

Department of the Treasury  
Internal Revenue Service

Congressional Justification  
for Appropriations and  
Annual Performance  
Report and Plan

FY 2018

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# Section I – Budget Request

## 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 – Appropriations Detail Table

Dollars in Thousands

Internal Revenue Service		FY 2016 Enacted <sup>1</sup>		FY 2017 Annualized CR <sup>2</sup>		FY 2018 Request		Change FY 2017 to FY 2018 Request		% Change FY 2017 to FY 2018 Request	
Appropriated Resources		FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>											
<b>Taxpayer Services</b>		<b>28,316</b>	<b>\$2,333,376</b>	<b>28,455</b>	<b>\$2,328,940</b>	<b>24,392</b>	<b>\$2,212,311</b>	<b>(4,063)</b>	<b>(\$116,629)</b>	<b>-14.28%</b>	<b>-5.01%</b>
Pre-Filing Taxpayer Assistance and Education		5,009	620,338	4,978	625,829	4,458	600,717	(520)	(25,112)	-10.45%	-4.01%
Filing and Account Services		23,307	1,713,038	23,477	1,703,111	19,934	1,611,594	(3,543)	(91,517)	-15.09%	-5.37%
<b>Enforcement</b>		<b>37,564</b>	<b>\$4,714,936</b>	<b>36,349</b>	<b>\$4,855,688</b>	<b>35,049</b>	<b>\$4,706,500</b>	<b>(1,300)</b>	<b>(\$149,188)</b>	<b>-3.58%</b>	<b>-3.07%</b>
Investigations		3,184	596,417	3,126	624,462	2,893	606,747	(233)	(17,715)	-7.45%	-2.84%
Exam and Collections		33,426	3,981,257	32,251	4,083,908	31,199	3,967,808	(1,052)	(116,100)	-3.26%	-2.84%
Regulatory		954	137,262	972	147,318	957	131,945	(15)	(15,373)	-1.54%	-10.44%
<b>Operations Support</b>		<b>11,078</b>	<b>\$3,896,688</b>	<b>11,441</b>	<b>\$3,739,565</b>	<b>11,365</b>	<b>\$3,946,189</b>	<b>(76)</b>	<b>\$206,624</b>	<b>-0.66%</b>	<b>5.53%</b>
Infrastructure		-	848,191	-	861,229	-	860,643	-	(586)	N/A	-0.07%
Shared Services and Support		4,861	1,110,811	4,981	1,014,139	4,871	1,011,411	(110)	(2,728)	-2.21%	-0.27%
Information Services		6,217	1,937,686	6,460	1,864,197	6,494	2,074,135	34	209,938	0.53%	11.26%
<b>Business Systems Modernization</b>		<b>442</b>	<b>\$290,000</b>	<b>593</b>	<b>\$289,449</b>	<b>229</b>	<b>\$110,000</b>	<b>(364)</b>	<b>(\$179,449)</b>	<b>-61.38%</b>	<b>-62.00%</b>
<b>Subtotal New Appropriated Resources</b>		<b>77,400</b>	<b>\$11,235,000</b>	<b>76,838</b>	<b>\$11,213,642</b>	<b>71,035</b>	<b>\$10,975,000</b>	<b>(5,803)</b>	<b>(\$238,642)</b>	<b>-7.55%</b>	<b>-2.13%</b>
<b>Other Resources:</b>											
Reimbursables		640	104,358	684	116,286	711	122,099	27	5,813	3.95%	5.00%
Offsetting Collections - Non Reimbursables		-	19,212	-	28,134	-	29,541	-	1,407	N/A	5.00%
User Fees		524	343,642	170	503,076	164	525,650	(6)	22,574	-3.53%	4.49%
Recovery from Prior Years		-	27,751	-	4,773	-	-	-	(4,773)	N/A	-100.00%
Unobligated Balances from Prior Years		-	451,869	-	374,465	-	268,875	-	(105,590)	N/A	-28.20%
Transfers In/Out <sup>3</sup>		-	126	-	-	-	-	-	-	N/A	N/A
Resources from Other Accounts <sup>4</sup>		2	-	-	-	-	-	-	-	N/A	N/A
<b>Subtotal Other Resources</b>		<b>1,166</b>	<b>\$946,958</b>	<b>854</b>	<b>\$1,026,734</b>	<b>875</b>	<b>\$946,165</b>	<b>21</b>	<b>(\$80,569)</b>	<b>2.46%</b>	<b>-7.85%</b>
<b>Total Budgetary Resources</b>		<b>78,566</b>	<b>\$12,181,958</b>	<b>77,692</b>	<b>\$12,240,376</b>	<b>71,910</b>	<b>\$11,921,165</b>	<b>(5,782)</b>	<b>(\$319,211)</b>	<b>-7.44%</b>	<b>-2.61%</b>

<sup>1</sup>FY 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. FY 2016 Enacted includes the approved inter-appropriation transfer of \$150 million from Enforcement to Operations Support.

<sup>2</sup>A full-year 2017 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Further Continuing Appropriations Act, 2017 (P.L. 114–254). The amounts included for 2017 reflect the annualized level provided by the continuing resolution. FY 2017 Annualized CR includes \$289.5 million in Section 113 Administrative Provision funding in the following amounts: \$208.9 million in Taxpayer Services, and \$80.6 million in Operations Support.

<sup>3</sup>Resources from Transfers In/Out include a FY 2016 transfers between IRS and the Office of National Drug Control Policy (ONDCP) High Intensity Drug Trafficking Area (HIDTA) Program (obligations of \$7,000).

<sup>4</sup>Resources from Other Accounts include Other Direct FTE funded by the Federal Highway Administration (2 FTE in FY 2016).

## **1B – Summary of the Request**

### **FY 2018 Budget Request**

The IRS FY 2018 President’s Budget request is \$10.975 billion, \$239.6 million or 2.1 percent below the FY 2017 Annualized Continuing Resolution level. The IRS will continue to seek less costly ways of delivering taxpayer service and maintaining enforcement using technology, training, and internal efficiencies. The IRS will:

- Assist taxpayers with tax questions before they file to prevent inadvertent noncompliance and reduce burdensome post-filing notices and other correspondence from the IRS.
- Print forms and publications, process tax returns, offer filing and account services, ensure the availability of taxpayer assistance, and provide taxpayer advocacy services.
- Review tax returns, both domestic and international. 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.
- Address the increasing number of cybersecurity threats by modernizing systems to protect taxpayer information.
- Refresh aged IT infrastructure to ensure the integrity and continued operation of the tax administration system.
- Recruit top talent and retain our most valuable resource, our people, using tools like the requested streamlined critical pay authority (see section 1E – Legislative Proposals).

The Budget includes resources to retain key personnel and align the IRS workforce for the future. There is no more critical challenge at the IRS than delivering a smooth filing season. This is achieved each year because of the dedication, talent, and experience of IRS employees.

The Budget invests in IT infrastructure modernization. With the growing reliance on IT as an integral part of the solution to provide improved taxpayer services and enforcement, the IRS must continue to modernize to harness new information delivery models and manage data. Infrastructure modernization is necessary to increase agility, efficiency, and service quality, ultimately reducing operational cost.

The IRS will strive to modernize infrastructure using business process reengineering, system virtualization, data center consolidation, and adherence to hardware and software standards. The long-term dividends of upgrading the infrastructure and systems include: reducing the number of computer rooms by replacing old servers with new, energy efficient, more compact servers; advancing IT hardware and software development for creating a web-based, digital

communications channel that allows taxpayers and the IRS to communicate directly via secure messages and secure live capabilities; allowing the IRS to improve the management and tracking of records; allowing real time access to records for quicker response times; improving security and safeguard records from loss; providing reliable disaster recovery capabilities through automation; and allowing the IRS to keep pace with new industry standards.

### **Strategic Plan**

The Department of the Treasury is in the process of developing a new strategic plan for fiscal years 2018 – 2022 in accordance with the Government Performance and Results Act (GPRA) Modernization Act of 2010. The IRS will publish its FY 2018 - FY 2022 Strategic Plan by June 2018. The IRS is soliciting input on the plan from its employees as well as from external stakeholders. The plan will serve as a roadmap to guide its operations to meet the changing needs and expectations of taxpayers and those in the tax community who serve them.

### **Return on Investment**

The IRS remains one of the most cost-effective investments in the federal government and resources invested in the IRS increase revenue collections. This unique and critical role is vital to the functioning of the U.S. Government and to keeping the nation and economy strong. In FY 2016, the IRS collected more than \$3.3 trillion in tax revenue, processed more than 244 million tax returns and other forms, and issued more than \$426 billion in tax refunds.

As collections continue to increase, the IRS remains one of the most efficient tax administrators in the world. For every \$100 collected in taxes, the IRS spends only thirty-five cents. The IRS enforcement programs collected more than \$54.3 billion in FY 2016, a return on investment (ROI) of about \$5 to \$1. The ROI estimate does not include the revenue effect of the deterrence value of these investments and other IRS enforcement programs

### **2016 Filing Season**

Through months of planning and collaboration with key stakeholders, the IRS delivered a successful 2016 filing season and opened on time on January 19, 2016. The IRS increased its staffing for taxpayer telephone service operations to address demand and provide a higher level of service (LOS) during the filing season. To prepare for the 2016 filing season, during the summer and fall of 2015, the IRS revised 635 tax products, including the tax provisions in Protecting Americans from Tax Hikes (PATH) Act of 2015, and implemented more than 400 changes to more than 150 different tax products.

### FY 2016 Tax Stats At-A-Glance

Total Returns Processed	202 million
Total Returns and Other Forms Processed	244.9 million
Total Revenue Collected	\$3.3 trillion
Enforcement Revenue Collected	\$54.3 billion
Total Refunds and Outlays	\$426 billion
Average Individual Refund	\$2,795
E-File Rate – Individual	86.4%
E-File Rate – Business	50.0%
IRS.gov Page Views	1.9 billion
“Where’s My Refund?” Usage	299.6 million
Number of Downloads from IRS.gov	121.5 million

Other highlights from the 2016 filing season include:

- Delivered a filing season telephone LOS of 72.1 percent, a substantial improvement over the 37.4 percent delivered during the 2015 filing season.
- Answered more than 13.1 million calls, 5.3 million more calls than in 2015. The average speed of answer was 11 minutes, compared to 23 minutes in the 2015.
- Received more than 136.5 million individual returns, 1.7 percent more than last year. Electronically filed returns increased by 2.6 percent and accounted for 89.8 percent of the returns filed.
- Received more than 29.9 million business returns, 3.2 percent more than in 2015.
- Filed more than 17.5 million business returns electronically, an increase of 7.6 percent from 2015.
- Issued more than 97 million refunds for a total of \$263 billion, with an average refund of \$2,711, of which 83.7 percent were direct-deposit.
- Worked with our Security Summit partners from state tax agencies and the broader tax community to add extra layers of security protection for the filing season.
- Launched *Finding Out How Much You Owe* on IRS.gov, which provides information to taxpayers with straightforward balance inquiries in a secure, easy, and convenient way. In the first month after its launch in late 2016, taxpayers checked their account balance nearly 54,000 times, and made more than 6,700 tax payments, worth more than \$21 million, through *Direct Pay*.
- Released the 100<sup>th</sup> IRS eBook for mobile devices in the ePub format.
- Expanded appointment services to all IRS Taxpayer Assistance Centers (TAC). Before 2015, TACs served taxpayers face to-face on a first-come, first-served model resulting in long lines of taxpayers waiting for service, especially during tax filing season. The IRS initiated an appointment-service by expanding appointments to 376 TAC sites and 28 virtual sites located in external partner offices. This expansion resulted in fewer on-site contacts and shorter wait times with more than 91 percent of

taxpayers receiving help within 30 minutes. In addition, more than half of the taxpayers who called to make an appointment were able to resolve their issue immediately, thereby saving a visit to the assistance center.

- Launched new online tools allowing taxpayers and third parties to communicate and transact with the IRS securely and faster.
- Stopped \$4 billion in fraudulent refunds claimed by identity thieves on 787,000 tax returns through new screening criteria.
- Registered nearly 190,000 financial institutions in compliance with the Foreign Account Tax Compliance Act (FATCA), while more than 5,000 financial institutions have enrolled in the International Data Exchange Service to submit FATCA returns to the IRS.

### **2017 Filing Season**

The IRS recently completed a successful 2017 filing season on April 22, 2017. During this filing season, the IRS received more than 135 million individual tax returns, and issued over 97 million refunds totaling over \$268 billion. Over 90 percent of individual returns received were filed electronically. The IRS.gov web site was visited more than 312 million times and taxpayers used the *Where's My Refund?* tool over 246 million times. Filing season LOS reached 79 percent, its highest level since 2007. Assistors answered nearly 10 million calls, and another 18 million calls were answered through automated systems.



## 1.2 – Budget Adjustments Table

Dollars in Thousands

Internal Revenue Service	FTE	Amount
<b>FY 2017 Annualized CR</b>	<b>76,838</b>	<b>\$11,213,642</b>
<b>Changes to Base:</b>		
<b>Maintaining Current Levels (MCLs)</b>	-	<b>\$220,035</b>
Pay Raise	-	122,449
Pay Annualization	-	44,877
Non-Pay Inflation Adjustment	-	52,709
<b>Resource Adjustments</b>	-	-
Base Realignment for Support Services	-	-
Adjustments for Administrative Provision Section 113	-	-
<b>Subtotal Changes to Base</b>	-	<b>\$220,035</b>
<b>Total FY 2018 Base</b>	<b>76,838</b>	<b>\$11,433,677</b>
<b>Program Changes:</b>		
<b>Program Increase:</b>		
Realignment to Support Aging IT Infrastructure	266	179,449
<b>Program Decreases:</b>		
Realignment to Support Aging IT Infrastructure	(355)	(179,449)
Actions to Achieve Workforce Management Goals	(5,714)	(458,677)
<b>Subtotal Program Changes</b>	<b>(5,803)</b>	<b>(\$458,677)</b>
<b>Total FY 2018 Request</b>	<b>71,035</b>	<b>\$10,975,000</b>

## 1C – Budget Increases and Decreases Description

**Maintaining Current Levels (MCLs).....+\$220,035,000 / 0 FTE**

Pay Raise +122,449,000 / 0 FTE

Funds are requested for the proposed January 2018 pay raise.

Pay Annualization +\$44,877,000 / 0 FTE

Funds are requested for annualization of the January 2017 pay raise.

Non-Pay +\$52,709,000 / 0 FTE

Funds are requested for non-labor expenses such as travel, contracts, rent, supplies, and equipment.

### Resource Adjustment

Base Realignment for Support Services \$0 / 0 FTE

In recent years, the IRS has relied on transfers of resources from the Enforcement appropriations account to maintain core functions, information technology, and related

support services. These transfers have enabled the IRS to provide front-line employees with the tools, equipment, analytics, secure facilities, and technology support necessary to serve taxpayers and to maintain taxpayer customer service. In lieu of a similar transfer in FY 2018, the IRS proposes to permanently realign \$145 million from Enforcement to Operations Support (\$55 million) and Taxpayer Services (\$90 million).

Adjustment for Administrative Provisions Section 113 \$0 / 0 FTE

Section 113 of the Consolidated Appropriations Act, 2016 at the FY 2017 annualized continuing resolution level provides \$289.5 million to improve the customer service representative LOS rate, improve the identification and prevention of refund fraud and identity theft, and enhance cybersecurity to safeguard taxpayer data. This funding is assumed in the FY 2018 base and includes \$208.9 million in Taxpayer Services (an increase of \$32.1 million over FY 2016) and \$80.6 million in Operations Support (a decrease of \$27.6 million) for customer service.

**Program Increase.....+\$179,449,000 / +266 FTE**

Aging IT Infrastructure +\$179,449,000 / +266 FTE

The IRS will make progress towards decreasing the backlog of deferred software and hardware updates by realigning \$179 million and 266 FTE from the BSM appropriation to the Operations Support appropriation in FY 2018. 63 percent of IRS IT hardware systems are aged and out of warranty and 32 percent of software products are two or more releases behind the industry standard, with 15 percent more than four releases behind. Every year, another 20 percent of hardware moves to a status of aged beyond the manufacturers recommended useful life, if not replaced. This aging infrastructure puts the American tax system at risk of failure. Such conditions introduce security risks, excessive system downtime, systems and hardware no longer supported by the vendor, and incompatibilities across systems and programs. Aging IRS infrastructure was elevated by the IRS Enterprise Risk Council has elevated aging IRS infrastructure to the highest priority corporate risk.

**Program Decreases.....-\$638,126,000 / -6,069 FTE**

Realignment to Support Aging IT Infrastructure -\$179,449,000 / -355 FTE

An estimated \$179 million will be realigned to the Operations Support appropriation to decrease the backlog of deferred software and hardware updates, which are a critical priority and must be prioritized before development and modernization of new systems. With the FY 2018 request, the IRS will pause the development of Enterprise Case Selection, Event Driven Architecture, and Modernized eFile. The IRS will continue development of Customer Account Data Engine 2, Return Review Program and Web Applications, supported by Architecture Integration and Management, Core Infrastructure. In addition, IRS will continue to explore alternative Enterprise Case Management solutions.

Actions to Achieve Workforce Management Goals -\$458,677,000 / -5,714 FTE

The IRS will realize reductions in Taxpayer Services, Enforcement, Operations Support, and Business Systems Modernization (BSM) by reducing costs and streamlining operations. The IRS will mitigate the effect of this reduction by allocating funding from user fees to critical performance areas. The IRS will reduce staffing, supply, and contractual cost in all four

accounts by an estimated \$220 million. Additionally, Taxpayer Services seasonal staffing costs will be reduced by an estimated by \$239 million. The IRS will continue to provide service to taxpayers via a range of channels from the internet to telephones to face-to-face field assistance. The use and delivery of more online tools and other improved service channels, such as virtual tax assistance sites, will help the IRS operate in a cost effective manner.

### 1.3 – Operating Levels Table

Dollars in Thousands

Internal Revenue Service Object Classification	FY 2016 Actual	FY 2017 Annualized CR	FY 2018 Request
11.1 Full-Time Permanent Positions	5,818,431	5,825,793	5,721,269
11.3 Other than Full-Time Permanent Positions	75,720	79,141	50,034
11.5 Other Personnel Compensation	210,281	197,772	196,652
11.8 Special Personal Services Payments	26,219	24,603	24,698
<b>11.9 Personnel Compensation (Total)</b>	<b>6,130,651</b>	<b>6,127,309</b>	<b>5,992,653</b>
12.1 Personnel Benefits	2,097,850	2,177,172	2,108,974
13.0 Benefits to Former Personnel	46,199	50,344	51,357
<b>Total Personnel and Compensation Benefits</b>	<b>\$8,274,700</b>	<b>\$8,354,825</b>	<b>\$8,152,984</b>
21.0 Travel	75,292	90,506	91,394
22.0 Transportation of Things	19,131	21,735	21,954
23.1 Rental Payments to GSA	592,529	587,370	597,175
23.2 Rent Payments to Others	12,323	12,495	12,679
23.3 Communications, Utilities, & Misc	296,236	350,714	352,957
24.0 Printing & Reproduction	28,353	27,866	28,380
25.1 Advisory & Assistance Services	785,522	913,116	732,898
25.2 Other Services	94,161	102,607	103,440
25.3 Purchase of Goods & Services from Govt. Accounts	172,185	180,423	176,548
25.4 Operation & Maintenance of Facilities	174,913	190,134	188,971
25.6 Medical Care	14,095	14,213	13,310
25.7 Operation & Maintenance of Equipment	70,418	75,298	75,995
26.0 Supplies and Materials	34,827	34,946	35,303
31.0 Equipment	313,749	206,399	347,309
32.0 Land and Structures	6,164	9,840	2,038
41.0 Grants, Subsidies	28,502	33,502	34,001
42.0 Insurance Claims & Indemnities	1,496	1,381	1,392
91.0 Unvouchered	2,484	6,272	6,272
<b>Total Non-Personnel</b>	<b>\$2,724,380</b>	<b>\$2,858,817</b>	<b>\$2,822,016</b>
<b>New Appropriated Resources</b>	<b>\$10,999,080</b>	<b>\$11,213,642</b>	<b>\$10,975,000</b>
<b>Appropriations:</b>			
Taxpayer Services	2,321,956	2,328,940	2,212,311
Enforcement	4,674,272	4,855,688	4,706,500
Operations Support	3,811,907	3,739,565	3,946,189
Business Systems Modernization	190,945	289,449	110,000
<b>New Appropriated Resources</b>	<b>\$10,999,080</b>	<b>\$11,213,642</b>	<b>\$10,975,000</b>
<b>FTE</b>	<b>77,400</b>	<b>76,838</b>	<b>71,035</b>

This table includes total annually appropriated funding (actuals for FY 2016 and estimates for FY 2017 Annualized CR and FY 2018).

**1D – Appropriations Language and Explanation of Changes**

Appropriations Language	Explanation of Changes
<p style="text-align: center;">DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE</p> <p style="text-align: center;">TAXPAYER SERVICES</p> <p><i>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, <b>associated support costs</b>, and other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, <b>\$2,212,311,000</b>, 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 remain available until September 30, <b>2019</b>, shall be available for a Community Volunteer Income Tax Assistance matching grants program for tax return preparation assistance, of which not less than \$206,000,000 shall be available for operating expenses of the Taxpayer Advocate Service: Provided, That of the amounts made available for the Taxpayer Advocate Service, not less than \$5,000,000 shall be for identity theft casework.</i></p> <p>Note.—A full-year 2017 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Further Continuing Appropriations Act, 2017 (P.L. 114–254). The amounts included for 2017 reflect the annualized level provided by the continuing resolution.</p> <p style="text-align: center;">ENFORCEMENT</p> <p><i>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)), <b>associated support costs</b>, and to provide other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, <b>\$4,706,500,000</b>, of which not to exceed \$50,000,000 shall remain available until September 30, <b>2019</b>, and of which not less than</i></p>	<p>The IRS proposes a change in the Taxpayer Services appropriation language to allow some additional support costs to be incurred in the Taxpayer Services appropriations account so that the more accurate cost of providing taxpayer services is accurately reflected in the account.</p> <p>To help improve cost accounting the IRS proposes a change in the Enforcement appropriation language to allow some additional support costs for</p>

\$60,257,000 shall be for the Interagency Crime and Drug Enforcement program.

Note.—A full-year 2017 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Further Continuing Appropriations Act, 2017 (P.L. 114–254). The amounts included for 2017 reflect the annualized level provided by the continuing resolution.

#### OPERATIONS SUPPORT

*For necessary expenses of **operating** the Internal Revenue Service, including rent payments; facilities services; printing; postage; physical security; **oversight and management of IRS-wide 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; \$3,946,189,000, of which not to exceed \$100,000,000 shall remain available until September 30, 2019; 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, 2020, for research; of which not to exceed \$20,000 shall be for official reception and representation expenses: Provided, That not later than 30 days after the end of each quarter, the Internal Revenue Service shall submit a report to the Committees on Appropriations of the House of Representatives and the Senate and the Comptroller General of the United States detailing the cost and schedule performance for its major information technology investments, including the purpose and life-cycle stages of the investments; the reasons for any cost and schedule variances; the risks of such investments and strategies the Internal Revenue Service is using to mitigate such risks; and the expected developmental milestones to be achieved and costs to be incurred in the next quarter: Provided further, That the Internal Revenue Service shall include, in its budget justification for fiscal year 2019, a summary of cost and schedule performance information for its major information technology systems.***

enforcement to be incurred in the Enforcement appropriations account so that the more accurate cost of providing enforcement activities is accurately reflected in the account.

The IRS proposes a change in the Operations Support appropriation language to allow to allow some additional support costs to be funded in the Taxpayer Services and Enforcement accounts.

An increase of \$50 million to \$100 million in two-year authority is requested to correspond with the availability of the closely-linked BSM appropriation; to provide sufficient time for a robust IT lifecycle process including vision, strategy, solution, design, and development, thereby improving contracting outcomes; and to comply with a recent recommendation from the Treasury Inspector General for Tax Administration, “While Improvements Continue in Contract Negotiation Methods and Management Practices, Inconsistencies Need to Be Addressed.”

Note.—A full-year 2017 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Further Continuing Appropriations Act, 2017 (P.L. 114–254). The amounts included for 2017 reflect the annualized level provided by the continuing resolution.

#### BUSINESS SYSTEMS MODERNIZATION

*For necessary expenses of the Internal Revenue Service's business systems modernization program, \$110,000,000, to remain available until September 30, 2020, 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.*

Note.—A full-year 2017 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Further Continuing Appropriations Act, 2017 (P.L. 114–254). The amounts included for 2017 reflect the annualized level provided by the continuing resolution.

#### 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 **notification** of the*

*Committees on Appropriations.*

*SEC. 102. The Internal Revenue Service shall maintain an employee training program, which shall include the following topics: taxpayers' rights, dealing courteously with taxpayers, cross-cultural relations, ethics, and the impartial application of tax law.*

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

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

*SEC. 105. 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. 106. None of the funds made available under this Act may be used by the Internal Revenue Service to target citizens of the United States for exercising any right guaranteed under the First Amendment to the Constitution of the United States.*

*SEC. 107. 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. 108. 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".*

*SEC. 109. Section 9503(a)(5) of title 5, United States Code, is amended by inserting before the semicolon the following: ", but are renewable for an additional two years, based on a critical organizational need".*

The IRS requests Streamlined Critical Pay authority through September 30, 2021 to ensure the IRS is able to quickly recruit and retain IT professionals who can help protect taxpayer data from cyberattacks and modernize the IRS's IT infrastructure.



## **1E – Legislative Proposals**

### Streamlined Critical Pay Authority

The IRS requests Streamlined Critical Pay (SCP) authority through September 30, 2021. This authority allowed the IRS to recruit and retain IT and other senior professionals and limited this authority to 40 positions. The authority to make new SCP appointments expired September 30, 2013. Currently there are seven senior employees under SCP appointments, down from a high of 30. If the SCP is not renewed, the IRS will face additional challenges recruiting and retaining top-level talent as the remaining SCP term appointments expire, especially IT professionals who can help protect taxpayer data from cyberattacks and who can assist with modernizing 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."

## **Section II – Budget and Performance Plan**

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### **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, taxpayer assistance, and providing taxpayer advocacy services.

The Taxpayer Services budget request for FY 2018 is \$2,212,311,000 in direct appropriations and 24,392 FTE. This is a decrease of \$116,629,000, or 5 percent, and 4,063 fewer FTE than the FY 2017 Annualized Continuing Resolution level of \$2,328,940,000 and 28,455 FTE.

The Department of the Treasury is developing a new strategic plan for FYs 2018 – 2022 in accordance with the GPRA Modernization Act of 2010. The plan is scheduled for publication in 2018. The Annual Performance Plan will be updated in the FY 2019 President’s Budget to reflect new departmental strategic goals and objectives. The IRS will publish a component plan by summer 2018.

## 2.1 – Budget Adjustments Table

Dollars in Thousands

<b>Taxpayer Services</b>	<b>FTE</b>	<b>Amount</b>
<b>FY 2017 Annualized CR</b>	<b>28,455</b>	<b>\$2,328,940</b>
<b>Changes to Base:</b>		
<b>Maintaining Current Levels (MCLs)</b>	-	<b>\$46,342</b>
Pay Raise	-	31,005
Pay Annualization	-	11,363
Non-Pay Inflation Adjustment	-	3,974
<b>Resource Adjustments</b>	-	<b>\$122,378</b>
Base Realignment for Support Services	-	90,000
Adjustments for Administrative Provision Section 113	-	32,378
<b>Subtotal FY 2018 Changes to Base</b>	-	<b>\$168,720</b>
<b>Total FY 2018 Base</b>	<b>28,455</b>	<b>\$2,497,660</b>
<b>Program Changes:</b>		
<b>Program Decrease</b>		
Actions to Achieve Workforce Management Goals	(4,063)	(285,349)
<b>Subtotal Program Changes</b>	<b>(4,063)</b>	<b>(\$285,349)</b>
<b>Total FY 2018 Request</b>	<b>24,392</b>	<b>\$2,212,311</b>

## 2.2 – Operating Levels Table

Dollars in Thousands

Taxpayer Services Object Classification	FY 2016 Actual	FY 2017 Annualized CR	FY 2018 Request
11.1 Full-Time Permanent Positions	1,514,435	1,485,932	1,433,368
11.3 Other than Full-Time Permanent Positions	39,271	42,311	12,760
11.5 Other Personnel Compensation	84,246	67,128	68,444
11.8 Special Personal Services Payments	57	-	-
<b>11.9 Personnel Compensation (Total)</b>	<b>1,638,009</b>	<b>1,595,371</b>	<b>1,514,572</b>
12.1 Personnel Benefits	529,434	562,795	526,482
13.0 Benefits to Former Personnel	517	344	350
<b>Total Personnel and Compensation Benefits</b>	<b>\$2,167,960</b>	<b>\$2,158,510</b>	<b>\$2,041,404</b>
21.0 Travel	8,751	12,464	12,335
22.0 Transportation of Things	713	621	635
23.3 Communications, Utilities, & Misc	1,204	1,246	1,275
24.0 Printing & Reproduction	9,114	8,158	8,285
25.1 Advisory & Assistance Services	32,459	32,802	32,961
25.2 Other Services	6,796	13,676	13,869
25.3 Purchase of Goods & Services from Govt. Accounts	61,262	61,903	61,497
25.4 Operation & Maintenance of Facilities	6	7	7
25.7 Operation & Maintenance of Equipment	75	211	216
26.0 Supplies and Materials	4,726	5,136	5,106
31.0 Equipment	94	428	438
32.0 Land and Structures	1	-	-
41.0 Grants, Subsidies	28,502	33,502	34,001
42.0 Insurance Claims & Indemnities	293	276	282
<b>Total Non-Personnel</b>	<b>\$153,996</b>	<b>\$170,430</b>	<b>\$170,907</b>
<b>New Appropriated Resources</b>	<b>\$2,321,956</b>	<b>\$2,328,940</b>	<b>\$2,212,311</b>
<b>Budget Activities:</b>			
Pre-filing Taxpayer Assistance & Education	609,445	625,829	600,717
Filing & Account Services	1,712,511	1,703,111	1,611,594
<b>New Appropriated Resources</b>	<b>\$2,321,956</b>	<b>\$2,328,940</b>	<b>\$2,212,311</b>
<b>FTE</b>	<b>28,316</b>	<b>28,455</b>	<b>24,392</b>

## 2.3 – Appropriation Detail Table

Dollars in Thousands

Taxpayer Services		FY 2016		FY 2017		FY 2018		Change		% Change	
Appropriated Resources		Enacted		Annualized CR		Request		FY 2017 to FY 2018 Request		FY 2017 to FY 2018 Request	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	
<b>New Appropriated Resources:</b>											
Pre-Filing Taxpayer Assistance and Education	5,009	\$620,338	4,978	625,829	4,458	600,717	(520)	(25,112)	-10.45%	-4.01%	
Filing and Account Services	23,307	1,713,038	23,477	1,703,111	19,934	1,611,594	(3,543)	(91,517)	-15.09%	-5.37%	
<b>Subtotal New Appropriated Resources</b>	<b>28,316</b>	<b>\$2,333,376</b>	<b>28,455</b>	<b>\$2,328,940</b>	<b>24,392</b>	<b>\$2,212,311</b>	<b>(4,063)</b>	<b>(\$116,629)</b>	<b>-14.28%</b>	<b>-5.01%</b>	
<b>Other Resources:</b>											
Reimbursables	488	34,918	507	36,664	527	38,497	20	1,833	3.94%	5.00%	
User Fees	360	69,987	77	43,900	71	67,600	(6)	23,700	-7.79%	53.99%	
Recovery from Prior Years	-	-	-	8	-	-	-	(8)	NA	-100.00%	
Unobligated Balances from Prior Years	-	13,914	-	8,596	-	15,000	-	6,404	NA	74.50%	
<b>Subtotal Other Resources</b>	<b>848</b>	<b>\$118,819</b>	<b>584</b>	<b>\$89,168</b>	<b>598</b>	<b>\$121,097</b>	<b>14</b>	<b>\$31,929</b>	<b>2.40%</b>	<b>35.81%</b>	
<b>Total Budgetary Resources</b>	<b>29,164</b>	<b>\$2,452,195</b>	<b>29,039</b>	<b>\$2,418,108</b>	<b>24,990</b>	<b>\$2,333,408</b>	<b>(4,049)</b>	<b>(\$84,700)</b>	<b>-13.94%</b>	<b>-3.50%</b>	

**2A – Pre-Filing Taxpayer Assistance and Education** (\$600,717,000 in direct appropriations, and an estimated \$15,000 from reimbursable programs). This budget activity funds direct labor and non-labor expenses to assist with tax return preparation, including tax law interpretation, publication, production, and advocate services. The program activities include:

- *Pre-Filing Services Management* supports headquarters staffing and support for Taxpayer Advocate Service and Customer Assistance Relationship and Education (CARE) program activities. 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.

### Description of Performance

In FY 2016, the IRS delivered 92.5 percent (98 out of 106) of the Critical Individual Filing Season Tax Products to the public by the fifth workday of January. After the PATH Act, the IRS implemented planned actions to ensure the availability of tax products for the start of Filing Season 2016. The immediate focus was aimed at completing the required analysis of the legislation and development and finalization of affected forms, instructions and publications. In all, more than 400 changes were required for more than 150 different tax products. In FY 2017 and FY 2018, the target is set at 89 percent but significant changes in tax law late in the year could affect this target.

In FY 2016, the IRS Timeliness of Critical Tax Exempt and Government Entities (TEGE) and Business Filing Season Tax products to the Public was 98 percent (99 of 101). The IRS exceeded its FY 2016 target of 87 percent by more than 12 percent due to the exceptional planning and employee efforts in anticipation of the PATH Act. For FY 2017 and FY 2018 the target is set at 91 percent but significant changes in tax law late in the year could affect this target as tax products for multiple years are developed concurrently.

The Taxpayer Self-Assistance Rate reached 89 percent in FY 2016, slightly below the 90 percent target. This may be due in part to the disabling of the Electronic Filing PIN (EFP) in mid-June 2016 and a significant decline in the use of the Interactive Tax Assistant. Beginning in FY 2017, the IRS changed the Taxpayer Self-Assistance Rate to the Enterprise Taxpayer Self-Assistance Rate. The revised metric now includes additional applications including *Get Transcript* and payment applications, such as *Direct Pay* and *Online Payment Agreement*. This demonstrates IRS's progress toward providing expanded service options and taxpayers' increased adoption of self-assistance options.

## FY 2018 Changes by Budget Activity

Dollars in Thousands

Pre-Filing Taxpayer Assistance & Education	FTE	Amount
<b>FY 2017 Annualized CR Level</b>	<b>4,978</b>	<b>\$625,829</b>
<b>Changes to Base:</b>		
<b>Maintaining Current Levels (MCLs)</b>	-	<b>\$12,553</b>
Pay Raise	-	7,940
Pay Annualization	-	2,910
Non-Pay	-	1,703
<b>Resource Adjustments</b>		
Base Realignment for Support Services	-	-
Adjustments for Administrative Provision Section 113	-	-
<b>Subtotal Changes to Base</b>	<b>-</b>	<b>\$12,553</b>
<b>Total FY 2018 Base</b>	<b>4,978</b>	<b>\$638,382</b>
<b>Program Changes:</b>		
<b>Program Decreases</b>		
Actions to Achieve Workforce Management Goals	(520)	(37,665)
<b>Subtotal Program Changes</b>	<b>(520)</b>	<b>(\$37,665)</b>
<b>Total FY 2018 Request</b>	<b>4,458</b>	<b>\$600,717</b>
Dollar/FTE Change FY 2018 Budget Request over FY 2017 Annualized CR	(520)	(\$25,112)
Percent Change FY 2018 Budget Request over FY 2017 Annualized CR	-10.45%	-4.01%



### 2.1.1 – Budget and Performance Report and Plan

Dollars in Thousands

Pre-Filing Taxpayer Assistance & Education	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Resource Level	Actual	Actual	Actual	Actual	Actual	Annualized CR	Request
Appropriated Resources <sup>1</sup>	\$611,653	\$586,896	\$595,168	\$609,196	\$609,445	\$625,829	\$600,717
Reimbursable Resources <sup>2</sup>	96		45	51	13	14	15
User Fees <sup>2</sup>	22,460	6,400	22,400	4,141	-	-	-
<b>Budget Activity Total</b>	<b>\$634,209</b>	<b>\$593,296</b>	<b>\$617,613</b>	<b>\$613,388</b>	<b>\$609,458</b>	<b>\$625,843</b>	<b>\$600,732</b>

<sup>1</sup>The FY 2012 - FY 2016 appropriated resources represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

<sup>2</sup>The FY 2012 - FY 2016 columns represent realized resources for reimbursables and user fees.

Measure	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2016	FY 2017	FY 2018	FY 2012 -
	Actual	Actual	Actual	Actual	Actual	Target	Target	Target	FY 2016
									Trend
Timeliness of Critical Individual Filing Season Tax Products to the Public (%)	97.2	58.9	99.1	89.0	92.5	87.0	89.0	89.0	
Timeliness of Critical TE/GE and Business Tax Products to the Public (%)	94.5	83.6	98.7	92.6	98.0	87.0	91.0	91.0	
Enterprise Taxpayer Self-Assistance Rate <sup>1</sup>	78.5	83.3	84.7	88.7	89.0	90.0	Indicator	N/A	N/A

<sup>1</sup>Starting in FY 2017, the IRS modified the Taxpayer Self Assistance Rate measure to include additional self-service channels. As new self-assistance applications are provided to the public, they will be added to the methodology.

**2B – Filing and Account Services** (\$1,611,594,000 in direct appropriations, an estimated \$38,482,000 from reimbursable programs, and an estimated \$67,600,000 from user fees):

This budget activity funds direct labor and non-labor expenses 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 (with more than 90 percent of individual returns being filed electronically during the FY 2017 filing season) and increasing the use of electronic filing and payment methods. The program activities include:

- *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 (EPSS)* 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* initiates, 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.
- *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 2016, the IRS achieved an 86.4 percent individual e-file rate and a 50 percent business e-file rate. Both the individual and business e-file rates exceed the FY 2016 targets. The overall benefits of e-file (i.e. faster refunds, greater accuracy, secure and confidential submission, and quick confirmation) continue to drive performance. The IRS also is using social media to promote the benefits of e-filing. The IRS will increase the individual e-filing target to 87 percent for FY 2017 and 88 percent for FY 2018. The business e-filing target will increase to 51 percent for FY 2017 and 53 percent for FY 2018.



In FY 2016, Customer Accuracy – Tax Law was 96.4 percent, exceeding the target of 92 percent. For FY 2017 and FY 2018, the IRS will increase the tax law accuracy targets to 95 percent, even though responding to legislative changes in tax laws will continue to be a challenge.

In FY 2016, the IRS correctly answered 96.1 percent of account questions over the telephone, exceeding the target of 94 percent. The IRS expects to maintain high performance on the Customer Accuracy – Accounts (Phones) and plans to achieve the FY 2017 and FY 2018 target of 95 percent through product reviews and by providing training to managers and employees to ensure quality service.

In FY 2016, the IRS Customer Contacts Resolved Per Staff Year measure reached 28,497, exceeding the FY 2016 target of 28,000. This measure includes activities such as automated calls answered, assistor calls answered, and web services completed. The increase is attributed to a 24 percent increase in web usage, including an increase in *Where's My Refund?* Due to modifications made to the Taxpayer Self-Assistance measure for FY 2017, several components of the Customer Contacts Resolved Per Staff Year measure changed, including (1) the way IRS counts transcripts, from “requested” to now counting “delivered”; (2) the addition of *Get Transcript* (Online & Mail); and (3) the discontinuation of Electronic Interactions. Because of these changes, the IRS will baseline the measure in FY 2017 and use the results to determine an FY 2018 target.

In FY 2016, the LOS was 53.4 percent, exceeding the FY 2016 target of 47 percent. The 2016 filing season LOS was 72.1 percent. In 2016, the IRS received additional funding for taxpayer services, which allowed the IRS to focus resources on LOS and reduce paper correspondence inventories. This inventory totaled more than 850,000 pieces of correspondence with a 48 percent overage at the end of FY 2015, and is currently down to approximately 660,000 pieces of correspondence as of May 2017, with a 22 percent overage. The IRS has created and continues to create new web-based applications for taxpayers. The increase in self-assistance web applications, along with the high level of telephone service should reduce paper correspondence receipts. Due to decreased telephone demand, the IRS shifted available resources to processing paper, resulting in closing significantly more paper correspondence cases compared to FY 2015. The FY 2017 LOS target is 64 percent. This target includes funding from direct appropriations including \$209 million from the administrative provision and \$40 million from user fees. The FY 2018 target is 39 percent and assumes \$58 million from user fees.

Refund timeliness is defined as the percentage of paper refunds issued within 40 days. In FY 2016, Refund Timeliness reached 98.7 percent, exceeding the FY 2016 target of 97 percent as the number of paper refunds continued to decline. There was a 7 percent decrease in the number of paper refunds compared to the same period in 2015. For FY 2017 and FY 2018, the IRS expects to achieve a target of 97 percent.

## FY 2018 Changes by Budget Activity

Dollars in Thousands

Filing and Account Services	FTE	Amount
<b>FY 2017 Annualized CR</b>	<b>23,477</b>	<b>\$1,703,111</b>
<b>Changes to Base:</b>		
<b>Maintaining Current Levels (MCLs)</b>	-	<b>\$33,789</b>
Pay Raise	-	23,065
Pay Annualization	-	8,453
Non-Pay	-	2,271
<b>Resource Adjustments</b>		<b>\$122,378</b>
Base Realignment for Support Services	-	90,000
Adjustments for Administrative Provision Section 113	-	32,378
<b>Subtotal Changes to Base</b>	-	<b>\$156,167</b>
<b>Total FY 2018 Base</b>	<b>23,477</b>	<b>\$1,859,278</b>
<b>Program Changes:</b>		
<b>Program Decreases</b>		
Actions to Achieve Workforce Management Goals	(3,543)	(247,684)
<b>Subtotal Program Changes</b>	<b>(3,543)</b>	<b>(\$247,684)</b>
<b>Total FY 2018 Request</b>	<b>19,934</b>	<b>\$1,611,594</b>
Dollar/FTE Change FY 2018 Budget Request over FY 2017 Annualized CR	(3,543)	(\$91,517)
Percent Change FY 2018 Budget Request over FY 2017 Annualized CR	-15.09%	-5.37%

### 2.1.2 – Budget and Performance Report and Plan


Dollars in Thousands

Filing and Account Services	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017 Annualized CR	FY 2018 Request
Resource Level	Actual	Actual	Actual	Actual	Actual	CR	Request
Appropriated Resources <sup>1</sup>	\$1,610,904	\$1,532,963	\$1,550,027	\$1,564,488	\$1,712,511	\$1,703,111	\$1,611,594
Reimbursable Resources <sup>2</sup>	20,759	37,535	28,555	30,147	34,905	36,650	38,482
User Fees <sup>2</sup>	152,136	184,599	160,342	40,553	69,987	43,900	67,600
<b>Budget Activity Total</b>	<b>\$1,783,799</b>	<b>\$1,755,097</b>	<b>\$1,738,924</b>	<b>\$1,635,188</b>	<b>\$1,817,403</b>	<b>\$1,783,661</b>	<b>\$1,717,676</b>

<sup>1</sup>The FY 2012 - FY 2016 appropriated resources represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

<sup>2</sup>The FY 2012 - FY 2016 columns represent realized resources for reimbursables and user fees.

Measure	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2016	FY 2017	FY 2018	FY 2012 - FY 2016 Trend
	Actual	Actual	Actual	Actual	Actual	Target	Target	Target	
Percent Individual Returns Processed Electronically (%)	80.5	82.5	84.1	85.3	86.4	86.0	87.0	88.0	
Percent of Business Returns Processed Electronically	36.7	40.2	43.1	47.0	50.0	48.0	51.0	53.0	
Customer Accuracy - Tax Law Phones (%)	93.2	95.7	95.0	95.0	96.4	92.0	95.0	95.0	
Customer Accuracy - Accounts (Phones)	95.6	96.0	96.2	95.5	96.1	94.0	95.0	95.0	
Customer Contacts Resolved Per Staff Year <sup>1</sup>	16,320	20,767	21,018	26,245	28,497	28,000	Baseline	TBD	
Customer Service Representative (CSR) Level of Service (LOS) (%) <sup>2</sup>	67.6	60.5	64.4	38.1	53.4	47.0	64.0	39.0	

Measure	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2016 Target	FY 2017 Target	FY 2018 Target	FY 2012 - FY 2016 Trend
Refund Timeliness - Individual (Paper)	99.7	99.0	98.7	98.8	98.7	97.0	97.0	97.0	

<sup>1</sup>Due to modifications made to the Taxpayer Self-Assistance Rate measure for FY 2017, several components of the Customer Contacts Resolved Per Staff measure will change. As a result of these changes, the measure will be baselined in FY 2017.

<sup>2</sup>Beginning in FY 2013, targets include an increase in base user fees.

## **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 2018 is \$4,706,500,000 in direct appropriations and 35,049 FTE. This is a decrease of \$149,188,000 (3.1 percent) and 1,300 fewer FTE than the FY 2017 Annualized Continuing Resolution level of \$4,855,688,000 and 36,349 FTE.

The Department of the Treasury is developing a new strategic plan for FYs 2018 – 2022 in accordance with the GPRA Modernization Act of 2010. The plan is scheduled for publication in 2018. The Annual Performance Plan will be updated in the FY 2019 President's Budget to reflect new departmental strategic goals and objectives. The IRS will publish a component plan by summer 2018.

## 2.1 – Budget Adjustments Table

Dollars in Thousands

<b>Enforcement</b>	<b>FTE</b>	<b>Amount</b>
<b>FY 2017 Annualized CR</b>	<b>36,349</b>	<b>\$4,855,688</b>
<b>Changes to Base:</b>		
<b>Maintaining Current Levels (MCLs)</b>	-	<b>\$96,845</b>
Pay Raise	-	65,828
Pay Annualization	-	24,126
Non-Pay Inflation Adjustment	-	6,891
<b>Resource Adjustments</b>	-	<b>(\$149,936)</b>
Base Realignment for Support Services	-	(145,000)
Adjustments for Administrative Provision Section 113	-	(4,936)
<b>Subtotal Changes to Base</b>	-	<b>(\$53,091)</b>
<b>Total FY 2018 Base</b>	<b>36,349</b>	<b>\$4,802,597</b>
<b>Program Changes:</b>		
<b>Program Decrease:</b>		
Actions to Achieve Workforce Management Goals	(1,300)	(96,097)
<b>Subtotal FY 2018 Program Changes</b>	<b>(1,300)</b>	<b>(\$96,097)</b>
<b>Total FY 2018 Request</b>	<b>35,049</b>	<b>\$4,706,500</b>

## 2.2 – Operating Levels Table

Dollars in Thousands

Enforcement Object Classification	FY 2016 Actual	FY 2017 Annualized CR	FY 2018 Request
11.1 Full-Time Permanent Positions	3,141,237	3,168,939	3,137,409
11.3 Other than Full-Time Permanent Positions	29,922	30,904	31,369
11.5 Other Personnel Compensation	105,714	108,971	106,876
11.8 Special Personal Services Payments	25,486	24,201	24,288
<b>11.9 Personnel Compensation (Total)</b>	<b>3,302,359</b>	<b>3,333,015</b>	<b>3,299,942</b>
12.1 Personnel Benefits	1,136,662	1,159,565	1,128,398
<b>Total Personnel and Compensation Benefits</b>	<b>\$4,439,021</b>	<b>\$4,492,580</b>	<b>\$4,428,340</b>
21.0 Travel	55,662	69,941	70,965
22.0 Transportation of Things	7,914	9,909	9,921
23.1 Rental Payments to GSA	3	4	4
23.2 Rent Payments to Others	302	402	405
23.3 Communications, Utilities, & Misc	2,644	2,156	2,158
24.0 Printing & Reproduction	1,875	2,188	2,223
25.1 Advisory & Assistance Services	75,380	168,969	85,217
25.2 Other Services	28,047	35,647	36,461
25.3 Purchase of Goods & Services from Govt. Accounts	34,286	37,163	33,782
25.4 Operation & Maintenance of Facilities	15	2	2
25.5 Research & Development Contracts	2,000	-	-
25.6 Medical Care	8	47	48
25.7 Operation & Maintenance of Equipment	1,470	1,400	1,404
26.0 Supplies and Materials	15,071	23,190	23,462
31.0 Equipment	7,198	4,917	4,919
32.0 Land and Structures	2	4	4
42.0 Insurance Claims & Indemnities	890	897	913
91.0 Unvouchered	2,484	6,272	6,272
<b>Total Non-Personnel</b>	<b>\$235,251</b>	<b>\$363,108</b>	<b>\$278,160</b>
<b>New Appropriated Resources</b>	<b>\$4,674,272</b>	<b>\$4,855,688</b>	<b>\$4,706,500</b>
<b>Budget Activities:</b>			
Investigations	591,449	624,462	606,747
Exam & Collections	3,945,578	4,083,908	3,967,808
Regulatory	137,245	147,318	131,945
<b>New Appropriated Resources</b>	<b>\$4,674,272</b>	<b>\$4,855,688</b>	<b>\$4,706,500</b>
<b>FTE</b>	<b>37,564</b>	<b>36,349</b>	<b>35,049</b>

## 2.3 – Appropriation Detail Table

Dollars in Thousands

Enforcement						Change		% Change		
Appropriated Resources	FY 2016 Enacted	FY 2017 Annualized CR	FY 2018 Request	FY 2017 to FY 2018 Request	FY 2017 to FY 2018 Request	FTE	AMOUNT	FTE	AMOUNT	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>										
Investigations	3,184	\$596,417	3,126	624,462	2,893	606,747	(233)	(17,715)	-7.45%	-2.84%
Exam and Collections	33,426	3,981,257	32,251	4,083,908	31,199	3,967,808	(1,052)	(116,100)	-3.26%	-2.84%
Regulatory	954	137,262	972	147,318	957	131,945	(15)	(15,373)	-1.54%	-10.44%
<b>Subtotal New Appropriated Resources</b>	<b>37,564</b>	<b>\$4,714,936</b>	<b>36,349</b>	<b>\$4,855,688</b>	<b>35,049</b>	<b>\$4,706,500</b>	<b>(1,300)</b>	<b>(\$149,188)</b>	<b>-3.58%</b>	<b>-3.07%</b>
<b>Other Resources:</b>										
Reimbursables	54	29,711	75	41,636	78	43,717	3	2,081	4.00%	5.00%
Offsetting Collections - Non Reimbursables	-	19,212	-	28,134	-	29,541	-	1,407	NA	5.00%
User Fees	81	9,405	93	13,452	93	16,150	-	2,698	-	20.06%
Recovery from Prior Years	-	2,150	-	1,977	-	-	-	(1,977)	NA	-100.00%
Years	-	20,306	-	52,789	-	18,321	-	(34,468)	NA	-65.29%
Transfers In/Out		126	-	-	-	-	-	-	NA	NA
Resources from Other Accounts	2	-	-	-	-	-	-	-	NA	NA
<b>Subtotal Other Resources</b>	<b>137</b>	<b>\$80,910</b>	<b>168</b>	<b>\$137,988</b>	<b>171</b>	<b>\$107,729</b>	<b>3</b>	<b>(\$30,259)</b>	<b>1.79%</b>	<b>-21.93%</b>
<b>Total Budgetary Resources</b>	<b>37,701</b>	<b>\$4,795,846</b>	<b>36,517</b>	<b>\$4,993,676</b>	<b>35,220</b>	<b>\$4,814,229</b>	<b>(1,297)</b>	<b>(\$179,447)</b>	<b>-3.55%</b>	<b>-3.59%</b>

**2C – Investigations** (\$606,747,000 in direct appropriations, and an estimated \$42,993,000 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:

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

### Description of Performance

Criminal 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. Criminal Investigations is the only federal law enforcement organization with jurisdiction over federal tax crimes. The following measures are used to evaluate the success of achieving its mission. CI utilized its performance projection model to establish its FY 2017 and FY 2018 year-end targets.

In FY 2016, the number of criminal investigations completed was 3,720, 2.1 percent below the year-end target (3,800) and a 17.1 percent decrease compared to FY 2015. Overall performance in FY 2016 was affected by a significant decline in the number of Special Agents; the decision to focus on more complex tax cases, which take longer to complete; and working inventory still in the judicial process. The number of Cases of a Legal, Illegal and Narcotics nature completed in FY 2016 decreased (21.8 percent, 4.2 percent and 24.9 percent, respectively) compared to FY 2015. Criminal Investigations will continue to utilize proven case development strategies, expand case development efforts, and leverage interagency partnerships to identify, initiate, and complete criminal investigations in all program areas to meet the FY 2017 criminal investigation completed target of 3,100 and the FY 2018 target of 3,000.

In FY 2016, the numbers of convictions (2,672) were 6.9 percent above the year-end target (2,500) but reflected a 7.2 percent decrease compared to FY 2015. The results exceeded the year-end target due to a higher- than- expected number of multi-defendant Narcotics related investigations. The number of Narcotics related cases convicted in FY 2016 increased 13.7 percent compared to FY 2015. Overall quality investigations initiated and completed in previous years continue to be recommended for prosecution and processed by the Department of Justice (DOJ). CI management will continue to ensure appropriate and consistent contact with the DOJ Tax Division and U.S. Attorney Offices regarding prosecutorial priorities and appropriate movement of pipeline investigations to meet the FY 2017 number of convictions target of 2,100 and the FY 2018 target of 2,000.

In FY 2016, the conviction rate was 92.1 percent, exceeding the FY 2016 target of 92 percent. Appropriate case selection and effective field performance continue to increase the number of cases that result in convictions. Since CI does not prosecute its own cases, it must depend on 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 the DOJ Tax Division and U.S. Attorney Offices about prosecutorial priorities and appropriate movement of pipeline investigations, to ensure a high conviction rate and to meet the FY 2017 and FY 2018 targets of 92 percent.

The Conviction Efficiency Rate is determined by dividing the cost of the CI program by the number of convictions. The FY 2016 rate (\$250,563) improved by 7.9 percent over the year-end target (\$272,000) and by 4 percent compared to FY 2015, primarily due to an increase in the number of convictions. In FY 2017, the Conviction Efficiency Rate measure was discontinued for reporting purposes. The IRS will continue to report on Criminal Investigations Completed, Number of Convictions, and Conviction Rate.



## FY 2018 Changes by Budget Activity

Dollars in Thousands

Investigations	FTE	Amount
<b>FY 2017 Annualized CR Level</b>	<b>3,126</b>	<b>\$624,462</b>
<b>Changes to Base:</b>		
<b>Maintaining Current Levels (MCLs)</b>	-	<b>\$12,439</b>
Pay Raise	-	8,142
Pay Annualization	-	2,984
Non-Pay	-	1,313
<b>Resource Adjustments</b>	-	<b>(\$18,160)</b>
Adjustments for Administrative Provision Section 113	-	(18,160)
<b>Subtotal Changes to Base</b>	-	<b>(\$5,721)</b>
<b>Total FY 2018 Base</b>	<b>3,126</b>	<b>\$618,741</b>
<b>Program Changes:</b>		
<b>Program Decrease:</b>		
Actions to Achieve Workforce Management Goals	(233)	(11,994)
<b>Subtotal Program Changes</b>	<b>(233)</b>	<b>(\$11,994)</b>
<b>Total FY 2018 Request</b>	<b>2,893</b>	<b>\$606,747</b>
Dollar/FTE Change FY 2018 Budget Request over FY 2017 Annualized CR Level	(233)	(\$17,715)
Percent Change FY 2018 Budget Request over FY 2017 Annualized CR Level	-7.45%	-2.84%

### 2.1.3 – Budget and Performance Report and Plan

Dollars in Thousands

Investigations	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Resource Level	Actual	Actual	Actual	Actual	Actual	Annualized CR	Request
Appropriated Resources <sup>1</sup>	\$637,846	\$587,932	\$601,740	\$601,665	\$591,449	\$624,462	\$606,747
Reimbursable Resources <sup>2</sup>	56,895	28,582	27,133	29,957	29,053	40,946	42,993
User Fees <sup>2</sup>	6,935	2,979	-	-	-	-	-
<b>Budget Activity Total</b>	<b>\$701,676</b>	<b>\$619,493</b>	<b>\$628,873</b>	<b>\$631,622</b>	<b>\$620,502</b>	<b>\$665,408</b>	<b>\$649,740</b>

<sup>1</sup>The FY 2012 - FY 2016 appropriated resources represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

<sup>2</sup>The FY 2012 - FY 2016 columns represent realized resources for reimbursables and user fees.

Measure	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2016	FY 2017	FY 2018	FY 2012 -
	Actual	Actual	Actual	Actual	Actual	Target	Target	Target	FY 2016
									Trend
Criminal Investigations Completed	4,937	5,557	4,606	4,486	3,721	3,800	3,100	3,000	
Number of Convictions	2,634	3,311	3,110	2,879	2,672	2,500	2,100	2,000	
Conviction Rate (%)	93.0	93.1	93.4	93.2	92.1	92.0	92.0	92.0	

**2D – Exam and Collections (\$3,967,808,000) in direct appropriations, and an estimated \$502,000 from reimbursable programs):** 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:

- *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* enforces the anti-money laundering provisions of the Bank Secrecy Act of 1970 (BSA) and the USA Patriot Act of 2001. It examines non-bank financial institutions for compliance with these laws, receives and processes more than 15 million financial reports annually, and manages a centralized database of that information for the Financial Crimes Enforcement Network. The Fraud program follows the “money trail” to support the criminal investigation of tax evasion operations. Fraud technical advisors and revenue agents provide investigative leads and referrals to federal, state, and local law enforcement agencies.
- *Appeals* provides an administrative review process that provides a channel for impartial case settlement before a case is docketed in a court of law.
- *Litigation* provides legal support for the IRS in litigation of cases, including interpretation of the tax law.
- *Specialty Programs – Exams* examines federal tax returns of businesses and individuals responsible for the filing and payment of employment, excise, estate, and gift taxes.
- *International Collection* supports international field collection efforts associated with delinquent taxpayer and business entity liabilities from U.S. Citizens residing abroad, non-resident aliens, expatriates, and those involving other international issues (e.g., Foreign Tax Credit and Foreign Earned Income Exclusion).
- *International Exams* supports the international exam program involving U.S. citizens residing abroad, non-resident aliens, expatriates, and other examinations involving other international issues including legal support (e.g., Foreign Tax Credit and Foreign Earned Income Exclusion, Corporations, Non-Profits, Pension Plans, etc.).

- *Unit General Management and Administration* provides staffing, training, and direct support for headquarters management activities of strategic planning, communication and liaison, finance, human resources, equity, diversity and inclusion, business system planning, and embedded training.
- *EITC Management and Administration* supports headquarters management associated with administering the Earned Income Tax Credit (EITC) program IRS-wide.
- *Integrity & Verification Operations* supports 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 program(s).
- *ID Theft Victim Assistance* has end-to-end responsibility and accountability for IDT victim assistance policy and operations, which will include paper inventories from tax-related ID theft, the Identity Theft Protection Specialized Unit (IPSU), and Return Preparer Misconduct.
- *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 helps taxpayers understand and meet their tax responsibilities and applies the tax law with integrity and fairness. Enforcement of the tax laws is an integral component of the IRS's effort to enhance voluntary compliance. During FY 2016, the IRS maintained its international enforcement presence, continued actions to leverage the tax return preparer community, and continued prioritizing the prevention of refund fraud.

The IRS met its FY 2016 Individual Exam Coverage target of 0.7 percent. In FY 2016, the IRS audited about 193,000 fewer individuals, a 15.8 percent decrease compared to FY 2015. Examination sets its individual exam coverage rate by ensuring resources are appropriately planned for, proper inventory levels are maintained, and efficiencies are monitored to achieve planned targets. The IRS has reduced the coverage rate target for FY 2017 to 0.6 percent and FY 2018 to 0.5 percent, because the new hiring done in FY 2017 and changes in the mix of work affect productivity. In order to mitigate this decrease, Examination will increase its monitoring of starts and the mix of discretionary inventory in FY 2017.

In FY 2016, the Field Exam National Quality Review Score (NQRS) was 86.8 percent, exceeding the target of 86.7 percent. The IRS expects to achieve a quality score of 86.7 percent in FY 2017 and FY 2018.

In FY 2016, Office Exam Quality was 88.4 percent, exceeding the target of 88.3 percent. The IRS expects to achieve a target of 86.7 percent in FY 2017 and 88.3 percent in FY 2018.

In FY 2016, Examination Quality – Large Business was 83 percent, 7 percentage points below the target of 90 percent. The decline in the quality score is a result of low scores in the Planning and Execution technical standards. The 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 three audit standards (Planning, Executing, and Resolving). In FY 2016, Large Business & International (LB&I) reduced the number of audit standard categories from four to three. The FY 2017 and FY 2018 targets were set at 90 percent.

In FY 2016, Examination Coverage – Business (Assets > \$10 million) was 3 percent, falling short of the target of 3.5 percent. The measure is calculated by taking the total number of LB&I returns with assets of more than \$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. The FY 2017 and FY 2018 targets were lowered to 2.7 percent, based on fewer staff and a projected increase in business returns filed.

The Automated Underreporter (AUR) Efficiency rate was 2,196 through FY 2016, above the target of 2,032. The measure is calculated by taking the total number of Wage & Investment and SB/SE contact closures divided by the total FTEs, including overtime. SB/SE Campus Automated Underreporter realized efficiency gains in FY 2016 from new processes that allowed work to close more quickly. The inclusion of the Premium Tax Credit (PTC) in FY 2016 required manual calculations for a significant number of cases, resulting in fewer closures compared to FY 2015 (2,196 vs. 2,209). Based on the most recent operational data, the IRS set the FY 2017 and FY 2018 Automated Underreporter Efficiency targets at 2,133.

In FY 2016, AUR Coverage was 2.3 percent, exceeding the target of 2.2 percent. The measure is calculated by taking the total number of contact closures divided by total prior calendar year individual filings. A 10 percent decrease in FTE and a 1 percent increase in filings over the last two years resulted in an AUR Coverage rate of 2.3 percent for FY 2016 and FY 2015. The IRS expects to achieve an FY 2017 and FY 2018 target of 2.0 percent.

In 2016, Individual Exam Efficiency - Individual was 143, exceeding the target of 122. Individual closures decreased 18 percent compared to FY 2015. The measure is calculated by taking the sum of all individual 1040 return examinations and audit reconsideration cases divided by the total staff years expended. Examination will continue to monitor the operating plan and adjust resources accordingly to ensure the planned target is met. The FY 2017 Individual Exam Efficiency target is set at 118 and the FY 2018 target is set at 126 as the IRS expects new staff to require time for training before reaching full efficiency.

#### *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 discussed below.

In FY 2016, Collection Coverage was 43.4 percent, exceeding the target of 41.8 percent. For FY 2016, total net dispositions decreased 8 percent, while FTE were 1 percent lower compared to FY 2015. The Collection Coverage measure is calculated by taking the total volume of collection work disposed divided by total collection work available. The Collection Coverage FY 2017 target is 37.5 percent and the FY 2018 target is 34.2 percent.

In FY 2016, Collection Efficiency was 2,266, exceeding the target of 2,208. The Collection Efficiency measure is calculated by dividing total collection case closures by the total number of FTEs devoted to working the closures. The IRS has improved Collection Efficiency over the past five years while FTEs have declined by 25 percent and collection closures declined by only 14 percent. The IRS expects to achieve the Collection Efficiency FY 2017 target of 2,117 and the FY 2018 target of 2,147, as the FY 2016 and 2017 new hires are trained.

In FY 2016, the Field Collection National Quality Review Score (NQRS) was 79.2 percent, below the target of 79.7 percent. The Field Collection Quality measure is the percentage of quality attributes reviewed by an independent quality reviewer that are determined to be correct. The IRS expects to achieve an FY 2017 and FY 2018 Field Collection National Quality Review Score target of 79.7 percent.

In FY 2016, Automated Collection System (ACS) Accuracy was 95.4 percent, above the target of 95 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). Periodic performance reviews were conducted on the campus program and communicated to the sites. IRS has set the FY 2017 and FY 2018 Automated Collection System Accuracy targets at 95 percent.

## FY 2018 Changes by Budget Activity

Dollars in Thousands

Exam and Collections	FTE	Amount
<b>FY 2017 Annualized CR Level</b>	<b>32,251</b>	<b>\$4,083,908</b>
<b>Changes to Base:</b>		
<b>Maintaining Current Levels (MCLs)</b>	-	<b>\$81,466</b>
Pay Raise	-	55,635
Pay Annualization	-	20,390
Non-Pay	-	5,441
<b>Resource Adjustments</b>	-	<b>(\$116,077)</b>
Base Realignment for Support Services	-	(111,141)
Adjustments for Administrative Provision Section 113	-	(4,936)
<b>Subtotal Changes to Base</b>	-	<b>(\$34,611)</b>
<b>Total FY 2018 Base</b>	<b>32,251</b>	<b>\$4,049,297</b>
<b>Program Changes:</b>		
<b>Program Decreases</b>		
Actions to Achieve Workforce Management Goals	(1,052)	(81,489)
<b>Subtotal Program Changes</b>	<b>(1,052)</b>	<b>(\$81,489)</b>
<b>Total FY 2018 Request</b>	<b>31,199</b>	<b>\$3,967,808</b>
Dollar/FTE Change FY 2018 Budget Request over FY 2017 Annualized CR Level	(1,052)	(\$116,100)
Percent Change FY 2018 Budget Request over FY 2017 Annualized CR Level	-3.26%	-2.84%

### 2.1.4 – Budget and Performance Report and Plan

Dollars in Thousands

Exam and Collections	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Resource Level	Actual	Actual	Actual	Actual	Actual	Annualized CR	Request
Appropriated Resources <sup>1</sup>	\$4,482,881	\$4,188,328	\$4,154,342	\$4,018,292	\$3,945,578	\$4,083,908	\$3,967,808
Reimbursable Resources <sup>2</sup>	6,385	804	-	640	456	478	502
User Fees <sup>2</sup>	-	-	-	-	36	-	-
<b>Budget Activity Total</b>	<b>\$4,489,266</b>	<b>\$4,189,132</b>	<b>\$4,154,342</b>	<b>\$4,018,932</b>	<b>\$3,946,070</b>	<b>\$4,084,386</b>	<b>\$3,968,310</b>

<sup>1</sup>The FY 2012 - FY 2016 appropriated resources represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

<sup>2</sup>The FY 2012 - FY 2016 columns represent realized resources for reimbursables and user fees.

Measure	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2016	FY 2017	FY 2018	FY 2012 -
	Actual	Actual	Actual	Actual	Actual	Target	Target	Target	FY 2016
									Trend
Examination Coverage - Individual (1040)	1.0	1.0	0.9	0.8	0.7	0.6	0.6	0.5	
Field Examination National Quality Review Score	87.4	89.2	88.4	86.7	86.8	86.7	86.7	86.7	
Office Examination National Quality Review Score	91.3	90.3	90.6	88.3	88.4	88.3	86.7	88.3	
Examination Quality - LB&I - Large Business <sup>1</sup>	N/A	92.0	83.0	86.0	83.0	90.0	90.0	90.0	
Examination Coverage - Business Assets >\$10 million (%)	6.2	5.6	4.3	3.9	3.0	3.5	2.7	2.7	
Automated Underreporter (AUR) Efficiency	2,041	2,025	1,935	2,209	2,196	2,036	2,133	2,133	

Measure	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2016 Target	FY 2017 Target	FY 2018 Target	FY 2012 - FY 2016 Trend
Automated Underreporter (AUR) Coverage (%)	3.2	2.8	2.6	2.3	2.3	2.2	2.0	2.0	
Examination Efficiency - Individual (1040)	142	142	138	148	143	122	118	126	
Collection Coverage (Units)	48.1	47.0	45.9	46.3	43.4	41.8	37.5	34.2	
Collection Efficiency (Units)	1,997	2,057	2,051	2,448	2,266	2,208	2,117	2,147	
Field Collection National Quality Review Score	80.4	81.4	81.6	79.2	79.2	79.7	79.7	79.7	
Automated Collection System (ACS) Accuracy (%)	94.7	94.4	95.2	95.3	95.4	95.0	95.0	95.0	

1. As a result of program changes that occurred in the Large Business and International (LB&I) organization, starting in FY 2013, a new Examination Quality - Large Business measure will replace the two previous LB&I quality measures - Examination Quality - Industry and Coordinated Industry.

**2E – Regulatory** (\$131,945,000 in direct appropriations, an estimated \$222,000 from reimbursable programs, and an estimated \$16,150,000 from user fees): This budget activity funds the development of published IRS guidance materials; interpretation of tax laws; internal advice to IRS on general non-tax legal issues; enforcement of regulatory rules, laws, and approved business practices; and support for taxpayers in the areas of pre-filing agreements, determination letters, and advance pricing agreements. The program activities include:

- *Tax Law Interpretation and Published Guidance* interpret 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 includes 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.

Total determination closures in FY 2016 completed was 99,973 below the target of 103,852. While TEGE exceeded the closure goal for applications from organizations seeking tax-exempt status by more than 1,200 cases, employee plan determination application closures were about 5,100 cases short of the fiscal year goal because fewer applications were received than planned, and EO case processing to improve timeliness and maintain consistent case treatment. The IRS lowered the FY 2017 Determination Closures target to 95,791 to reflect the employee plan determination changes, but will increase the FY 2018 target to 99,840 for the anticipated increase in applications.

### FY 2018 Changes by Budget Activity

Dollars in Thousands

Regulatory	FTE	Amount
<b>FY 2017 Annualized CR</b>	<b>972</b>	<b>\$147,318</b>
<b>Changes to Base:</b>		
<b>Maintaining Current Levels (MCLs)</b>	-	<b>\$2,940</b>
Pay Raise	-	2,051
Pay Annualization	-	752
Non-Pay	-	137
<b>Resource Adjustments</b>	-	<b>(\$15,699)</b>
Adjustments for Administrative Provision Section 113	-	(15,699)
<b>Subtotal Changes to Base</b>	-	<b>(\$12,759)</b>
<b>Total FY 2018 Base</b>	<b>972</b>	<b>\$134,559</b>
<b>Program Changes:</b>		
<b>Program Decreases:</b>		
Actions to Achieve Workforce Management Goals	(15)	(2,614)
<b>Subtotal Program Changes</b>	<b>(15)</b>	<b>(\$2,614)</b>
<b>Total FY 2018 Request</b>	<b>957</b>	<b>\$131,945</b>
Dollar/FTE Change FY 2018 Budget Request over FY 2017 Annualized CR Level	(15)	(\$15,373)
Percent Change FY 2018 Budget Request over FY 2017 Annualized CR Level	-1.54%	-10.44%

### 2.1.5 – Budget and Performance Report and Plan

Dollars in Thousands


Regulatory	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Resource Level	Actual	Actual	Actual	Actual	Actual	Annualized CR	Request
Appropriated Resources <sup>1</sup>	150,903	147,411	158,415	147,605	137,245	147,318	131,945
Reimbursable Resources <sup>2</sup>	660	631	792	363	202	212	222
User Fees <sup>2</sup>	12,482	14,521	13,241	18,485	9,233	13,452	16,150
<b>Budget Activity Total</b>	<b>\$164,045</b>	<b>\$162,563</b>	<b>\$172,448</b>	<b>\$166,453</b>	<b>\$146,680</b>	<b>\$160,982</b>	<b>\$148,317</b>

<sup>1</sup>The FY 2012 - FY 2016 appropriated resources represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

<sup>2</sup>The FY 2012 - FY 2016 columns represent realized resources for reimbursables and user fees.

Measure	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2016	FY 2017	FY 2018	FY 2012 -
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	Actual	Actual	Actual	Actual	Actual	Target	Target	Target	FY 2016 Trend
TE/GE Determination Case Closures	87,000	65,877	136,746	111,940	99,973	103,852	95,791	99,840	

## **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 2018 is \$3,946,189,000 in direct appropriations and 11,365 FTE. This is an increase of \$206,624,000, or 5.5 percent, and 76 fewer FTE than the FY 2017 Annualized Continuing Resolution of \$3,739,565,000 and 11,441 FTE.

The Department of the Treasury is developing a new strategic plan for FYs 2018 – 2022 in accordance with the GPRA Modernization Act of 2010. The plan is scheduled for publication in 2018. The Annual Performance Plan will be updated in the FY 2019 President's Budget to reflect new departmental strategic goals and objectives. The IRS will publish a component plan in summer 2018.

## 2.1 – Budget Adjustments Table

Dollars in Thousands

<b>Operations Support</b>	<b>FTE</b>	<b>Amount</b>
<b>FY 2017 Annualized CR</b>	<b>11,441</b>	<b>\$3,739,565</b>
<b>Changes to Base:</b>		
<b>Maintaining Current Levels (MCLs)</b>	-	<b>\$75,423</b>
Pay Raise	-	24,573
Pay Annualization	-	9,006
Non-Pay Inflation Adjustment	-	41,844
<b>Resource Adjustments</b>	-	<b>\$27,558</b>
Base Realignment for Support Services	-	55,000
Adjustments for Administrative Provision Section 113	-	(27,442)
<b>Subtotal Changes to Base</b>	-	<b>\$102,981</b>
<b>Total FY 2018 Base</b>	<b>11,441</b>	<b>\$3,842,546</b>
<b>Program Changes:</b>		
<b>Program Increase:</b>		
Realignment to Support Aging IT Infrastructure	266	179,449
<b>Subtotal Program Increase</b>	<b>266</b>	<b>\$179,449</b>
<b>Program Decreases</b>		
Actions to Achieve Workforce Management Goals	(342)	(75,806)
<b>Subtotal Program Changes</b>	<b>(76)</b>	<b>\$103,643</b>
<b>Total FY 2018 Request</b>	<b>11,365</b>	<b>\$3,946,189</b>

## 2.2 – Operating Levels Table

Dollars in Thousands

Operations Support Object Classification	FY 2016 Actual	FY 2017 Annualized CR	FY 2018 Request
11.1 Full-Time Permanent Positions	1,109,315	1,099,853	1,122,911
11.3 Other than Full-Time Permanent Positions	6,102	5,733	5,843
11.5 Other Personnel Compensation	19,754	20,669	21,033
11.8 Special Personal Services Payments	676	402	410
<b>11.9 Personnel Compensation (Total)</b>	<b>1,135,847</b>	<b>1,126,657</b>	<b>1,150,197</b>
12.1 Personnel Benefits	415,262	432,951	445,736
13.0 Benefits to Former Personnel	45,682	50,000	51,007
<b>Total Personnel and Compensation Benefits</b>	<b>\$1,596,791</b>	<b>\$1,609,608</b>	<b>\$1,646,940</b>
21.0 Travel	10,709	7,910	7,982
22.0 Transportation of Things	10,504	11,205	11,398
23.1 Rental Payments to GSA	592,526	587,366	597,171
23.2 Rent Payments to Others	12,021	12,093	12,274
23.3 Communications, Utilities, & Misc	292,388	347,312	349,524
24.0 Printing & Reproduction	17,364	17,520	17,872
25.1 Advisory & Assistance Services	567,856	539,118	550,534
25.2 Other Services	59,309	53,125	53,052
25.3 Purchase of Goods & Services from Govt. Accounts	76,637	81,345	81,263
25.4 Operation & Maintenance of Facilities	174,892	190,125	188,962
25.6 Medical Care	14,087	14,166	13,262
25.7 Operation & Maintenance of Equipment	66,241	72,253	73,711
26.0 Supplies and Materials	15,028	6,599	6,726
31.0 Equipment	299,080	179,776	333,287
32.0 Land and Structures	6,161	9,836	2,034
42.0 Insurance Claims & Indemnities	313	208	197
<b>Total Non-Personnel</b>	<b>\$2,215,116</b>	<b>\$2,129,957</b>	<b>\$2,299,249</b>
<b>New Appropriated Resources</b>	<b>\$3,811,907</b>	<b>\$3,739,565</b>	<b>\$3,946,189</b>
<b>Budget Activities:</b>			
Infrastructure	838,048	861,229	860,643
Shared Services & Support	1,090,192	1,014,139	1,011,411
Information Services	1,883,667	1,864,197	2,074,135
<b>New Appropriated Resources</b>	<b>\$3,811,907</b>	<b>\$3,739,565</b>	<b>\$3,946,189</b>
<b>FTE</b>	<b>11,078</b>	<b>11,441</b>	<b>11,365</b>

## 2.3 – Appropriation Detail Table

Dollars in Thousands

Operations Support		FY 2016		FY 2017		FY 2018		Change		% Change	
Appropriated Resources		Enacted		Annualized CR		Request		FY 2017 to FY 2018		FY 2017 to FY 2018 Request	
New Appropriated Resources:		FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Infrastructure		-	\$848,191	-	861,229	-	860,643	-	(586)	N/A	-0.07%
Shared Services and Support		4,861	1,110,811	4,981	1,014,139	4,871	1,011,411	(110)	(2,728)	-2.21%	-0.27%
Information Services		6,217	1,937,686	6,460	1,864,197	6,494	2,074,135	34	209,938	0.53%	11.26%
<b>Subtotal New Appropriated Resources</b>		<b>11,078</b>	<b>\$3,896,688</b>	<b>11,441</b>	<b>\$3,739,565</b>	<b>11,365</b>	<b>\$3,946,189</b>	<b>(76)</b>	<b>\$206,624</b>	<b>-0.66%</b>	<b>5.53%</b>
<b>Other Resources:</b>											
Reimbursables		98	39,729	102	37,986	106	39,885	4	1,899	3.92%	5.00%
User Fees		83	264,250	-	409,724	-	441,900	-	32,176	N/A	7.85%
Recovery from Prior Years		-	21,318	-	2,022	-	-	-	(2,022)	N/A	-100.00%
Unobligated Balances from Prior Years		-	141,205	-	126,898	-	49,970	-	(76,928)	N/A	-60.62%
<b>Subtotal Other Resources</b>		<b>181</b>	<b>\$466,502</b>	<b>102</b>	<b>\$576,630</b>	<b>106</b>	<b>\$531,755</b>	<b>4</b>	<b>(\$44,875)</b>	<b>3.92%</b>	<b>-7.78%</b>
<b>Total Budgetary Resources</b>		<b>11,259</b>	<b>\$4,363,190</b>	<b>11,543</b>	<b>\$4,316,195</b>	<b>11,471</b>	<b>\$4,477,944</b>	<b>(72)</b>	<b>\$161,749</b>	<b>-0.62%</b>	<b>3.75%</b>

**2F – Infrastructure** (\$860,643,000 in direct appropriations and an estimated \$690,000 from reimbursable programs): These 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 needs, and non-IT equipment.
- *Security* covers building security costs related to contract guard services.

### Description of Performance

The IRS continued efforts to realize operational efficiencies and manage costs effectively by improving enterprise-wide resources and streamlining processes.

Other than payroll, rent is the IRS's largest operating expense. IRS has identified opportunities to reduce the high cost of rent and improve usage of office space across the country. In FY 2016, the IRS completed 61 projects to release more than 558,000 square feet of rented space from inventory for an annual rent reduction of about \$16 million. In order to contain costs and improve space usage, the IRS is developing Strategic Facility Plan process that focuses on closing or consolidating workspace at the time of lease expiration.

## FY 2018 Changes by Budget Activity

Dollars in Thousands

Infrastructure	FTE	Amount
<b>FY 2017 Annualized CR</b>		<b>\$861,229</b>
<b>Changes to Base:</b>		
<b>Maintaining Current Levels (MCLs)</b>	-	<b>\$17,383</b>
Non-Pay	-	17,383
<b>Subtotal Changes to Base</b>	-	<b>\$17,383</b>
<b>Total FY 2018 Base</b>	-	<b>\$878,612</b>
<b>Program Changes:</b>		
<b>Program Decrease:</b>		
Actions to Achieve Workforce Management Goals	-	(17,969)
<b>Subtotal Program Changes</b>	-	<b>(\$17,969)</b>
<b>Total FY 2018 Request</b>	-	<b>\$860,643</b>

Dollar/FTE Change FY 2018 Budget Request over FY 2017 Annualized CR Level (\$586)  
 Percent Change FY 2018 Budget Request over FY 2017 Annualized CR Level -0.07%

### 2.1.6 – Budget and Performance Report and Plan

Dollars in Thousands

Infrastructure	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Resource Level	Actual	Actual	Actual	Actual	Actual	Annualized CR	Request
Appropriated Resources <sup>1</sup>	894,365	874,627	845,558	833,846	838,048	861,229	860,643
Reimbursable Resources <sup>2</sup>	1,016	701	16,694	928	626	657	690
User Fees <sup>2</sup>	57,477	5,414	17,137	-	-	-	-
<b>Budget Activity Total</b>	<b>\$952,858</b>	<b>\$880,742</b>	<b>\$879,389</b>	<b>\$834,774</b>	<b>\$838,674</b>	<b>\$861,886</b>	<b>\$861,333</b>

<sup>1</sup>The FY 2012 - FY 2016 appropriated resources represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

<sup>2</sup>The FY 2012 - FY 2016 columns represent realized resources for reimbursables and user fees.

Measure	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2016	FY 2017	FY 2018	FY 2012 -
	Actual	Actual	Actual	Actual	Actual	Target	Target	Target	FY 2016
									Trend

Rentable Square Feet Per Person (new for FY 2017)

Indicator N/A

### 2G – Shared Services and Support (\$1,011,411,000 in direct appropriations, an estimated \$17,520,000 from reimbursable programs, and an estimated \$11,900,000 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:

- *National Headquarters Management and Administration* directs the management activities of strategic planning, communications and liaison, finance, human resources, equity, diversity and inclusion programs, business systems planning, embedded training, and the Treasury Franchise Fund. It sets policies and goals, provides leadership and direction for the IRS, and builds partner relationships with key

stakeholders (Congress, GAO, and OMB). It provides policy guidance for conducting planning and budgeting strategies, conducting analyses of programs and investments to support strategic decision-making, and developing and managing human resources. It also includes official reception and representation expenses.

- *Facilities Management & Security Services* provides facilities and security services to deliver a safe, secure and optimal work environment to IRS customers and employees.
- *Procurement* supports the procurement function of the IRS and Treasury's Departmental Offices.
- *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* handles congressional, national, and local stakeholder relationships and issues; coordinates and addresses crosscutting issues, including legislative implementation; works with representatives of the national and local tax community; communicates with individual and business taxpayers by developing information on IRS.gov and providing other taxpayer-facing content; handles national and local media contacts and relationships; and oversees internal employee communications.
- *Employee Support Services* plans and manages financial services, including relocation, travel, purchase cards, corporate express, and employee clearances.
- *Treasury Complaint Centers* plan and manage the Treasury Complaint Centers.
- *Shared Support not provided by Agency-Wide Shared Services* provides resources for shared cross-functional support, such as postage meters, shredders, courier services, and post office boxes.
- *Printing and Postage – Media and Publications* provides operating divisions with printing and postage, including shipping of taxpayer and internal use materials.
- *Statistics of Income* provides resources for researching annual income, financial, and tax data from tax returns filed by individuals, corporations, and tax-exempt organizations.
- *Research* provides resources for market-based research to identify compliance issues, for conducting tests of treatments to address noncompliance, and for the implementation of successful strategies to address taxpayer noncompliance.
- *Security Administration and Management* manages and oversees the staffing, training, equipment, and direct support for the protection of IRS employees, facilities, and assets, and the protection and proper use of identity information.
- *Wage and Investment (W&I) Business Modernization Support* provides staffing, training, and direct support for W&I's enterprise-wide business modernization efforts, including CADE 2, and Account Management Services (AMS) technology solutions, and re-engineered business processes.
- *Shared Services* provides support services for all IRS employees, including Treasury Franchise Fund, Indemnity payments, Mailrooms, Logistics, Shredding and Uninterrupted Power Systems.

### Description of Performance

Through support activities that include management and administration of human resources, security, and research, Operations Support continues to provide shared services to all IRS programs.

#### *Human Capital*

The IRS workforce is our most important resource. By providing improved training and tools to all employees and developing future leaders, the IRS helps its workforce better serve taxpayer needs and guide the next generation of IRS employees.

#### *Security*

Security of taxpayer data and providing a secure environment for employees are of utmost importance to the IRS. In FY 2016, the IRS:

- Continued efforts to protect the integrity of taxpayer data, minimize opportunities for fraud, and protect employees and facilities.
- Engaged in activities with external stakeholders to promote data protection and minimize the potential mistreatment of taxpayers. The IRS expanded the Suspicious Filer Exchange to include 43 states and 6 municipalities, whereby the states and the IRS share information for confirmed identity theft and questionable returns through secure data transfers, for use with filter and authentication processes. The IRS also established a process to expedite the sharing of significant tax incidents or threats amongst Security Summit partners.
- Refined and developed new identity theft filters based on analytical models and data validation. As a result, the IRS stopped potentially fraudulent returns much earlier in processing, allowing it to resolve cases for ID theft victims more quickly.

#### *Research*

The IRS gains further understanding of compliance through its National Research Program (NRP). The NRP analyzes reporting compliance data for various taxpayer populations, including Individual Income Tax, Corporate Income Tax, Employment Taxes, and Fuel Excise Taxes. Using data from the NRP individual income tax reporting compliance study, the IRS updated and implemented IRS Discriminant Function (DIF) models. The updates implemented for processing year 2016 were the latest in a series of updates to DIF models made possible because of new data available annually from NRP. The IRS expects that these improved models will reduce the selection of compliant taxpayers for audit, thereby focusing limited examination resources on returns with noncompliance, particularly returns with larger expected tax changes. The result will be a reduction in the number of audits for fully compliant taxpayers, while ensuring that problematic returns receive the necessary scrutiny.

The IRS conducts research studies and analytics on behavioral responses to IRS taxpayer service operations and enforcement activities and provides measures of taxpayer compliance and the tax gap.



## FY 2018 Changes by Budget Activity

Dollars in Thousands

Shared Services and Support	FTE	Amount
<b>FY 2017 Annualized CR</b>	<b>4,981</b>	<b>\$1,014,139</b>
<b>Changes to Base:</b>		
<b>Maintaining Current Levels (MCLs)</b>	-	<b>\$20,629</b>
Pay Raise	-	9,383
Pay Annualization	-	3,439
Non-Pay	-	7,807
<b>Subtotal Changes to Base</b>	-	<b>\$20,629</b>
<b>Total FY 2018 Base</b>	<b>4,981</b>	<b>\$1,034,768</b>
<b>Program Changes:</b>		
<b>Program Decrease:</b>		
Actions to Achieve Workforce Management Goals	(110)	(23,357)
<b>Subtotal Program Changes</b>	<b>(110)</b>	<b>(\$23,357)</b>
<b>Total FY 2018 Request</b>	<b>4,871</b>	<b>\$1,011,411</b>
Dollar/FTE Change FY 2018 Budget Request over FY 2017 Annualized CR Level	(110)	(\$2,728)
Percent Change FY 2018 Budget Request over FY 2017 Annualized CR Level	-2.21%	-0.27%

### 2.1.7 – Budget and Performance Report and Plan

Dollars in Thousands

Shared Services and Support	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Resource Level	Actual	Actual	Actual	Actual	Actual	Annualized CR	Request
Appropriated Resources <sup>1</sup>	\$1,187,959	\$1,097,565	\$1,127,931	\$1,126,230	\$1,090,192	\$1,014,139	\$1,011,411
Reimbursable Resources <sup>2</sup>	31,486	17,175	19,886	17,126	19,443	16,686	17,520
User Fees <sup>2</sup>	14,938	31,644	7,819	1,768	1,000	1,000	11,900
<b>Budget Activity Total</b>	<b>\$1,234,383</b>	<b>\$1,146,384</b>	<b>\$1,155,636</b>	<b>\$1,145,124</b>	<b>\$1,110,635</b>	<b>\$1,031,825</b>	<b>\$1,040,831</b>

<sup>1</sup>The FY 2012 - FY 2016 appropriated resources represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

<sup>2</sup>The FY 2012 - FY 2016 columns represent realized resources for reimbursables and user fees.

**2H – Information Services** (\$2,074,135,000 in direct appropriations, \$21,675,000 in reimbursable resources, and an estimated \$430,000,000 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 Information Technology (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.

IT is responsible for information systems and technology, ranging from cyber security and networks to applications development and end user equipment and services. The program activities include:

- *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. This program 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 to ensure 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. It 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)* is responsible for the delivery of integrated solutions for several of the IRS's large-scale programs. It plays a key role in establishing change, configuration, and release plans and implementing new information system functional capabilities. The EPMO is the primary partner with the business for programs under their purview and works with IT delivery partners (AD, ES, EOPS and the other ACIO areas) to deliver required capabilities. This structure positions each organization to maintain a strong core function to optimize their operations.
- *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* supports the continued transformation of the IT organization while helping drive the successful implementation of multiple initiatives and is responsible for overseeing day-to-day operations of the organization and providing strategic and operational oversight for many functions within IT.
- *IT Infrastructure* provides a centrally managed investment program for the replacement of IRS IT infrastructure that has reached or surpassed its useful life cycle.
- *Strategy and Planning* collaborates with IT leadership to provide policy, direction, and administration of essential programs, including strategy and capital planning, strategic planning and performance measurement, financial management services, vendor and contract management, requirements and demand management, and risk management. The organization partners with IRS leadership and external stakeholders to ensure selection, planning and management of an IT investment portfolio that is driven by the strategic priorities of the IRS and demonstrates business value.
- *Treasury Franchise Fund (TFF)* is a centralized functional area that pays for services provided through the Treasury Franchise Fund.
- *User and Network Services (UNS)* provides end-user support in accordance with negotiated service level agreements, strategic direction, forecasting, planning and

oversight of IT business needs, and ensures compliance with government security regulations. UNS supplies and maintains all desk-side technology, equips the Volunteer Income Tax Assistance Program; establishes and provides oversight of hardware and software standards; and manages the architecture, design, and engineering of the IRS network infrastructure.

### Description of Performance

The IRS taxpayer service and enforcement programs rely heavily on information systems funded in this account. 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. It also funds the disaster recovery activities to ensure continued operations in the event of a major interruption of service.

In FY 2016, the IRS:

- Processed more than 126,000 Forms 1094-B, *Transmittal of Health Coverage Information Returns* and more than 108 million Forms 1095-C, *Employer-Provided Health Insurance Offer and Coverage Insurance*, through the ACA Information Returns (AIR) system.
- Continued to deliver new capabilities and enhancements to the Foreign Account Tax Compliance Act (FATCA) system. The IRS deployed the FATCA registration system releases 3.0, 4.0, and 4.1, and updated the FATCA Compliance Roadmap with activities for identifying noncompliance by foreign financial institutions. Nearly 190,000 financial institutions registered with the IRS, while more than 5,000 financial institutions enrolled in the International Data Exchange Service to submit FATCA returns to the IRS.
- Worked with Security Summit partners from state tax agencies and the broader tax community to add extra layers of security protection for the filing season; processed more than 200 million returns and billions of dollars in tax refunds with these security protections in place.
- Conducted continuity of operations exercises testing organizational readiness in response to emergency events. These exercises allow the IRS to test its ability to support and render services to taxpayers by ensuring the three mission essential functions, Processing Tax Returns, Processing Remittances, and Processing Refunds, remain operational during an emergency event. Exercises centered not only on natural disasters (hurricanes, tornadoes, earthquakes, wild fires, etc.) but also on man-made disasters (bombs, biohazard situations, riots, etc.) that could affect IRS operations. The continuity exercises required extensive coordination with IRS leadership and assessed continuity readiness at all levels of the organization.
- Continued to build robust cybersecurity programs to improve the identification and prevention of refund fraud and identity theft and to enhance cybersecurity to safeguard taxpayer data.

- Identified and mitigated 678 cyber incidents and blocked the transmission of 66,378 unencrypted emails from leaving the IRS network, preventing the possible inadvertent disclosure of sensitive data such as social security numbers and passwords. The IRS also completed the first release of its Short Messaging Service Platform (SMSP), which allowed for the issuance of a one-time password to a taxpayer via text messaging services, paving the way for two-factor authentication for taxpayers trying to access their tax records.

### FY 2018 Changes by Budget Activity

Dollars in Thousands

Information Services	FTE	Amount
<b>FY 2017 Annualized CR</b>	<b>6,460</b>	<b>\$1,864,197</b>
<b>Changes to Base:</b>		
<b>Maintaining Current Levels (MCLs)</b>	-	<b>\$37,411</b>
Pay Raise	-	15,190
Pay Annualization	-	5,567
Non-Pay	-	16,654
<b>Resource Adjustments</b>	-	<b>\$27,558</b>
Base Realignment for Support Services	-	55,000
Adjustments for Administrative Provision Section 113	-	(27,442)
<b>Subtotal FY 2018 Changes to Base</b>	-	<b>\$64,969</b>
<b>FY 2018 Current Services</b>	<b>6,460</b>	<b>\$1,929,166</b>
<b>Program Changes:</b>		
<b>Program Increase:</b>		
Realignment to Support Aging IT Infrastructure	266	179,449
<b>Program Decrease:</b>		
Actions to Achieve Workforce Management Goals	(232)	(34,480)
<b>Subtotal FY 2018 Program Changes</b>	<b>34</b>	<b>\$144,969</b>
<b>Total FY 2018 Budget Request</b>	<b>6,494</b>	<b>\$2,074,135</b>
Dollar/FTE Change FY 2018 Budget Request over FY 2017 Annualized CR Level	34	\$209,938
Percent Change FY 2018 Budget Request over FY 2017 Annualized CR Level	0.53%	11.26%

### 2.1.8 – Budget and Performance Report and Plan

Dollars in Thousands

Information Services	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017 Annualized CR	FY 2018 Request
Resource Level	Actual	Actual	Actual	Actual	Actual		
Appropriated Resources <sup>1</sup>	1,681,195	1,722,172	1,749,110	1,641,360	1,883,667	1,864,197	2,074,135
Reimbursable Resources <sup>2</sup>	5,154	8,850	4,734	24,262	19,660	20,643	21,675
User Fees <sup>2</sup>	59,824	145,027	198,206	373,610	263,250	408,724	430,000
<b>Budget Activity Total</b>	<b>\$1,746,173</b>	<b>\$1,876,049</b>	<b>\$1,952,050</b>	<b>\$2,039,232</b>	<b>\$2,166,577</b>	<b>\$2,293,564</b>	<b>\$2,525,810</b>

<sup>1</sup>The FY 2012 - FY 2016 appropriated resources represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

<sup>2</sup>The FY 2012 - FY 2016 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 2018 is \$110,000,000 in direct appropriations and 229 FTE. This is a decrease of \$179,449,000, or 62 percent, and 364 fewer FTE than the FY 2017 Annualized Continuing Resolution level of \$289,449,000 and 593 FTE.

The IRS is moving \$179,449,000 and 266 FTE from BSM to Operations Support to fund operations and maintenance for the existing infrastructure, including addressing a backlog of infrastructure past its useful life. As of right now, 63 percent of IT hardware systems are aged and out of warranty and 32 percent of software products are two or more releases behind the industry standard, with 15 percent more than four releases behind. Additionally, the increasing number of cybersecurity threats and the need to modernize systems to protect one of the world's most valuable data caches cannot be overstated. These funds and FTE will be used to replace about 20 percent of the inventory.

BSM will continue to operate the Return Review Program (RRP), which has significantly enhanced fraud detection capabilities; Web Applications, which has provided increased and secure Internet-based services to taxpayers; CADE2, which has provided the foundation for a more efficient and effective tax administration; Architecture, Integration and Management (AI&M), which has provided management abilities essential to IRS systems strategy, architecture, and engineering capabilities for the major modernization projects across all technology platforms; and Core Infrastructure which has provided shared infrastructure that leverages reusable engineering design patterns and best practices for standardized, virtual, and secure environments.

The Department of the Treasury is developing a new strategic plan for FYs 2018 – 2022 in accordance with the GPRA Modernization Act of 2010. The plan is scheduled for publication in 2018. The Annual Performance Plan will be updated in the FY 2019 President's Budget to reflect new departmental strategic goals and objectives. The IRS will publish a component plan by summer 2018.

## 2.1 – Budget Adjustments Table

Dollars in Thousands

<b>Business Systems Modernization</b>	<b>FTE</b>	<b>Amount</b>
<b>FY 2017 Annualized CR</b>	<b>593</b>	<b>\$289,449</b>
<b>Changes to Base:</b>		
<b>Maintaining Current Levels (MCLs)</b>	-	<b>\$1,425</b>
Pay Raise	-	1,043
Pay Annualization	-	382
<b>Subtotal Changes to Base</b>	-	<b>\$1,425</b>
<b>Total FY 2018 Base</b>	<b>593</b>	<b>\$290,874</b>
<b>Program Changes:</b>		
<b>Program Decreases:</b>		
Realignment to Support Aging IT Infrastructure	(355)	(179,449)
Actions to Achieve Workforce Management Goals	(9)	(1,425)
<b>Subtotal Program Changes</b>	<b>(364)</b>	<b>(\$180,874)</b>
<b>Total FY 2018 Request</b>	<b>229</b>	<b>\$110,000</b>

## 2.2 – Operating Levels Table

Dollars in Thousands

Business Systems Modernization Object Classification	FY 2016 Actual	FY 2017 Annualized CR	FY 2018 Request
11.1 Full-Time Permanent Positions	53,444	71,069	27,581
11.3 Other than Full-Time Permanent Positions	425	193	62
11.5 Other Personnel Compensation	567	1,004	299
<b>11.9 Personnel Compensation (Total)</b>	<b>54,436</b>	<b>72,266</b>	<b>27,942</b>
12.1 Personnel Benefits	16,492	21,861	8,358
<b>Total Personnel and Compensation Benefits</b>	<b>\$70,928</b>	<b>\$94,127</b>	<b>\$36,300</b>
21.0 Travel	170	191	112
25.1 Advisory & Assistance Services	109,827	172,227	64,186
25.2 Other Services	9	159	58
25.3 Purchase of Goods & Services from Govt. Accounts		12	6
25.7 Operation & Maintenance of Equipment	2,632	1,434	664
26.0 Supplies and Materials	2	21	9
31.0 Equipment	7,377	21,278	8,665
<b>Total Non-Personnel</b>	<b>\$120,017</b>	<b>\$195,322</b>	<b>\$73,700</b>
<b>New Appropriated Resources</b>	<b>\$190,945</b>	<b>\$289,449</b>	<b>\$110,000</b>
<b>Budget Activities:</b>			
IT Investments	190,945	289,449	110,000
<b>New Appropriated Resources</b>	<b>\$190,945</b>	<b>\$289,449</b>	<b>\$110,000</b>
<b>FTE</b>	<b>442</b>	<b>593</b>	<b>229</b>

## 2.3 – Appropriation Detail Table

Dollars in Thousands

Business Systems Modernization Appropriated Resources	FY 2016 Enacted		FY 2017 Annualized CR		FY 2018 Request		Change FY 2017 to FY 2018 Request		% Change FY 2017 to FY 2018 Request	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>										
Business Systems Modernization	442	\$290,000	593	289,449	229	110,000	(364)	(179,449)	-61.38%	-62.00%
<b>Subtotal New Appropriated Resources</b>	<b>442</b>	<b>\$290,000</b>	<b>593</b>	<b>\$289,449</b>	<b>229</b>	<b>\$110,000</b>	<b>(364)</b>	<b>(\$179,449)</b>	<b>-61.38%</b>	<b>-62.00%</b>
<b>Other Resources:</b>										
User Fees	-	-	-	36,000	-	-	-	(36,000)	N/A	-100.00%
Recovery from Prior Years	-	4,283	-	766	-	-	-	(766)	N/A	-100.00%
Unobligated Balances from Prior Years	-	276,444	-	186,182	-	185,584	-	(598)	N/A	-0.32%
<b>Subtotal Other Resources</b>	<b>-</b>	<b>\$280,727</b>	<b>-</b>	<b>\$222,948</b>	<b>-</b>	<b>\$185,584</b>	<b>-</b>	<b>(\$37,364)</b>	<b>N/A</b>	<b>-16.76%</b>
<b>Total Budgetary Resources</b>	<b>442</b>	<b>\$570,727</b>	<b>593</b>	<b>\$512,397</b>	<b>229</b>	<b>\$295,584</b>	<b>(364)</b>	<b>(\$216,813)</b>	<b>-61.38%</b>	<b>-42.31%</b>

**2I – Business Systems Modernization (BSM)** (\$110,000,000 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.

BSM uses best practices and expertise in business solutions and internal management to develop a world-class tax administration system. The following projects are supported by the FY 2018 BSM request of \$110 million:

*Customer Account Data Engine 2 (CADE2)* (+\$30 million / +102 FTE): These funds will be used to re-engineer components of the Individual Master File (IMF) by applying modern programming languages and establish CADE 2 as the legal and financial authoritative source of individual taxpayer data.

*Return Review Program (RRP)* (+\$36 million / +41 FTE): The RRP system became the system of record in October, 2016 for tax return fraud and anomaly detection. The current focus is on individual tax return data. Investment in RRP will continue to improve and expand analytical capabilities, that protect increasing levels of revenue from individual and business tax return fraud, non-compliance, and other enterprise anomaly detection. IRS will implement value-driven enhancements based on Business priorities, enabling additional business customers to explore and use RRP for anomaly detection business processes. In FY 2018, RRP will make a wider array of data available to other systems, for expanded anomaly detection throughout the processing pipeline. RRP will also increase the amount of revenue protected by improving existing screening rules and models for individual returns and by developing and implementing new rules and models for emerging schemes for business returns. RRP will upgrade hardware and analytics software and other infrastructure capabilities, to enable superior processing performance and reliability

*Web Applications* (+\$24 million / +49 FTE) 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.

In early FY 2018, Web Applications will substantially complete development of initial Online Account capabilities. These initial capabilities will allow a taxpayer to check if they have a



balance due, make a payment, and see prior payments and other tax records. Additionally, Web Apps will start to plan, develop and deploy new capabilities selected by the Web Apps product prioritization process. Anticipated functionalities include: allowing third parties (i.e., tax preparers and tax software companies) to interface with IRS systems to directly provide refund data to their customers; allowing taxpayers to validate their identity for questionable tax returns to enhance identity protection and reduce fraud; allowing taxpayers access to self-serve their public determination applications and return filings; and allowing taxpayers to initiate and modify installment agreements in the Account application.

*Architecture, Integration and Management (AI&M) (+\$10 million / +16 FTE)* will provide engineering management capabilities essential to delivering a program of BSM's magnitude and complexity. It will also deliver 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 (+\$10 million / +21 FTE)* 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. This support effort scales with the development projects in the BSM portfolio.

The IRS is modernizing taxpayer applications to use of web-based technologies that allow taxpayers to communicate with the IRS 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.

Dollars in thousands

Business Systems Modernization		FY 2016 Operating Plan	FY 2017 CR Level	FY 2018 Budget Request	Difference 2017 to 2018
<b>CADE 2</b>		<b>92,231</b>	<b>121,846</b>	<b>30,000</b>	<b>(91,846)</b>
<i>Ensuring Taxpayer data is secure. CADE2 will re-engineer components of the Individual Master File (IMF) by applying modern programming languages and establish CADE 2 as the legal and financial authoritative source of individual taxpayer data.</i>		Capital <sup>1</sup> Support <sup>2</sup> Labor FTE	62,854 150 31,696 202	15,000  15,000 102	(75,000) (150) (16,696) (100)
<b>Enterprise Case Management</b>		<b>38,517</b>	<b>46,324</b>		<b>(46,324)</b>
<i>Working the right cases so taxpayer burden is lessened requires an implementation strategy to consolidate and retire legacy systems. Funding ECM will: 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.</i>		Capital Support Labor U. Fees FTE	28,991 154 9,372 25,000 32	7,100 32 14,192 25,000 92	(7,100) (32) (14,192) (25,000) (92)
<b>Enterprise Case Selection</b>		<b>1,492</b>	<b>23,707</b>		<b>(23,707)</b>
<i>Funding ECS will: provide the main integration point between the Return Review Program (RRP) and Enterprise Case Management (ECM). The ECS program will implement an enterprise solution for performing case selection functions using a common infrastructure platform and common services that will be leveraged across the IRS. The ECS program will increase operational efficiencies by consolidating separate case selection functions and by identifying the best cases allowing the IRS to utilize resources more effectively.</i>		Capital Support Labor U. Fees FTE	1,492 25 8,682 5,000 54	10,000 25 8,682 5,000 54	(10,000) (25) (8,682) (5,000) (54)
<b>Event Driven Architecture</b>		<b>8,962</b>	<b>4,766</b>		<b>(4,766)</b>
<i>Enabling online account self-service, including self correction. Funding EDA allows: 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.</i>		Capital Support Labor FTE	7,500 39 1,423 11	2,000 5 2,761 17	(2,000) (5) (2,761) (17)
<b>Modernized e-File</b>		<b>11,014</b>	<b>3,507</b>		<b>(3,507)</b>
<i>Ensuring faster, more efficient tax processing. Providing labor funding to complete MeF Release 10, enables e-filing of Form 1040-NR (U.S. Nonresident Alien Income Tax Return) and Form 1040-NR-EZ (U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents).</i>		Capital Support Labor FTE	7,700 39 3,275 12	3,507	(3,507)
<b>Return Review Program</b>		<b>40,402</b>	<b>40,215</b>	<b>36,000</b>	<b>(4,215)</b>
<i>Providing leading-edge technologies to advance the IRS effectiveness in detecting, addressing, and preventing tax refund fraud and protecting U.S. Treasury revenue. The RRP fraud framework is critical for IRS' success in tackling ever-evolving tax schemes in a sophisticated, scalable and adaptable manner. Funding will: 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.</i>		Capital Support Labor FTE	32,000 201 8,201 56	32,000 55 8,160 50	29,030 15 6,900 41
<b>Web Applications</b>		<b>22,160</b>	<b>29,253</b>	<b>24,000</b>	<b>(5,253)</b>
<i>Providing easy access to taxpayer information via digital channels. Funding will: 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</i>		Capital Support Labor U. Fees FTE	16,272 124 5,764 6,000 36	14,000 30 9,223 6,000 58	15,625 45 8,300 (6,000) 49
<b>Architecture, Integration, and Management</b>		<b>31,560</b>	<b>19,679</b>	<b>10,000</b>	<b>(9,679)</b>
<i>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.</i>		Capital Support Labor FTE	25,400 180 5,980 33	15,000 26 4,653 27	7,380 20 2,600 16
<b>Core Infrastructure</b>		<b>26,171</b>	<b>33,450</b>	<b>10,000</b>	<b>(23,450)</b>
<i>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.</i>		Capital Support Labor FTE	15,000 258 10,913 73	22,000 60 11,390 70	6,480 20 3,500 21
<b>Management Reserve</b>		<b>17,491</b>	<b>2,702</b>		
<b>Total BSM</b>		<b>\$290,000</b>	<b>\$325,449</b>	<b>\$110,000</b>	<b>(\$212,747)</b>
<b>Total FTE</b>		<b>436</b>	<b>570</b>	<b>229</b>	<b>(341)</b>

<sup>1</sup> Capital Investments funding consists of capital and labor costs.

<sup>2</sup> Support funding consists of training, travel, supplies, etc.

## 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. IRS performance metrics are described quarterly and in greater detail in the BSM IT Modernization report.

Major IT (BSM and Non-BSM) Investments		
Fiscal Year	Percent within +/- 10% Cost Variance	Percent within +/- 10% Schedule Variance
2016	76.2%	85.7%

IRS IT will continue to monitor program activities closely and address any issues associated with cost/schedule on a timely basis to meet the FY 2017 and FY 2018 target of 90 percent.

### FY 2018 Changes by Budget Activity

Dollars in Thousands

Business Systems Modernization	FTE	Amount
<b>FY 2017 Annualized CR</b>	<b>593</b>	<b>\$289,449</b>
<b>Changes to Base:</b>		
<b>Maintaining Current Levels (MCLs)</b>	-	<b>\$1,425</b>
Pay Raise	-	1,043
Pay Annualization	-	382
<b>Subtotal Changes to Base</b>	-	<b>\$1,425</b>
<b>Total FY 2018 Base</b>	<b>593</b>	<b>\$290,874</b>
<b>Program Changes:</b>		
<b>Program Decreases</b>		
Realignment to Support Aging IT Infrastructure	(355)	(179,449)
Actions to Achieve Workforce Management Goals	(9)	(1,425)
<b>Subtotal Program Changes</b>	<b>(364)</b>	<b>(\$180,874)</b>
<b>Total FY 2018 Request</b>	<b>229</b>	<b>\$110,000</b>
Dollar/FTE Change FY 2018 Budget Request over FY 2017 Annualized CR Level	(364)	(\$179,449)
Percent Change FY 2018 Budget Request over FY 2017 Annualized CR Level	-61.38%	-62.00%

### 2.1.9 – Budget and Performance Report and Plan

Dollars in Thousands

Business Systems Modernization	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017 Annualized CR	FY 2018 Request
Resource Level	Actual	Actual	Actual	Actual	Actual	CR	Request
Appropriated Resources <sup>1</sup>	250,537	198,205	145,235	107,746	190,945	289,449	110,000
Reimbursable Resources <sup>2</sup>	0	0	0	0	0	0	0
User Fees	0	0	0	0	0	36,000	0
<b>Budget Activity Total</b>	<b>\$250,537</b>	<b>\$198,205</b>	<b>\$145,235</b>	<b>\$107,746</b>	<b>\$190,945</b>	<b>\$325,449</b>	<b>\$110,000</b>

<sup>1</sup>The FY 2012 - FY 2016 appropriated resources represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

<sup>2</sup>The FY 2012 - FY 2016 columns represent realized resources for reimbursable resources and user fees.

Measure	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2016 Target	FY 2017 Target	FY 2018 Target	FY 2012 - FY 2016 Trend
Percent of Major IT Investments within +/-10% Cost Variance at the Investment Level	50.0	.0	66.7	73.7	76.2	90.0	90.0	90.0	
Percent of Major IT Investments within +/-10% Schedule Variance at the Investment Level <sup>1</sup>	90.0	83.3	100.0	89.5	85.7	90.0	90.0	90.0	

1. Starting in FY 2015, the measure includes all major investments (BSM and non-BSM).

## **Section III**

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### **3.1 – 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.

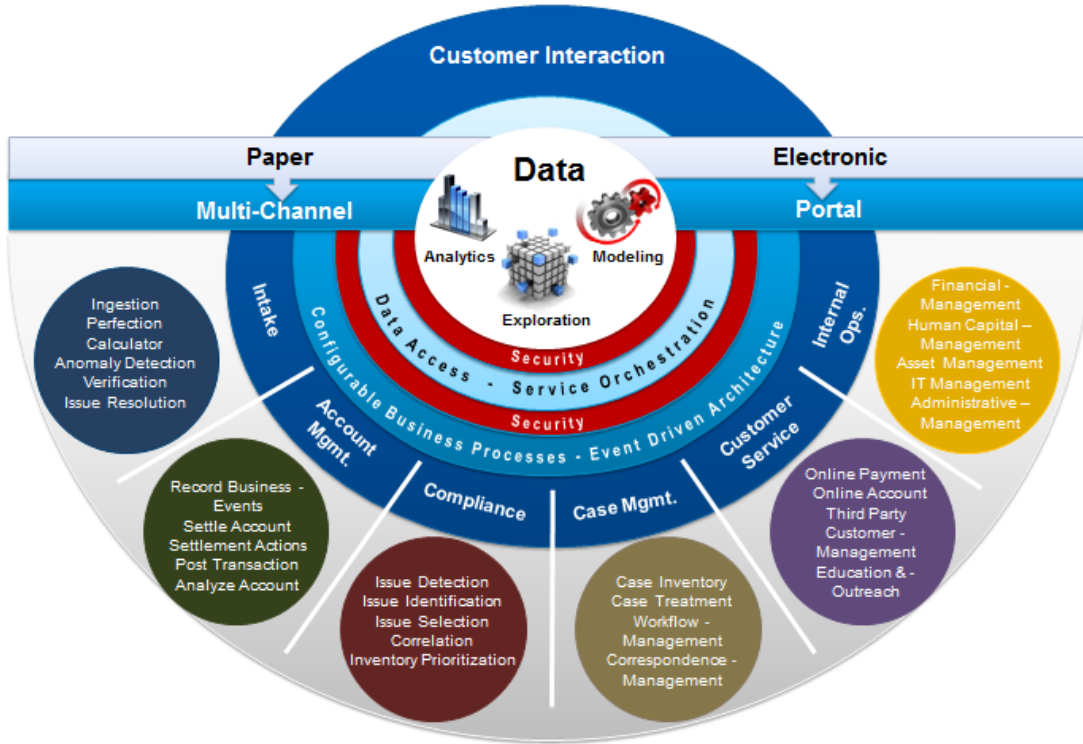
### **3A – Capital Investment Strategy**

The Information Technology (IT) office is a key facilitator of efficient and effective tax administration. IT continues to provide critical support as the IRS faces increasingly complex tax administration, evolving taxpayer expectations, greater media scrutiny, and growing challenges in combating refund fraud and identity theft. In FY 2018, the IRS plans to strengthen its IT infrastructure.

The IRS needs new technologies to deliver comprehensive IT solutions that improve electronic tax filing returns, enhance services to taxpayers and third party practitioners, and strengthen criminal enforcement of tax laws. With increases in electronic data, online interactions, and related security risks, the IRS must make significant investments to secure infrastructure, data, and applications. To ensure the IRS invests wisely in new technology, it implemented a collaborative Capital Investment Strategy with the business units. The collaboration includes translating business vision and strategy into effective enterprise change by creating, communicating, and improving the key requirements, principles, and models that describe the IRS's future and enable its evolution.

The outcome of this collaboration is the Technology Roadmap, which creates a visual depiction of the future of IT and promotes dialogue between IT and business leaders on the priorities, direction and alignment of investments and resources. The roadmap provides conceptual, logical, technical, transitional, and detailed multi-level views of business requirements that provide increased granularity with each subsequent level. The transitional view demonstrates the current, transition, and next state for major business concepts, including the Intake, Account Management, Compliance, Case Management, and Internal Operations processes.

The IRS uses the Technology Roadmap to guide its capital investment strategy. It is a living document that is continuously reviewed and updated as appropriate. Below is the conceptual, top-level view of the Technology Roadmap, identifying the major services that support each core business area along with the major architectural principles and structures.



### 3.2 – Return on Investment (ROI) for IRS Major Enforcement Programs

The actual cost and actual revenue collected for FY 2012 through FY 2016 for the three major enforcement programs, Examination, Collection, and Automated Underreporter (AUR) are provided below. The activities included in these programs include:

***Examination Program*** conducts examinations of tax returns of individual taxpayers, businesses, and other types of organizations to verify that the tax reported is correct. This includes examinations of individuals, small business, self-employed, large corporate business, partnerships, international, estate and gift, excise tax and employment tax, and tax-exempt, qualified pension benefit plans, and Government entities. The examination costs include the cost of the Field Exam, Correspondence Exam, IRS Chief Counsel, and Appeals functions.

***Collection Program*** collects delinquent taxes and secures delinquent tax returns through the appropriate use of enforcement tools, such as lien, levy, seizure of assets, installment agreement, offer in compromise, substitute for return, summons, and IRC 6020(b) (which allows the IRS to prepare returns if a taxpayer neglects or refuses to file), and provides education to taxpayers to enable future compliance. The cost of the Collection program includes Automated Collection System (ACS), Field Collection, and Payment Compliance/Correspondence Collection.

***Automated Underreporter (AUR) Program*** matches payer information returns (Forms 1099, W-2, etc.) against data reported to the IRS on individual tax returns. 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, the IRS issues a proposed notice and generates a proposed assessment.

ROI is calculated by dividing revenue by cost. This information provides an indication of the ROI for the three major enforcement programs over time, but it is important to note that enforcement revenue collected in a fiscal year includes tax, interest, and penalties from multiple tax years. Some enforcement activities can take more than a year to close and may generate revenue over several years, so it is generally inappropriate to compare revenue collected in a given fiscal year to the staffing available for that same year.

In addition, it is important to note that these data reflect the average return on investment for these programs and do not include indirect effects of IRS enforcement activities on voluntary compliance. As such, they are not intended to be used to allocate resources or maximize revenue. Net revenue is maximized only when resources are allocated according to *marginal direct and indirect* return on investment, but those ratios are much more challenging to estimate than the average ROI shown here. As a result, the IRS will continue to allocate enforcement resources across a range of enforcement activities to ensure taxpayers pay the taxes they owe.

## Return on Investment for IRS Major Enforcement Programs

Dollars in millions

Enforcement Program	FY 2012			FY 2013			FY 2014			FY 2015			FY 2016		
	Cost <sup>1</sup>	Revenue	ROI	Cost <sup>1</sup>	Revenue	ROI	Cost <sup>1</sup>	Revenue	ROI	Cost <sup>1</sup>	Revenue	ROI	Cost <sup>1</sup>	Revenue	ROI
<b>IRS Total</b>	<b>\$6,242</b>	<b>\$50,187</b>	<b>8.0</b>	<b>\$5,883</b>	<b>\$53,345</b>	<b>9.1</b>	<b>\$5,839</b>	<b>\$57,146</b>	<b>9.8</b>	<b>\$5,644</b>	<b>\$54,203</b>	<b>9.6</b>	<b>\$5,592</b>	<b>\$54,291</b>	<b>9.7</b>
Examination	4,232	14,476	3.4	3,965	16,662	4.2	3,965	18,983	4.8	3,974	13,320	3.4	3,782	12,023	3.2
Collection	1,742	30,442	17.5	1,660	31,396	18.9	1,618	33,198	20.5	1,419	35,740	25.2	1,576	37,259	23.6
Automated Underreporter (AUR)	267	5,269	19.7	258	5,287	20.5	256	4,965	19.4	251	5,143	20.5	234	5,009	21.4

<sup>1</sup>The cost of the enforcement programs was calculated using budget data from the IRS Integrated Financial System (IFS) and includes direct dollars and FTE from the Enforcement appropriation, Exam and Collections budget activity, and dollars from the Operations Support appropriation prorated using actual FTE realized for each major

### 3.3 – IRS Performance Measure Table

#### Changes in Performance Measures

The following are changes in performance measures or indicators from the FY 2017 Annualized CR level.

Performance Measure or Indicator	Proposed Change and Justification
1. Conviction Efficiency Rate – discontinue	The budget component of the measure – which makes up the numerator to calculate this rate – fluctuates year to year and Criminal Investigation has limited control over funding. CI will continue to report three measures in the budget submission.
2. Enterprise Taxpayer Self-Assistance Rate (ETSAR) – modify	Starting in FY 2017, the IRS modified the Taxpayer Self Assistance Rate measures to include additional self-assistance applications, including Get Transcripts and payment applications, such as Direct Pay and Online Payment Agreements. As new self-assistance applications are provided to the public, they will be added to the methodology.  Because of these changes, IRS will use ETSAR as an indicator in FY 2017.
3. Customer Contacts Resolved per Staff Year (CCRPSY) – modify	Due to the modifications made to the Taxpayer Self-Assistance Rate measure for FY 2017, several components of the Customer Contacts Resolved Per Staff Year measure changed including: the way IRS counts transcripts, from “requested” to now counting “delivered”; the addition of Get Transcripts (Online & Mail); the discontinuation of Electronic Interactions; and, the moving of balance due calls to SB/SE.  IRS will baseline CCRPSY in FY 2017.
4. Rentable Square Feet per Person (RSFPP) – new measure for FY 2017	A new measure was added to support the Operations Support Appropriation. This indicator will help IRS better manage rental costs.  IRS will use RSFPP as an indicator in FY 2017.



### 3.3 – IRS Performance Measure Table (Continued)

Measure	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2016	FY 2017	FY 2018	FY 2012 -
	Actual	Actual	Actual	Actual	Actual	Target	Target	Target	FY 2016 Trend
Timeliness of Critical Individual Filing Season Tax Products to the Public (%)	97.2	58.9	99.1	89.0	92.5	87.0	89.0	89.0	
Timeliness of Critical TE/GE and Business Tax Products to the Public (%)	94.5	83.6	98.7	92.6	98.0	87.0	91.0	91.0	
Enterprise Taxpayer Self-Assistance Rate <sup>1</sup>	78.5	83.3	84.7	88.7	89.0	90.0	Indicator	N/A	N/A
Percent Individual Returns Processed Electronically (%)	80.5	82.5	84.1	85.3	86.4	86.0	87.0	88.0	
Percent of Business Returns Processed Electronically	36.7	40.2	43.1	47.0	50.0	48.0	51.0	53.0	
Customer Accuracy - Tax Law Phones (%)	93.2	95.7	95.0	95.0	96.4	92.0	95.0	95.0	
Customer Accuracy - Accounts (Phones)	95.6	96.0	96.2	95.5	96.1	94.0	95.0	95.0	
Customer Contacts Resolved Per Staff Year <sup>2</sup>	16,320	20,767	21,018	26,245	28,497	28,000	Baseline	TBD	
Customer Service Representative (CSR) Level of Service (LOS) (%) <sup>3</sup>	67.6	60.5	64.4	38.1	53.4	47.0	64.0	39.0	
Refund Timeliness - Individual (Paper)	99.7	99.0	98.7	98.8	98.7	97.0	97.0	97.0	
Criminal Investigations Completed	4,937	5,557	4,606	4,486	3,721	3,800	3,100	3,000	
Number of Convictions	2,634	3,311	3,110	2,879	2,672	2,500	2,100	2,000	
Conviction Rate (%)	93.0	93.1	93.4	93.2	92.1	92.0	92.0	92.0	
Examination Coverage - Individual (1040)	1.0	1.0	0.9	0.8	0.7	0.6	0.6	0.5	
Field Examination National Quality Review Score	87.4	89.2	88.4	86.7	86.8	86.7	86.7	86.7	
Office Examination National Quality Review Score	91.3	90.3	90.6	88.3	88.4	88.3	86.7	88.3	
Examination Quality - LB&I - Large Business	N/A	92.0	83.0	86.0	83.0	90.0	90.0	90.0	
Examination Coverage - Business Assets >\$10 million (%)	6.2	5.6	4.3	3.9	3.0	3.5	2.7	2.7	
Automated Underreporter (AUR) Efficiency	2,041	2,025	1,935	2,209	2,196	2,036	2,133	2,133	

Measure	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2016	FY 2017	FY 2018	FY 2012 -
	Actual	Actual	Actual	Actual	Actual	Target	Target	Target	FY 2016 Trend
Automated Underreporter (AUR) Coverage (%)	3.2	2.8	2.6	2.3	2.3	2.2	2.0	2.0	
Examination Efficiency - Individual (1040)	142	142	138	148	143	122	118	126	
Collection Coverage (Units)	48.1	47.0	45.9	46.3	43.4	41.8	37.5	34.2	
Collection Efficiency (Units)	1,997	2,057	2,051	2,448	2,266	2,208	2,117	2,147	
Field Collection National Quality Review Score	80.4	81.4	81.6	79.2	79.2	79.7	79.7	79.7	
Automated Collection System (ACS) Accuracy (%)	94.7	94.4	95.2	95.3	95.4	95.0	95.0	95.0	
TE/GE Determination Case Closures	87,000	65,877	136,746	111,940	99,973	103,852	95,791	99,840	
Rentable Square Feet Per Person (new for FY 2017)							Indicator	N/A	
Percent of Major IT Investments within +/-10% Cost Variance at the Investment Level	50.0	.0	66.7	73.7	76.2	90.0	90.0	90.0	
Percent of Major IT Investments within +/-10% Schedule Variance at the Investment Level <sup>4</sup>	90.0	83.3	100.0	89.5	85.7	90.0	90.0	90.0	

1. Starting in FY 2017, the IRS modified the Taxpayer Self Assistance Rate measure to include additional self-service channels.

As new self-assistance applications are provided to the public, they will be added to the methodology.

2. Beginning in FY 2013, targets include an increase in base user fees.

3. As a result of program changes that occurred in the Large Business and International (LB&I) organization, starting in FY 2013, a new Examination Quality - Large Business measure will replace the two previous LB&I quality measures - Examination Quality - Industry and Coordinated Industry.

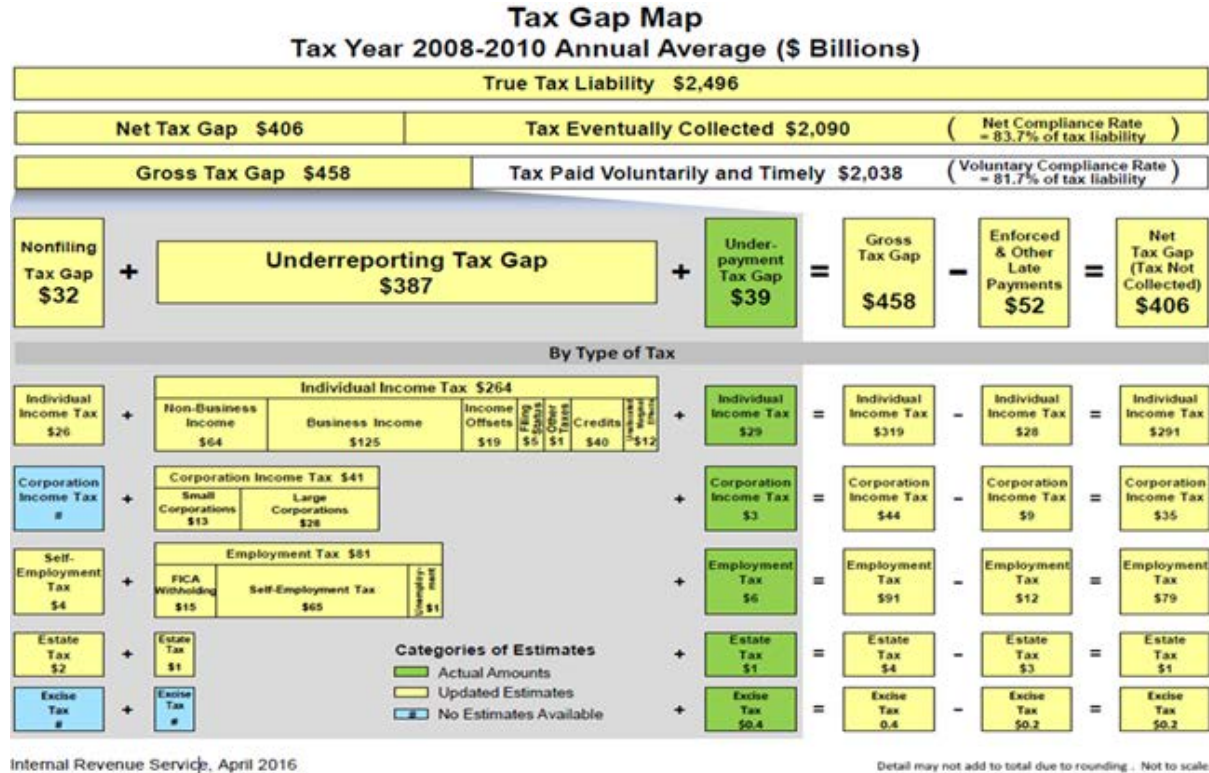
4. Starting in FY 2015, the measure includes all major investments (BSM and non-BSM).

### 3.3 – IRS Performance Measure Table (Continued)

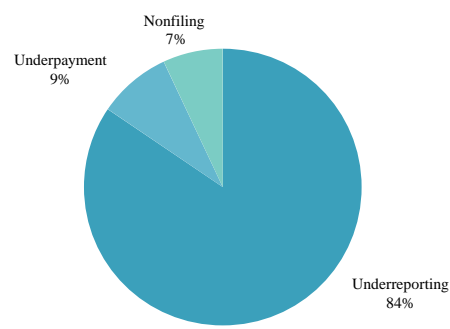
Budget Level Performance Measure Descriptions	
Customer Service Representative (CSR) Level of Service	The number of toll free callers that either speak to a Customer Service Representative or receive informational messages divided by the total number of attempted calls.
Customer Contacts Resolved per 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 assistor on Toll-free tax law inquiries.
Customer Accuracy – Customer Accounts (Phones)	The percentage of correct answers given by a live assistor on Toll-free account inquiries.
Timeliness of Critical Individual Filing Season Tax Products to the Public	The percentage of critical individual filing season tax products (tax forms, schedules, instructions, publications, tax packages, and certain notices required by a large number of filers to prepare a complete and accurate tax return) available to the public in a timely fashion.
Timeliness of Critical TE/GE & Business Tax Products to the Public	Percentage of critical other tax products, paper and electronic, available to the public in a timely fashion.
Percent Individual Returns Processed Electronically	The percentage of electronically filed individual tax returns divided by the total individual returns filed.
Percent Business Returns Processed Electronically	The percentage of electronically filed business tax returns divided by the total business returns filed.
Refund Timeliness – Individual (Paper)	The percentage of refunds resulting from processing Individual Master File paper returns issued within 40 days or less.
Enterprise Taxpayer Self Assistance Rate	The percentage of taxpayer assistance requests resolved using self-assisted automated services. IRS will use this as an indicator for FY 2017.
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.
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.
Rentable Square Feet per Person	The amount of Rentable Square Feet the IRS maintains per Personnel requiring space. IRS will use this as an indicator for FY 2017.
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.

### 3.4 – Reducing the Tax Gap

The IRS remains committed to increasing compliance and reducing the tax gap, while minimizing the burden on the vast majority of taxpayers who pay their taxes accurately and on time. The tax gap represents the difference between taxes owed and taxes paid on time. In FY 2016, the IRS released updated tax gap estimates for tax years 2008 through 2010 and found that the annual average gross tax gap was an estimated \$458 billion.



The current estimated voluntary compliance rate is 81.7 percent. There are three components of the \$458 billion gross tax gap: Underreporting tax liability (\$387 billion), which comprises 84 percent of the gross tax gap, and nonfiling (\$32 billion, 7 percent) and underpaying (\$39 billion, 9 percent).



### 3.5 – Summary of IRS FY 2018 Budget Request

Internal Revenue Service	Taxpayer Services		Enforcement		Operations Support		Business Systems Modernization		Total	
	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE
<b>FY 2017 Annualized CR</b>	<b>\$2,328,940</b>	<b>28,455</b>	<b>\$4,855,688</b>	<b>36,349</b>	<b>\$3,739,565</b>	<b>11,441</b>	<b>\$289,449</b>	<b>593</b>	<b>\$11,213,642</b>	<b>76,838</b>
<b>Changes to Base:</b>										
<b>Maintaining Current Levels (MCLs)</b>	<b>\$46,342</b>	<b>-</b>	<b>\$96,845</b>	<b>-</b>	<b>\$75,423</b>	<b>-</b>	<b>\$1,425</b>	<b>-</b>	<b>\$220,035</b>	<b>-</b>
Pay Raise	31,005	-	65,828	-	24,573	-	1,043	-	122,449	-
Pay Annualization	11,363	-	24,126	-	9,006	-	382	-	44,877	-
Non-Pay Inflation Adjustment	3,974	-	6,891	-	41,844	-	-	-	52,709	-
<b>Resource Adjustments</b>	<b>\$122,378</b>	<b>-</b>	<b>(\$149,936)</b>	<b>-</b>	<b>\$27,558</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Base Realignment for Support Services	90,000	-	(145,000)	-	55,000	-	-	-	-	-
Adjustments for Administrative Provision Section 113	32,378	-	(4,936)	-	(27,442)	-	-	-	-	-
<b>Subtotal Changes to Base</b>	<b>\$168,720</b>	<b>-</b>	<b>(\$53,091)</b>	<b>-</b>	<b>\$102,981</b>	<b>-</b>	<b>\$1,425</b>	<b>-</b>	<b>\$220,035</b>	<b>-</b>
<b>Total FY 2018 Base</b>	<b>\$2,497,660</b>	<b>28,455</b>	<b>\$4,802,597</b>	<b>36,349</b>	<b>\$3,842,546</b>	<b>11,441</b>	<b>\$290,874</b>	<b>593</b>	<b>\$11,433,677</b>	<b>76,838</b>
<b>Program Changes:</b>										
<b>Program Increase:</b>										
Realignment to Support Aging IT Infrastructure	-	-	-	-	179,449	266	-	-	179,449	266
<b>Program Decreases:</b>										
Actions to Achieve Workforce Management Goals	(285,349)	(4,063)	(96,097)	(1,300)	(75,806)	(342)	(1,425)	(9)	(458,677)	(5,714)
Realignment to Support Aging IT Infrastructure	-	-	-	-	-	-	(179,449)	(355)	(179,449)	(355)
<b>Subtotal Program Changes</b>	<b>(\$285,349)</b>	<b>(4,063)</b>	<b>(\$96,097)</b>	<b>(1,300)</b>	<b>\$103,643</b>	<b>(76)</b>	<b>(\$180,874)</b>	<b>(364)</b>	<b>(\$458,677)</b>	<b>(5,803)</b>
<b>Total FY 2018 Request</b>	<b>\$2,212,311</b>	<b>24,392</b>	<b>\$4,706,500</b>	<b>35,049</b>	<b>\$3,946,189</b>	<b>11,365</b>	<b>\$110,000</b>	<b>229</b>	<b>\$10,975,000</b>	<b>71,035</b>
Dollar/FTE Change FY 2018 Request over FY 2017 Annualized CR	(\$116,629)	(4,063)	(\$149,188)	(1,300)	\$206,624	(76)	(\$179,449)	(364)	(\$238,642)	(5,803)
Percent Change FY 2018 Request over FY 2017 Annualized CR	-5.01%	-14.28%	-3.07%	-3.58%	5.53%	-0.66%	-62.00%	-61.38%	-2.13%	-7.55%