass all IRS operations as large functional groupings of capabilities and services. The IRS structured these business areas to cut across organizational boundaries to serve a key Enterprise Architecture goal of identifying and building out shared solutions for common, shared business processes and needs. Throughout the *Technology Roadmap*, much of the vision for business capabilities, applications, and services is organized around these six business areas.
- **Configurable Business Processes / Event-Driven Architecture (EDA):** The *Technology Roadmap* leverages event driven architecture as a framework to orchestrate business processes and application services in response to business events. This approach allows the IRS to provide and optimize real time services.

FY 2017 Capital Investments

These investments will help the IRS develop shared solutions for the taxpayer and tax professionals:

The Customer Account Data Engine 2 (CADE 2) provides state-of-the-art individual taxpayer account processing and data-centric technologies to improve service to taxpayers and enhance IRS tax administration. CADE 2 daily processing enables faster taxpayer refunds, more timely account updates, and faster issuance of taxpayer notices – while leveraging a *single centralized relational database for all individual taxpayer accounts*.

Transition State 2 (TS2) supports the IRS’s plans to reengineer the Individual Master File (IMF) by: (1) applying modern programming languages; (2) establishing CADE 2 as the authoritative data source for legal and financial purposes; and (3) implementing functionality to address the IRS Financial Material Weakness over unpaid tax assessments for individual taxpayer accounts.

E-Services is for authorized tax professionals and qualifying large business. This is a suite of Web-based self-assisted services for conducting business with the IRS electronically (E-Services products are not available to the individual taxpayer). E-Services products currently available include:

- **Registration** – permits creation of an electronic account by selecting a username, password, and personal identification number.
- **E-File Application** – lets tax professionals submit a three-step application to file/transmit returns electronically and check suitability, which may include a criminal background or other compliance check.
- **Taxpayer Identification Number (TIN) Matching** – allows authorized third parties who submit any of seven information returns, subject to backup withholding, to match up to 25 payee TIN and name combinations against IRS records before submitting an information return. Payers can confirm a taxpayer-provided social security number or employer identification number. Bulk TIN matching allows authorized tax professionals filing any of the seven information returns to match up to 100,000 TIN and name combinations.
- **Transcript Delivery System** – permits authorized tax professionals with powers of attorney or taxpayer authorizations to receive, in a secure online session, account transcripts, wage and investment documents, tax return transcripts, and verification of non-filing letters to resolve clients' needs for return and account information quickly.
- **Return Preparer Registration - Identity Verification Service (RPR-IVS)** – performs an identity verification check for tax preparers before the IRS issues a Preparer Tax Identification Number (PTIN). The check includes, but is not limited to, verification of the applicant's SSN, Name, and Address of Record, with IRS records. IRS Direct Pay also has applied RPR-IVS to verify a taxpayer's identity before allowing them to make a tax payment.
- **Taxpayer Identification Number (TIN) Validation Enterprise Common Service (TINV-ECS)** – provides both interactive and batch processing for validation of Taxpayer Identification Numbers, which are comprised of the taxpayer's name, social security number, and employer identification number.
- **Automated Electronic Fingerprinting** – provides criminal data checks in less than 24 hours for tax practitioners requesting use of electronic filing services. IRS will scan submitted fingerprint cards electronically and send to the Federal Bureau of Investigation (FBI) for a criminal background check. The results will be loaded into the IRS Third Party Data Store (TPDS) for use in fraud detection.
- **External Services Authorization Management (ESAM)** – provides the capability for Affordable Care Act (ACA) Information Return Filers to resolve Health Insurance Marketplace and Health Insurers' inquiries involving tax return and account information quickly.

Web Services Infrastructure investment provides the infrastructure for one-stop, Web-based services with the long-term goal of providing a virtual tax assistance center for internal and external users. This investment enables landing page access to services for taxpayers, businesses, practitioners, electronic return originators and IRS employees. Services made

available by the IRS Web Services Infrastructure investment include easy access to forms and publications, electronic payment transactions, delivery of transcripts, tracking of refunds and amended returns, modernized e-filing, free-file for certain classes of taxpayers, and other electronic services. Planned enhancements for the IRS Web Services Infrastructure include more secure and reliable portals with a modernized portal design and increased systems capacity.

Return Review Program (RRP) is an integrated system that adds to the IRS's capability to detect, resolve, and prevent criminal and civil tax non-compliance and fraud. The RRP will use third-party data to ensure the accuracy of income and withholding reported on a return. The RRP objectives include:

- Increase identification of false tax refunds in a timely manner;
- Prevent the issuance of false tax refunds;
- Improve the IRS's ability to detect identity theft;
- Identify 12 common frivolous arguments on tax returns;
- Determine follow-up actions for potential criminal activity related to false tax refund crimes;
- Detect tax refund crime schemes;
- Refer false and highly questionable returns for audit; and
- Automate many manual tasks.

Event Driven Architecture (EDA) will allow the IRS to provide a more efficient means of processing tax returns, thereby issuing tax refunds and/or collecting tax revenue owed more timely. It is a framework that processes the tax return immediately upon arrival. Currently, tax returns are bundled together. A correct return in the batch can be held up by another return with issues. Real time processing will allow each individual return to flow independently through the system. This will allow the IRS to view returns dynamically and understand the status of a return as it is processed. The EDA will transform the current tax processing architecture to a more scalable design that maximizes the technology investments and supports business agility.

Enterprise Case Management will address the need to modernize, upgrade, and consolidate multiple aging IRS case management systems. A common case management environment will yield efficiencies by implementing standard case management functions, providing visibility across all types of tax transactions and improving data accessibility and usability.

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, to upgrade and modernize aging legacy IT infrastructure for non-Business Systems Modernization projects. The process is built on leading business practices and

strategic objectives that support the IRS mission while ensuring compliance with federal laws and agency oversight.

Each year the IRS assesses and funds projects in the following four portfolios:

Portfolio Name	Description	Average Percentage of Portfolio
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 overall operational infrastructure cost of the IT Organization;
- 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:
 - o ***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).
 - o ***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.
 - o ***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 prioritizes IT investments in accordance 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.

4C – Summary of FY 2015 Savings Realized

The IRS FY 2015 President’s Budget request of \$12,476.5 million was built on the FY 2014 Enacted level of \$11,290.6 million and included \$95.2 million and 70 FTE in reductions to the IRS FY 2014 base budget. However, the FY 2015 Enacted budget was \$10,945.0 million, leaving the IRS with a \$345.6 million shortfall in appropriated funding if it were to continue at the same level of employment and output as in FY 2014. In addition, the IRS estimated it would need \$223.2 million to cover the cost of MCLs in FY 2015, for a total shortfall of nearly \$570 million.

Dollars in Millions	
Internal Revenue Service	
FY 2014 Enacted	\$11,290.6
Changes to Base:	
Maintaining Current Levels (MCLs)	\$223.2
Pay Raise	102.1
FERS Contribution Increase	75.3
Non-Pay Inflation Adjustment	45.8
FY 2015 Current Services	\$11,513.8
FY 2015 Enacted	\$10,945.0
Current Services Shortfall	(\$568.8)

The FY 2015 President’s Budget proposed \$95.2 million in savings and efficiencies, but additional savings needed to be identified in response to lower than expected enacted appropriations. The IRS tried to maintain the integrity of its programs and reduce disruption to taxpayers, but significant service impacts were unavoidable. In FY 2015, the IRS obligated \$10,650.4 million from newly appropriated resources, down \$277.1 million, or 2.5 percent, from FY 2014.

Adjustment for FERS Increase

Projected Savings: (-\$76,375,000)

Estimated Savings Realized: (\$-500,000,000)

The IRS projected that by continuing to closely manage personnel costs it would save enough money to absorb the cost of the FERS contribution increase in FY 2015. The IRS realized approximately 4,400 fewer FTE in FY 2015 than in FY 2014 as a result of the hiring freeze. Savings from reduced FTE realization in FY 2015 is estimated to be approximately \$500 million. In addition to covering the \$76.4 million increase in FERS, the IRS used savings from attrition to cover other labor increases, such as the pay raise, career ladder increases, increase in the Federal Employee Health Benefits rate, and other labor inflationary costs. Once these additional increases were funded, remaining savings of approximately

\$270 million from reduced FTE realization were available to fund other mission critical needs.

Increase e-File Savings

Projected Savings: (-\$2,800,000 / -55 FTE)

Actual Savings Realized: (-\$6,209,800/ -122 FTE)

The IRS realized savings of 122 FTE and \$6.2 million in FY 2015 as a result of increases in electronically filed returns. The savings exceeded the projected savings by \$3.4 million and 67 FTE. The numbers of paper returns received by the IRS decreased by 2.3 million from FY 2014 to FY 2015 while the number of electronically filed returns increased by 6.5 million over the same period.

Health Coverage Tax Credit (HCTC) Program Termination

Projected Savings: (-\$16,025,000 / -15 FTE)

Actual Savings Realized (-\$13,752,866 / -7.63 FTE)

Projected savings were lower for the HCTC program due to budget reductions in program support areas and high attrition rates during FY 2013 and FY 2014. In FY 2013, the termination of the HCTC program was announced. Employees assigned to HCTC program began to attrite in FY 2013, and as a result at the start of FY 2014 only nine employees remained on board. Over the course of the fiscal year, HCTC lost three additional employees, leaving six on board at the conclusion of the fiscal year. Agency-wide cuts to travel and contract support reduced the amount of program savings. The Trade Adjustment Assistance Act of 2015 (P.L. 114-27) requires the IRS to reinstate the HCTC program and retroactively extend benefits effective immediately, and continuing through calendar year 2019.

Rent:

Actual Savings: (-\$17,600,000)

Rent is one of the IRS's largest organizational operating expenses. The IRS completed 59 projects to release more than 624,306 rentable square feet of space from inventory for an annual rent savings of more than \$17.6 million.

Contracts:

Actual Savings: (-\$68,600,000)

Negotiations leading to contract savings included price, labor hours, travel costs, considerations attained, schedule changes, price discounts, and more. In FY 2015, \$68.6 million of savings were realized through contract negotiations.

4D - Return on Investment (ROI) for IRS Major Enforcement Programs

The actual cost and actual revenue collected for FY 2011 through FY 2015 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 individual, 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.

These data reflect the average ROI 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.

Table 4.2 - Return on Investment for IRS Major Enforcement Programs

Dollars in Millions															
	FY 2011			FY 2012			FY 2013			FY 2014			FY 2015		
Enforcement Program	Cost ¹	Revenue	ROI	Cost ¹	Revenue	ROI	Cost ¹	Revenue	ROI	Cost ¹	Revenue	ROI	Cost ¹	Revenue	ROI
IRS Total	\$6,543	\$55,229	8.4	\$6,242	\$50,187	8.0	\$5,883	\$53,345	9.1	\$5,839	\$57,146	9.8	\$5,644	\$54,203	9.6
Examination	4,333	18,924	4.4	4,232	14,476	3.4	3,965	16,662	4.2	3,965	18,983	4.8	3,974	13,320	3.4
Collection	1,939	31,060	16.0	1,742	30,442	17.5	1,660	31,396	18.9	1,618	33,198	20.5	1,419	35,740	25.2
Automated Underreporter (AUR)	270	5,245	19.4	267	5,269	19.7	258	5,287	20.5	256	4,965	19.4	251	5,143	20.5

¹The 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

IRS Performance Measures										
Performance Measures	Type of Measure	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2015 Target	FY2016 Target	FY2017 Target
Customer Service Representative Level of Service (LOS) ¹	Oe, L	74.0%	70.1%	67.6%	60.5%	64.4%	38.1%	38.0%	47.0%	70.0%
Customer Contacts Resolved per Staff Year	E	10,744	12,419	16,320	20,767	21,018	26,245	21,000	28,000	25,700
Customer Accuracy - Tax Law (Phones)	Ot	92.7%	93.4%	93.2%	95.7%	95.0%	95.0%	92.0%	92.0%	92.0%
Customer Accuracy - Accounts (Phones)	Ot	95.7%	96.0%	95.6%	96.0%	96.2%	95.5%	94.0%	94.0%	94.0%
Timeliness of Critical Filing Season Tax Products to the Public	Ot	95.3%	96.3%	97.2%	58.9%	99.1%	89.0%	95.0%	87.0%	87.0%
Timeliness of Critical TE/GE & Business Tax Products to the Public	Ot	97.7%	96.4%	94.5%	83.6%	98.7%	92.6%	95.0%	87.0%	87.0%
Percent Individual Returns Processed Electronically	Oe, L	69.3%	76.9%	80.5%	82.5%	84.1%	85.3%	84.6%	86.0%	86.0%
Percent of Business Returns Processed Electronically	Oe, L	25.5%	31.8%	36.7%	40.2%	43.1%	47.0%	46.5%	48.0%	48.0%
Refund Timeliness - Individual (Paper)	Ot	96.1%	99.4%	99.7%	99.0%	98.7%	98.8%	94.0%	97.0%	97.0%
Taxpayer Self-Assistance Rate	E, L	64.4%	70.1%	78.5%	83.3%	84.7%	88.7%	85.0%	90.0%	89.0%
Examination Coverage - Individual	Oe, L	1.1%	1.1%	1.0%	1.0%	0.9%	0.8%	0.8%	0.6%	0.7%
Field Exam Nat'l Quality Review Score	Oe, L	84.9%	85.8%	87.4%	89.2%	88.4%	86.7%	89.6%	86.7%	86.7%
Office Exam Nat'l Quality Review Score	Oe, L	91.6%	90.4%	91.3%	90.3%	90.6%	88.3%	90.2%	88.3%	88.3%
Examination Quality - Large Business ²	Oe, L				92.0%	83.0%	86.0%	90.0%	90.0%	90.0%
Examination Coverage - Business (Assets > \$10 million)	Oe, L	5.7%	6.2%	6.2%	5.6%	4.3%	3.9%	3.8%	3.5%	3.2%
Examination Efficiency - Individual	E, L	140	139	142	142	138	148	135	122	122
Automated Underreporter Efficiency	E, L	1,924	2,007	2,041	2,025	1,935	2,209	2,032	2,036	2,006
Automated Underreporter Coverage	E, L	3.0%	3.3%	3.2%	2.8%	2.6%	2.3%	2.6%	2.2%	2.3%
Collection Coverage (Units)	Ot, L	50.1%	50.0%	48.1%	47.0%	45.9%	46.3%	43.8%	41.8%	41.1%
Collection Efficiency (Units)	E, L	1,822	1,952	1,997	2,057	2,051	2,448	2,173	2,208	2,124
Field Collection Nat'l Quality Review Score	Ot, L	80.6%	80.3%	80.4%	81.4%	81.6%	79.2%	81.6%	79.7%	79.7%
Automated Collection System Accuracy	Oe	95.9%	94.9%	94.7%	94.4%	95.2%	95.3%	94.0%	95.0%	95.0%
Criminal Investigations Completed	Ot, L	4,325	4,697	4,937	5,557	4,606	4,486	3,800	3,800	3,600
Number of Convictions	Oe, L	2,184	2,350	2,634	3,311	3,110	2,879	2,700	2,500	2,400
Conviction Rate	Oe, L	90.2%	92.7%	93.0%	93.1%	93.4%	93.2%	92.0%	92%	92%
Conviction Efficiency Rate (\$)	E, L	\$324,776	\$310,029	\$270,511	\$211,048	\$231,103	\$221,782	\$243,000	\$272,000	\$272,000
TE/GE Determination Case Closures	Ot	105,247	91,205	87,000	65,877	136,746	111,940	99,942	103,852	109,768
Percent of Major IT Investments within +/- 10% Cost Variance at the Investment Level ³	E	40.0%	71.4%	50.0%	0.0%	66.7%	73.7%	90.0%	90.0%	90.0%
Percent of Major IT Investments within +/- 10% Schedule Variance at the Investment Level ³	E	100.0%	100.0%	90.0%	83.3%	100.0%	89.5%	90.0%	90.0%	90.0%
Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, L - Long-Term Goal										
¹ Beginning in FY 2013, targets include an increase in base user fees.										
² 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.										
³ Starting in FY 2015, the measure includes all major investments (BSM and non-BSM).										

4.3 – IRS Performance Measure Table (Continued)

Budget Level Performance Measure Descriptions	
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 assistant on Toll-free tax law inquiries.
Customer Accuracy – Customer Accounts (Phones)	The percentage of correct answers given by a live assistant 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 IT Investments within +/- 10% Cost Variance at the Investment Level	Number of major IT investments within +/-10 percent variance between planned total cost and projected/actual cost within a fiscal year divided by the total number of major IT investments in that fiscal year.
Percent of Major IT Investments within +/- 10% Schedule Variance at the Investment Level	Number of major IT investments within +/-10 percent variance between planned days and projected/actual days within a fiscal year divided by the total number of major IT investments in that fiscal year.

4.4 – Alignment of the FY 2017 Initiatives to the Treasury and IRS Goals and Themes

	Treasury			IRS Goals			IRS Themes			
	Strategic Goal 3 - Objective 3.3	Strategic Goal 5 - Objective 5.4	Priority Goals	Goal #1	Goal #2	Strategic Foundation for Organizational Excellence	Theme Categories			
							Theme 1: Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support	Theme 2: Understand Non-Compliant Taxpayer Behavior and Develop Approaches to Deter and Change it	Theme 6: Drive More Agility, Efficiency, and Effectiveness in IRS Operations	Focus Area: Strengthen Cybersecurity and Eliminate Identity Theft
FY 2017 Initiatives	Pursue tax reform, implement the Patient Protection and Affordable Care Act and Foreign Account Tax Compliance Act and improve Execution of the Tax Code	Create a Culture of Service through Relentless Pursuit of Customer Value	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	✓			
	ACA			✓			✓			
	Leverage New Technologies to Advance the IRS Mission		✓	✓			✓			
	Enterprise Case Management			✓	✓		✓			
	Improve Taxpayer Service	✓		✓			✓			
	Enterprise Electronic Records Management Solution								✓	
	Operations and Maintenance for Deployed Business Systems Modernization (BSM) Projects						✓		✓	
	Maintain Integrity of Revenue Financial Systems		✓	✓						
	Increase Collection Coverage				✓			✓		
	Increase Audit Coverage				✓			✓		
	Digitizing Form 990	✓			✓			✓		
	FATCA Implement, Expand Filing Coverage, and Combat Criminal Non-compliance				✓			✓		
	Pursue Employment Tax and Abusive Tax Schemes				✓			✓		
	Increase Investigations of Transnational Organized Crime (TOC)				✓			✓		
	Prevent Identity Theft and Refund Fraud and Reduce Improper Payments	✓	✓		✓					✓

4.5 – Summary of IRS FY 2017 ACA Budget Request

Internal Revenue Service - Affordable Care Act Implementation	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT		BSM		TOTAL	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
FY 2016 Enacted (before Administrative Provision 113)	\$71,793	935	\$19,984	185	\$112,840	724			\$204,617	1,844
FY 2016 Administrative Provision 113										
Improve Taxpayer Service										
Cyber Security										
Strengthening the Prevention of Identity Theft										
FY 2016 Enacted	\$71,793	935	\$19,984	185	\$112,840	724			\$204,617	1,844
Changes to Base:										
Maintaining Current Levels (MCLs):	\$1,108		\$310		\$1,719				\$3,137	
Pay Annualization	233		66		344				643	
Pay Raise	865		243		1,273				2,381	
Non-Pay	10		2		102				114	
Subtotal FY 2017 Changes to Base	\$1,108		\$310		\$1,719				\$3,137	
FY 2017 Current Services (Base)	\$72,901	935	\$20,294	185	\$114,559	724			\$207,754	1,844
Program Increases:										
Before Cap Adjustment Program Increases:										
<i>Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support</i>										
Implement Changes to Deliver Tax Credits and Other Requirements for the Affordable Care Act										
Improve Taxpayer Service	32,021	590			153,240				153,240	
					9,399				41,420	590
Subtotal FY 2017 Before Cap Adjustment Program Increases	\$32,021	590			\$162,639				\$194,660	590
Total FY 2017 Budget Request	\$104,922	1,525	\$20,294	185	\$277,198	724			\$402,414	2,434
Dollar/FTE Change FY 2017 Budget Request over FY 2016 Enacted	\$33,129	590	\$310		\$164,358				\$197,797	590
Percent Change FY 2017 Budget Request over FY 2016 Enacted	46.14%	63.08%	1.55%		145.66%				96.67%	32.00%

The Improve Taxpayer Service portion of the ACA budget request includes \$41.4 million (590 FTE) to handle the projected 6 million calls above normal telephone demand in FY 2017 due to the ACA.

4.6 – Summary of IRS FY 2017 Budget Request by Theme

Internal Revenue Service	Taxpayer Services		Enforcement		Operations Support		BSM		TOTAL	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
FY 2016 Enacted (before Administrative Provision 113)	\$2,156,554	27,886	\$4,860,000	38,840	\$3,638,446	11,753	\$290,000	440	\$10,945,000	78,919
FY 2016 Administrative Provision 113	\$176,822	2,483	\$4,936		\$108,242	170			\$290,000	2,653
Improve Taxpayer Service	176,622	2,483			1,800				178,422	2,483
Cyber Security					95,442	170			95,442	170
Strengthening the Prevention of Identity Theft	200		4,936		11,000				16,136	
FY 2016 Enacted	\$2,333,376	30,369	\$4,864,936	38,840	\$3,746,688	11,923	\$290,000	440	\$11,235,000	81,572
Changes to Base:										
Maintaining Current Levels (MCLs):	\$33,446		\$75,008		\$60,994		\$900		\$170,348	
Pay Annualization	6,440		14,952		5,392		191		26,975	
Pay Raise	23,856		55,386		19,975		709		99,926	
Non-Pay	3,150		4,670		35,627				43,447	
Efficiencies/Savings:	(\$3,708)	(72)			(\$58)				(\$3,766)	(72)
Increase e-File Savings	(3,708)	(72)			(58)				(3,766)	(72)
Subtotal FY 2017 Changes to Base	\$29,738	(72)	\$75,008		\$60,936		\$900		\$166,582	(72)
FY 2017 Current Services (Base)	\$2,363,114	30,297	\$4,939,944	38,840	\$3,807,624	11,923	\$290,900	440	\$11,401,582	81,500
Program Increases:										
Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support	33,503	604	7,369		169,763		52,515		263,150	664
Drive More Agility, Efficiency, and Effectiveness in IRS Operations					120,955				120,955	146
Understand Non-Compliant Taxpayer Behavior and Develop Approaches to Deter and Change It			218,975	2	180,394				399,369	2,002
Focus Area: Strengthen Cybersecurity and Eliminate Identity Theft	9,701	154	44,975		35,363				90,039	491
Alcohol and Tobacco Tax and Trade Bureau Transfer:			5,000						5,000	
Subtotal FY 2017 Total Program Increases	\$43,204	758	\$276,319	2,188	\$506,475	328	\$52,515	29	\$878,513	3,303
Total FY 2017 Total Budget Request	\$2,406,318	31,055	\$5,216,263	41,028	\$4,314,099	12,251	\$343,415	469	\$12,280,095	84,803

4.7 – Summary of IRS FY 2017 Program Integrity Cap Adjustment

	Taxpayer Services		Enforcement		Operations Support		BSM		TOTAL	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
Internal Revenue Service										
FY 2016 Enacted (before Administrative Provision 113)	\$2,156,554	27,887	\$4,860,000	38,840	\$3,638,446	11,752	\$290,000	440	\$10,945,000	78,919
FY 2016 Administrative Provision 113	\$176,822	2,483	\$4,936		\$108,242	170			\$290,000	2,653
Improve Taxpayer Service	176,822	2,483			1,800				178,422	2,483
Cyber Security					95,442	170			95,442	170
Strengthening the Prevention of Identity Theft	200		4,936		11,000				16,136	
FY 2016 Enacted	\$2,333,376	30,370	\$4,864,936	38,840	\$3,746,688	11,922	\$290,000	440	\$11,235,000	81,572
Changes to Base:										
Maintaining Current Levels (MCLs):	\$33,446		\$75,008		\$60,994		\$900		\$170,348	
Pay Annualization	6,440		14,952		5,392		191		26,975	
Pay Raise	23,856		55,386		19,975		709		99,926	
Non-Pay	3,150		4,670		35,627				43,447	
Efficiencies/Savings:	(\$3,708)	(72)			(\$58)				(\$3,766)	(72)
Increase e-File Savings	(3,708)	(72)			(58)				(3,766)	(72)
Subtotal FY 2017 Changes to Base	\$29,738	(72)	\$75,008		\$60,936		\$900		\$166,582	(72)
FY 2017 Current Services (Base)	\$2,363,114	30,298	\$4,939,944	38,840	\$3,807,624	11,922	\$290,900	440	\$11,401,582	81,500
Program Increases:										
Budget Request Program Increases:										
Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support										
Implement Changes to Deliver Tax Credits and Other Requirements for the Affordable Care Act					153,240				153,240	
Leverage New Technologies to Advance the IRS Mission					973		52,515	29	53,488	29
Improve Taxpayer Service	33,503	604			14,952	9			48,455	613
Subtotal	\$33,503	604			\$169,165	9	\$52,515	29	\$255,183	642
Drive More Agility, Efficiency, and Effectiveness in IRS Operations										
Enterprise Electronic Records Management Solution					18,543	46			18,543	46
Subtotal					\$18,543	46			\$18,543	46
Focus Area: Strengthen Cybersecurity and Eliminate Identity Theft										
Prevent Identity Theft and Refund Fraud and Reduce Improper Payments	9,701	154	44,975	301	35,363	36			90,039	491
Subtotal	\$9,701	154	\$44,975	301	\$35,363	36			\$90,039	491
Subtotal FY 2017 Budget Request Program Increases	\$43,204	758	\$44,975	301	\$223,071	91	\$52,515	29	\$363,765	1,179
Total FY 2017 Total Budget Request	\$2,406,318	31,056	\$4,984,919	39,141	\$4,030,695	12,013	\$343,415	469	\$11,765,347	82,679
Dollar/FTE Change FY 2017 Budget Request over FY 2016 Enacted	\$2,406,318	31,056	\$4,984,919	39,141	\$4,030,695	12,013	\$343,415	469	\$11,765,347	82,679
Percent Change FY 2017 Budget Request over FY 2016 Enacted	3.13%	2.26%	2.47%	0.78%	7.58%	0.76%	18.42%	6.64%	4.72%	1.36%
Cap Adjustment Program Increases:										
Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support										
Enterprise Case Management			7,369	22	598				7,967	22
Subtotal			\$7,369	22	\$598				\$7,967	22
Understand Non-Compliant Taxpayer Behavior and Develop Approaches to Deter and Change It										
Increase Collection Coverage			58,213	678	32,254	21			90,467	699
Increase Audit Coverage			74,161	816	54,274	40			128,435	856
Digitizing Form 990			80	1	2,298	6			2,378	7
Subtotal			\$132,454	695	\$86,826	67			\$219,287	772
FATCA: Implement, Expand Filing Coverage, and Combat Criminal Non-compliance			49,889	203	76,850	70			126,739	273
Pursue Employment Tax and Abusive Tax Schemes			7,210	37	8,576	37			15,786	37
Increase Investigations of Transnational Organized Crime (TOC)			29,422	130	6,142	130			35,564	130
Subtotal			\$86,521	370	\$91,568	377			\$163,449	377
Drive More Agility, Efficiency, and Effectiveness in IRS Operations										
Operations and Maintenance for Deployed Business Systems Modernization (BSM) Projects					92,174	73			92,174	73
Maintain Integrity of Revenue Financial Systems					10,238	27			10,238	27
Subtotal					\$102,412	100			\$102,412	100
Alcohol and Tobacco Tax and Trade Bureau Transfer:										
Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities			5,000						5,000	
Subtotal			\$5,000						\$5,000	
Subtotal FY 2017 Cap Adjustment Program Increases	\$43,204	758	\$231,344	1,887	\$283,404	237			\$514,748	2,124
Subtotal FY 2017 Total Program Increases Including Cap Adjustment	\$86,408	1,516	\$276,319	2,188	\$506,475	328	\$52,515	29	\$878,513	3,303
Total FY 2017 Total Budget Request Including Cap Adjustment	\$2,492,526	32,812	\$5,261,238	41,329	\$4,514,199	12,250	\$395,930	498	\$12,280,095	84,883
Dollar/FTE Change FY 2017 Budget Request including PC over FY 2016 Enacted	\$2,492,526	32,812	\$5,261,238	41,329	\$4,514,199	12,250	\$395,930	498	\$12,280,095	84,883
Percent Change FY 2017 Budget Request including PC over FY 2016 Enacted	3.13%	2.26%	7.22%	5.63%	15.14%	2.75%	18.42%	6.64%	9.30%	3.96%