



INTERNAL REVENUE SERVICE FY 2013 BUDGET REQUEST

CONGRESSIONAL BUDGET



SUBMISSION

February 13, 2012

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Internal Revenue Service

Section 1 – Purpose

1A - Mission Statement

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

1.1 – Appropriation Detail Table by Appropriation

Dollars in Thousands

Internal Revenue Service							% Change	
Resources Available for Obligation	FY 2011 Enacted ¹		FY 2012 Enacted		FY 2013 Request		FY 2012 to FY 2013	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:								
Taxpayer Services	31,239	\$2,293,272	30,535	\$2,239,703	30,570	\$2,253,133	0.11%	0.60%
Enforcement	50,449	5,492,992	47,586	5,299,367	51,583	5,701,670	8.40%	7.59%
Operations Support	12,505	4,056,716	11,985	3,947,416	12,609	4,476,200	5.21%	13.40%
Business Systems Modernization	333	263,369	605	330,210	495	330,210	-18.18%	
Health Insurance Tax Credit Administration ²	15	15,481						
Subtotal New Appropriated Resources	94,541	\$12,121,830	90,711	\$11,816,696	95,257	\$12,761,213	5.01%	7.99%
Other Resources:								
Recoveries		5,789						
Offsetting Collections - Reimbursable ³	782	141,078	743	135,218	743	135,218		
Available multi-year/no-year funds		184,629		212,544		238,708		12.31%
50% Carryover		37,461						
Transfers In/Out		12						
Mandatory Appropriations - User Fees ³	221	285,805	196	210,860	196	218,450		3.60%
Subtotal Other Resources	1,003	\$654,774	939	\$558,622	939	\$592,376		6.04%
Total Resources Available for Obligation	95,544	\$12,776,604	91,650	\$12,375,318	96,196	\$13,353,589	4.96%	7.91%
Other FTE:								
Other Direct FTE ⁴	582		863		7			
Total FTE	96,126		92,513		96,203			

¹ FY 2011 Enacted represents the approved FY 2011 Operating Plan and interappropriation transfer.

² In FY 2012, administrative resources for the health coverage tax credit program were moved to the Taxpayer Services appropriation under the Consolidated Appropriations Act, 2012 (Public Law 112-74).

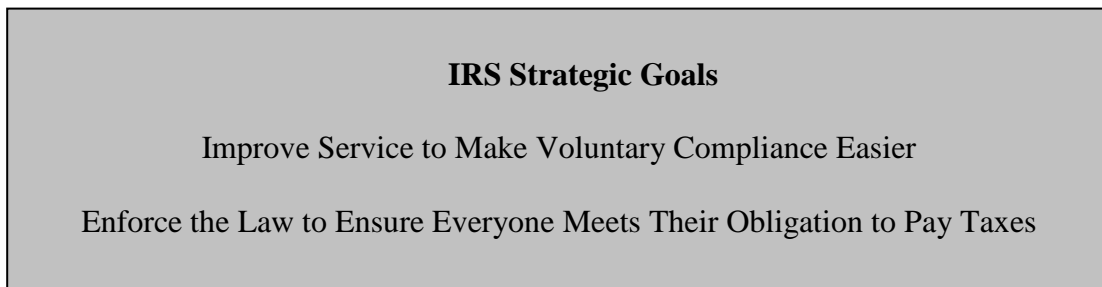
³ FY 2011 user fee and reimbursable dollars and FTE represent actual realized and FY 2012 and FY 2013 represent user fee and reimbursable spend plans.

⁴ The FY 2011 and FY 2012 columns include Other Direct FTE funded from the Department of Health and Human Services (575 FTE in FY 2011 and 856 FTE for FY 2012) and the Federal Highway Administration (7 FTE in FY 2011 and 7 FTE projected for FY 2012 and FY 2013).

1B – Vision, Priorities and Context

The IRS Strategic Plan 2009-2013 guides program and budget decisions and supports the Department of the Treasury Strategic Plan and Priority Goals including Increase Voluntary Tax Compliance. The IRS Strategic Plan recognizes the increasing complexity of tax laws, changing business models, expanding use of electronic data and related security risks, accelerating growth in international tax activities, and growing human capital challenges.

The IRS Strategic Plan goals and objectives are:



To improve service and make voluntary compliance easier, the IRS must:

- Incorporate taxpayer perspectives to improve all service interactions;
- Expedite and improve issue resolution across all interactions with taxpayers, making it easier to navigate the IRS;
- Provide taxpayers with targeted, timely guidance and outreach; and
- Strengthen partnerships with tax practitioners, tax preparers, and other third parties to ensure effective tax administration.

To enforce the law to ensure everyone meets their obligation to pay taxes, the IRS must:

- Enforce the law proactively in a timely manner while respecting taxpayer rights and minimizing taxpayer burden;
- Expand enforcement approaches and tools;
- Meet the challenges of international tax administration;
- Allocate compliance resources using a data-driven approach to target existing and emerging high-risk areas;
- Continue focused oversight of the tax-exempt sector; and
- Ensure that all tax practitioners, tax preparers, and other third parties in the tax system adhere to professional standards and follow the law.

To achieve the service and enforcement goals, the IRS must:

- Make the IRS the best place to work in government;
- Build and deploy advanced information technology systems, processes, and tools to improve IRS efficiency and productivity;
- Use data and research across the organization to make informed decisions and to allocate resources; and
- Ensure the privacy and security of data and the safety and security of employees.

Treasury Strategic and Priority Goals

The IRS budget request includes resources to achieve the following Treasury Strategic Goals and Priority Goals.

Strategic Goal: Pursue Comprehensive Tax and Fiscal Reform

Priority Goal: Increase Voluntary Tax Compliance

- Make progress against the tax gap through improved service and enhanced enforcement of the tax laws:
 - Achieve 4.3 million document matching closures in FY 2013. Where the IRS information does not match taxpayer-reported information, the IRS will contact the taxpayer to resolve the discrepancy. A document matching closure occurs when the discrepancy is resolved; and
 - In FY 2013, process 80 percent of returns for which individual taxpayers are due a refund in the new Customer Account Data Engine (CADE 2), which will provide faster refunds for millions of individual taxpayers.
- Assist Americans in voluntarily meeting their tax obligations:
 - Achieve individual income tax filers' American Customer Satisfaction Index score of 72 percent in FY 2013; and
 - Deliver a telephone Level of Service (LOS) of 63 percent in FY 2013. LOS is a measure of services provided to taxpayers who call the IRS for live customer service representative assistance.

Strategic Goal: Manage the Government's Finances in a Fiscally Responsible Manner

Priority Goal: Expand the Use of Electronic Transactions

- Achieve individual e-File rate of 80 percent in FY 2013.

FY 2013 Priorities

The IRS collects the revenue that funds the government and administers the nation's tax laws. In FY 2011, the IRS collected \$2.415 trillion in taxes (gross receipts before tax refunds), 92 percent of federal government receipts. To protect the flow of revenue to the government, the IRS delivers a robust and balanced service and enforcement agenda. The service agenda supports and protects the trillions of dollars in revenue that come into the Treasury each year voluntarily from taxpayers. The enforcement agenda vigorously pursues those who evade their responsibility to pay the taxes they owe. The IRS collected \$55.2 billion in revenue in FY 2011.

In the FY 2013 request, the IRS seeks additional funding for:

- **Enforcement** to restore revenue lost from FY 2012 reductions to examination audit and collection programs; implement enacted legislation; increase compliance by addressing offshore tax evasion; make use of new information reporting to reduce the underreporting tax gap; improve treatment of complex financial situations including transfer pricing and uncertain tax positions; protect revenue by identifying fraud and preventing issuance of questionable refunds including tax related identity theft; and strengthen return preparer compliance.
- **Infrastructure** to develop the information technology and operational infrastructure to deliver new tax credits and individual coverage requirement; and
- **Business Systems Modernization** to continue to migrate applications to and progress toward Transition State 2 for CADE 2 and invest in state-of-the-art capabilities such as on-line services.

FY 2013 Budget Request

The IRS FY 2013 President's Budget request is \$12,761.2 million, \$944.5 million, 7.99 percent, more than the FY 2012 enacted budget of \$11,816.7 million, and \$639.4 million, 5.27 percent more than the FY 2011 enacted budget of \$12,121.8 million.

The \$944.5 million increase consists of:

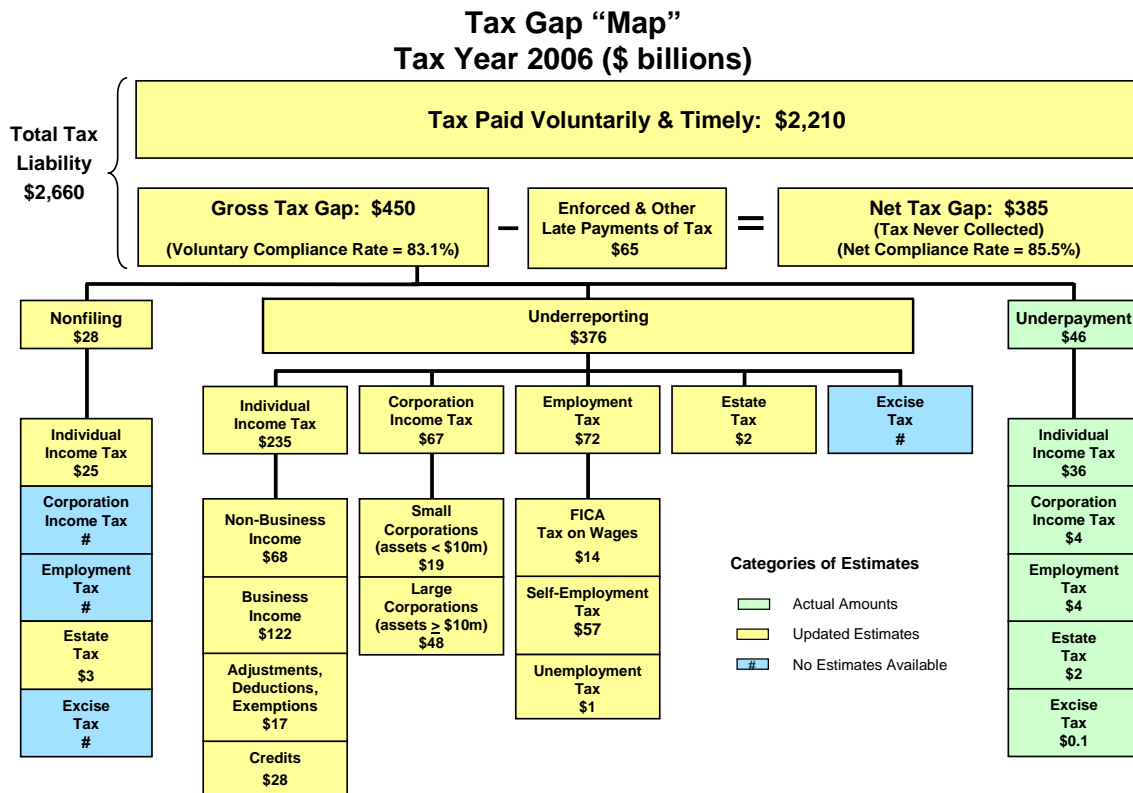
- +\$37.5 million net increase to the base:
 - +\$108.4 million to fund pay raise, inflation, and the increase in Federal Employees Retirement System participation; and
 - -\$70.9 million for efficiency savings.
- +\$907.0 million for program changes:
 - +200.5 million to restore FY 2012 reductions to enforcement programs;
 - +431.4 million to implement new legislative mandates, address offshore tax evasion, make use of new information reporting, improve treatment of complex financial situations, protect revenue and strengthen return preparer compliance; and
 - +275.1 million to implement information technology and operational infrastructure to deliver new tax credits and individual coverage requirement.

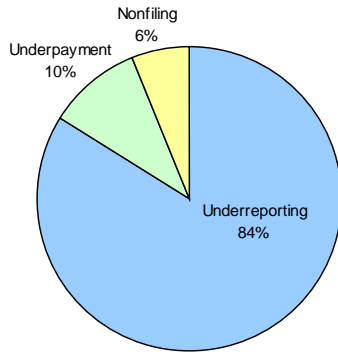
Reducing the Tax Gap

Investments in IRS enforcement programs have yielded significant increases in enforcement revenue. Enforcement revenue was \$55.2 billion in FY 2011 for a total IRS-wide return on investment (ROI) of \$4.6-to-\$1. The ROI estimate does not include the revenue effect of the deterrence value of these investments and other IRS enforcement programs, which is conservatively estimated to be at least three times the direct revenue impact.

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

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





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

Taxpayer Service and Enforcement Programs Complement Each Other

The IRS serves individuals, businesses, non-profit organizations, and processed more than 237 million tax returns in 2011. The system of voluntary tax compliance requires the IRS to excel in taxpayer service for those who are trying to meet their obligations under the law and provide a robust enforcement program for those who shirk their responsibilities to their fellow citizens. Most taxpayers comply with the law by filing returns and paying their taxes on time, but some do not comply because they do not understand their obligations under the complex tax laws. Noncompliance can stem from a wide range of causes, including lack of knowledge.

Helping taxpayers understand their obligations under the tax law is critical to improving compliance and addressing the tax gap. Therefore, the IRS remains committed to a balanced program of assisting taxpayers to understand the tax law and remit the proper amount of tax and compliance actions. The IRS remains committed to improving voluntary compliance and reducing the tax gap through both taxpayer service and enforcement programs.

Taxpayer Service

Assisting taxpayers with their tax questions before they file their returns prevents inadvertent noncompliance and reduces burdensome post-filing notices and other correspondence from the IRS. Accordingly, the IRS provides year-round assistance to millions of taxpayers through many sources, including outreach and education programs, issuance of tax forms and publications, rulings and regulations, toll-free call centers, IRS.gov, Taxpayer Assistance Centers (TAC), Volunteer Income Tax Assistance (VITA) sites, and Tax Counseling for the Elderly (TCE) sites.

The IRS delivered another successful filing season in 2011, rising to challenges posed by tax legislation enacted in late December 2010. The IRS took the necessary steps to minimize disruptions for taxpayers and ensure a smooth filing season. The IRS achieved a 70.1 percent telephone level of service (LOS). This reflects the success rate of taxpayers who call the IRS for live telephone assistance on the 1-800 help lines. IRS telephone assistants answered

34.2 million calls while at the same time the IRS answered 42.3 million automated calls, 20.5 percent more than in 2010, reflecting the growing taxpayer demand for self-service options.

Results of the 2011 filing season also include:

- Processed more than 144.7 million individual returns and issued more than 109.3 million refunds totaling \$345 billion compared to 109.5 million refunds totaling \$366 billion for the same period in 2010;
- Responded accurately to 93.4 percent of tax law questions and 96 percent of account questions;
- Processed more than 2.7 million free file returns; and
- Direct-deposited more than 79 million refunds compared to 74.6 million in 2010, almost 6 percent more than 2010.

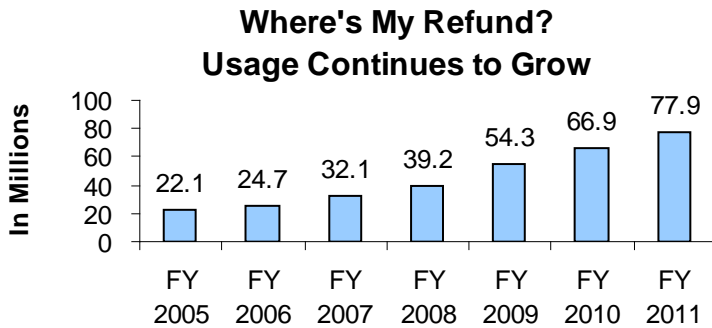
In FY 2011, the IRS processed more than 111 million individual tax returns electronically, setting a new record. Filing season results targeting electronic filing included:

- Individual returns electronically filed increased to 76.9 percent, up 7.6 percentage points from 2010;
- Business returns filed electronically at a rate of 31.8 percent, up from 25.5 percent in 2010;
- Home-computer filing increased to 39.6 million returns, 13.9 percent more than 2010;
- Tax professional use of e-file increased 15 percent from the previous year, reaching 71.7 million returns; and
- Registrations to purchase U.S. Savings Bonds through direct deposit reached 45,499, almost twice as many as FY 2010. Taxpayers, taking advantage of this opportunity, requested 136,326 bonds totaling approximately \$11.2 million.

During FY 2011, the IRS updated forms to help taxpayers comply with filing requirements, converted forms for visually-impaired taxpayers, translated more tax products into multiple languages, and reduced telephone wait time.

The IRS continued to increase the amount of tax information and services available to taxpayers through IRS.gov, providing alternative service options. In FY 2011, the IRS received a Compuware Gomez “Best of the Web” award, which recognized IRS.gov as one of the best websites in government for performance and quality and first in consistency. In FY 2011, IRS.gov web pages were viewed more than 1.6 billion times as taxpayers used the website to:

- Get forms and publications. More than 229 million tax products were downloaded, an increase of 7.5 percent from 2010;
- Link to EFTPS. The Electronic Federal Tax Payment System (EFTPS) processed more than 129.8 million electronic tax payments totaling over \$2 trillion; and
- Get answers. More than 241,962 taxpayers accessed the Interactive Tax Assistant in order to receive answers to tax law questions.



As shown in the chart,

77.9 million taxpayers used “Where’s My Refund?” to check on refunds in FY 2011, an increase of 253 percent from FY 2005.

The IRS is increasing communications with taxpayers who may not get their information from traditional sources, such as newspapers and broadcast and cable news. By employing social and new media, such as YouTube, Twitter, and iTunes, the IRS can reach these taxpayers and provide important service and compliance messages. In January 2011, the IRS also unveiled IRS2Go, its first smartphone application that lets taxpayers check on the status of their tax refund and obtain helpful tax information. During the 2011 filing season, IRS2Go averaged 4 out of 5 stars in hundreds of reviews and had more than 360,000 downloads. This new application reflects the IRS commitment to modernizing the agency and engaging taxpayers where and when they want.

The IRS continues to improve and expand on its outreach and educational services through partnerships with state taxing authorities, volunteer groups, and other organizations. Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites provided free tax assistance for the elderly, disabled, and limited English proficient individuals and families. In FY 2011, more than \$18 million VITA and TCE Grants were awarded to 210 organizations, a 23 percent increase in the number of organizations from FY 2010. Assistors at more than 9,000 VITA and TCE Grant sites across the nation prepared more than one million tax returns.

The IRS conducted “Open House” events, both during and after the filing season. At these events, taxpayers could get help preparing current and prior year federal and state tax returns, resolving account and balance due issues, and making Installment Agreement arrangements. Taxpayers took advantage of:

- Two open house days held during the filing season at 96 Taxpayer Assistance Center (TAC) locations. More than 16,300 taxpayers were helped and more than 4,300 returns were prepared; and
- One open house day was held after the filing season at 74 TAC locations with more than 4,000 taxpayers participating.

Through September 30, 2011, 104 redesigned and new notices were in production, representing 72 percent of the more than 220 million notices sent each year. The February release included collection notices (CP50X series) with new language to help taxpayers better

understand the collection process. The revised notices also use plain language about available payment options.

Each notice provides a web link to information about the notice, including why the taxpayer received the notice, answers to common questions, and tips to help taxpayers meet their tax obligations in future years. For high-volume notices, the IRS also included web links to translate the notice into five of the most common foreign languages (Spanish, Chinese, Korean, Vietnamese, and Russian).

Enforcement

Vigorous enforcement efforts encourage voluntary compliance for those taxpayers who seek to avoid meeting their tax obligations under the law, further increasing revenue. Increased resources for IRS compliance programs yield direct, measurable results through high return on investment activities. As shown in the table below, the new enforcement initiatives funded through a program integrity cap adjustment will generate more than \$1.48 billion in additional annual enforcement revenue once the new hires reach full potential in FY 2015. These resources will achieve a return on investment (ROI) of \$4.3-to-\$1 but does not include the revenue effect of the deterrence value of these investments and other IRS enforcement programs, which is conservatively estimated to be at least three times the direct revenue impact.

Return on Investment for FY 2013 Enforcement Initiatives

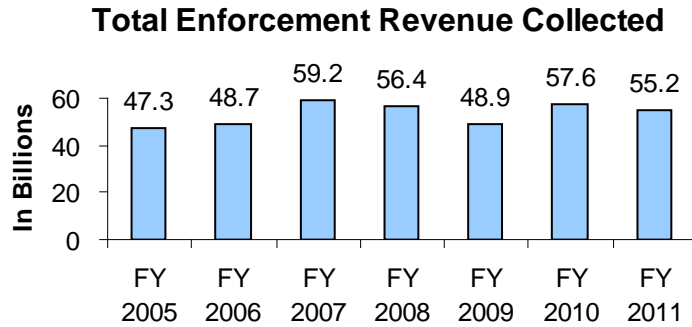
Dollars in Millions						
FY 2013 Enforcement Investment	First Year (FY 2013)			Full Performance (FY 2015)		
	Cost	Revenue	ROI	Cost	Revenue	ROI
All Enforcement Initiatives	\$631.9	\$1,214.1	1.9	\$540.5	\$2,628.6	4.9
Restoration of FY 2012 Reductions to Enforcement Programs	\$200.5	\$540.7	2.7	\$168.2	\$1,148.6	6.8
Restore Audit Coverage to Address Individual Tax Compliance Issues	127.2	320.1	2.5	104.3	661.7	6.3
Restore Collection Coverage	73.3	220.6	3.0	63.9	486.9	7.6
Immediate and Directly Measurable Revenue-Producing Initiatives¹	\$402.6	\$673.4	1.7	\$346.0	\$1,480.0	4.3
Promote Offshore Compliance	110.7	264.9	2.4	90.9	583.8	6.4
Improve International Compliance	38.9	130.3	3.3	30.0	263.5	8.8
Implement Tax Legislative Changes	128.9	177.3	1.4	120.4	424.0	3.5
Implement Revenue Protection Strategy	88.9	73.7	0.8	78.2	146.5	1.9
Build Out Tax Return Preparer Program	35.2	27.2	0.8	26.5	62.2	2.3
Strategic Revenue-Producing Initiatives (which do not have immediately measurable ROI, but clear long-term revenue effects)	\$28.8	\$0.0	0.0	\$26.3	\$0.0	0.0
Address Appeals Workload	20.3	0.0	0.0	18.2	0.0	0.0
Implement Uncertain Tax Position Reporting Requirements	4.0	0.0	0.0	3.7	0.0	0.0
Leverage Digital Evidence for Criminal Investigation (CI)	4.5	0.0	0.0	4.4	0.0	0.0

¹The immediate and directly measurable revenue-producing initiatives include \$345.1 million in costs needed to generate direct revenue. Also included are \$42.1 million in IT support projects and \$15.4 million for taxpayer service that directly support the compliance programs but do not independently result in increased revenue.

Enforcement of the tax law is an integral part of the IRS effort to enhance voluntary compliance. IRS programs like examination and collection ensure that taxpayers pay what

they owe and assist those individuals who may have trouble meeting their tax liability because of hardship situations.

In FY 2011, collections related to all enforcement activities totaled \$55.2 billion.



The IRS has shown progress in several key enforcement programs compared to FY 2010, including increases in:

- High income audits, 14.5 percent;
- Automated Underreporter contact closures, 8.5 percent;
- Collection case closures, 6.7 percent;
- Tax Exempt/Government Entities compliance contacts, 21 percent;
- Small business corporate audits (assets less than \$10 million), 8.6 percent; and
- Large corporate audits, 3.4 percent.

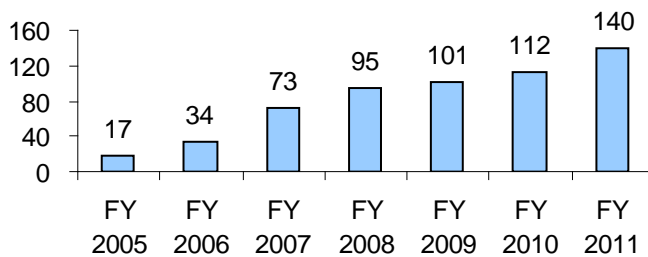
The IRS made significant strides addressing international tax evasion. In 2009 and continuing in 2011, the IRS implemented a voluntary disclosure program (VDP) to encourage taxpayers with hidden offshore assets and income to come back into the tax system voluntarily. These two programs have resulted in 33,000 disclosures and more than \$4.4 billion in revenue through mid-December 2011, and have generated so much interest that the Offshore VDP was reopened in January 2012. While collecting additional revenue for past offenses is an important consideration, more importantly, the success of the VDP is in bringing thousands of U.S. taxpayers back into the system so they properly report and pay taxes on their offshore accounts for years to come.

The IRS criminal investigation program investigates potential criminal violations of the Internal Revenue Code, and related financial crimes such as money laundering, currency violations, tax-related identity theft fraud and terrorist financing that adversely affect tax administration. Using its unique statutory jurisdiction and financial expertise, the IRS makes significant contributions to important national law enforcement priorities. Performance in the criminal investigation program remained high in FY 2011. As compared with FY 2010, the IRS:

- Completed 4,697 criminal investigations, an increase of 8.6 percent;
- Achieved a conviction rate of 92.7 percent, an increase of 2.5 percentage points; and
- Obtained 2,350 convictions, exceeding the FY 2011 target.

One of the most important initiatives that the IRS has undertaken in recent years is the Return Preparer Initiative, the foundation of which is mandatory registration for all paid tax return preparers to obtain a Preparer Tax Identification Number (PTIN). In September 2010, the IRS launched the new online PTIN application system. By the end of September 2011, more than 735,000 preparers had registered. The PTIN registration process gives the IRS an important and improved view of the return preparer community from which IRS can leverage information to improve communications, analyze trends, spot anomalies and detect potential fraud. In addition, the IRS is in the final stages of developing requirements to establish mandatory competency testing for preparers to ensure that taxpayers are hiring preparers who are educated in the tax law.

CAP Participation



In FY 2011, the IRS made its six-year-old Compliance Assurance Process (CAP) pilot program permanent. CAP allows large corporate taxpayers to resolve tax issues prior to filing a tax return. Since the IRS started CAP, the number of participating corporations has grown each year to the current 140 participants. Participating corporations cite their primary interest in CAP as the opportunity to achieve tax certainty sooner.

In FY 2011, the IRS took steps to assist individual taxpayers who may be facing financial hardship in the struggling economy by implementing a Fresh Start initiative. Fresh Start helps taxpayers who owe money by providing greater access to installment agreements and easing regulations on lien filing. The changes included:

- Increasing the dollar threshold at which liens are generally filed;
- Making it easier for taxpayers to obtain lien releases after paying a tax bill;
- Withdrawing liens in most cases where a taxpayer enters into a Direct Debit Installment Agreement;
- Creating easier access to Installment Agreements for struggling small businesses; and
- Expanding a streamlined Offer in Compromise program to cover more taxpayers.

Business System Modernization

IRS modernization efforts focus on building and deploying advanced information technology systems, processes, and tools to improve efficiency and productivity. In 2012, the IRS delivered the most significant update to its core tax processing system in decades. Since the 1960s, the IRS has operated on a weekly batch cycle, which starting in 2012, transitioned to a

daily processing cycle. Also, for the first time, IRS processing systems are accepting all 1040 forms electronically through a modernized e-filing capability, and will feed into a single consolidated taxpayer account database, which will allow the next generation of taxpayer service and enforcement functions. The 2012 delivery follows up on a number of important accomplishments in FY 2011:

- Customer Account Data Engine 2 (CADE 2) logical and physical designs were completed on time in December 2010 and April 2011, respectively. The IRS successfully deployed CADE 2 daily processing in January 2012, and is in the process of moving to a single authoritative database for all individual taxpayer records, moving the IRS away from its legacy, flat-file data storage model in the 2012 filing season.
- Modernized e-File (MeF) Release 6.2 increased performance for both individual and business returns to account for the anticipated increase in volume of returns in 2012. It also enhanced the disaster recovery capabilities that were delivered in a previous version. MeF accepted more than 18.5 million returns in 2011, a 262 percent increase compared to the same period in 2010. The majority of growth was because of an increase in Form 1040 tax returns submitted. With the changes implemented for the 2012 filing season, the IRS is anticipating a substantial increase in the use of the MeF platform for 2012.
- Current Customer Account Data Engine (CADE) Release 6.2 successfully deployed in January 2011, with technical improvements to the infrastructure and availability of the system. CADE also facilitated a mid-season restart in February to implement Extender legislative changes affecting individual taxpayers. CADE posted more than 40 million tax returns and issued more than 35.1 million refunds totaling in excess of \$65.6 billion. CADE also posted 4.4 million payments submitted with taxpayer returns.

Section 2 – Budget Adjustments – Internal Revenue Service

The IRS President’s Budget request for FY 2013 is \$12,761,213,000 in direct appropriations and 95,257 FTE. This is an increase of \$944,517,000 or 7.99 percent and 4,546 FTE more than the FY 2012 enacted budget of \$11,816,696,000 and 90,711 FTE, and \$639,383,000 or 5.27 percent and 716 FTE more than the FY 2011 enacted budget of \$12,121,830,000 and 94,541 FTE. The goal owner for IRS appropriations and associated budget activities is the Commissioner of Internal Revenue.

1.1 – Appropriation Detail Table by Appropriation and Budget Activity

Dollars in Thousands

Internal Revenue Service								% Change	
Resources Available for Obligation	FY 2011 Enacted ¹		FY 2012 Enacted		FY 2013 Request		FY 2012 to FY 2013		
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	
New Appropriated Resources:									
Taxpayer Services	31,239	\$2,293,272	30,535	\$2,239,703	30,570	\$2,253,133	0.11%	0.60%	
Pre-Filing Taxpayer Assistance and Education	6,404	678,204	5,862	632,414	5,716	625,931	-2.49%	-1.03%	
Filing and Account Services	24,835	1,615,068	24,673	1,607,289	24,854	1,627,202	0.73%	1.24%	
Enforcement	50,449	5,492,992	47,586	5,299,367	51,583	5,701,670	8.40%	7.59%	
Investigations	4,284	644,479	4,254	636,067	4,725	688,296	11.07%	8.21%	
Exam and Collections	44,911	4,689,220	42,133	4,510,245	45,556	4,846,749	8.12%	7.46%	
Regulatory	1,254	159,293	1,199	153,055	1,302	166,625	8.59%	8.87%	
Operations Support	12,505	4,056,716	11,985	3,947,416	12,609	4,476,200	5.21%	13.40%	
Infrastructure		926,190		940,765		987,730		4.99%	
Shared Services and Support	6,050	1,291,568	5,806	1,242,470	5,858	1,348,363	0.90%	8.52%	
Information Services	6,455	1,838,958	6,179	1,764,181	6,751	2,140,107	9.26%	21.31%	
Business Systems Modernization	333	263,369	605	330,210	495	330,210	-18.18%		
Health Insurance Tax Credit Administration ²	15	15,481							
Subtotal New Appropriated Resources	94,541	\$12,121,830	90,711	\$11,816,696	95,257	\$12,761,213	5.01%	7.99%	
Other Resources:									
Recoveries		5,789							
Offsetting Collections - Reimbursable ³	782	141,078	743	135,218	743	135,218			
Available multi-year/no-year funds		184,629		212,544		238,708		12.31%	
50% Carryover		37,461							
Transfers In/Out		12							
Mandatory Appropriations - User Fees ³	221	285,805	196	210,860	196	218,450		3.60%	
Subtotal Other Resources	1,003	\$654,774	939	\$558,622	939	\$592,376	0.00%	6.04%	
Total Resources Available for Obligation	95,544	\$12,776,604	91,650	\$12,375,318	96,196	\$13,353,589	4.96%	7.91%	
Other FTE:									
Other Direct FTE ⁴	582		863		7				
Total FTE	96,126		92,513		96,203				

¹ FY 2011 Enacted represents the approved FY 2011 Operating Plan and interappropriation transfer.

² In FY 2012, administrative resources for the health coverage tax credit program were moved to the Taxpayer Services appropriation under the Consolidated Appropriations Act, 2012 (Public Law 112-74).

³ FY 2011 user fee and reimbursable dollars and FTE represent actual realized and FY 2012 and FY 2013 represent user fee and reimbursable spend plans.

⁴ The FY 2011 and FY 2012 columns include Other Direct FTE funded from the Department of Health and Human Services (575 FTE in FY 2011 and 856 FTE for FY 2012) and the Federal Highway Administration (7 FTE in FY 2011 and 7 FTE projected for FY 2012 and FY 2013).

2.1 – Budget Adjustments Table

Dollars in Thousands

Internal Revenue Service

Internal Revenue Service	FTE	Amount
FY 2012 Enacted	90,711	\$11,816,696
Changes to Base		
Maintaining Current Levels (MCLs)		\$108,423
Other Adjustments	(110)	
Efficiencies/Savings	(614)	(\$70,850)
Increase e-File Savings	(177)	(8,566)
Reduce Travel		(2,578)
Targeted Program Reductions	(437)	(59,706)
Subtotal, FY 2013 Changes to Base	(724)	\$37,573
FY 2013 Current Services (Base)	89,987	\$11,854,269
Program Changes		
<i>Restoration of FY 2012 Reductions to Enforcement Programs</i>		
Restore Audit Coverage to Address Individual Tax Compliance Issues	912	127,172
Restore Collection Coverage	768	73,309
Subtotal, Restoration of FY 2012 Reductions to Enforcement Programs	1,680	\$200,481
Program Increases		
<i>Enforcement Initiatives</i>		
Promote Offshore Compliance	700	110,739
Improve International Compliance	223	38,884
Implement Tax Legislative Changes	857	128,866
Implement Revenue Protection Strategy	885	88,856
Build Out Tax Return Preparer Program	228	35,166
Address Appeals Workload	132	20,324
Implement Uncertain Tax Position Reporting Requirements	20	4,030
Leverage Digital Evidence for Criminal Investigation (CI)	8	4,504
Subtotal, Enforcement Initiatives	3,053	\$431,369
<i>Infrastructure Initiative</i>		
Implement Information Technology and Operational Infrastructure to Deliver New Tax Cre	537	266,894
Implement Information Technology Changes Needed for Individual Coverage		8,200
Subtotal, Infrastructure Initiative	537	\$275,094
Subtotal, FY 2013 Program Changes	5,270	\$906,944
Total, FY 2013 Budget Request	95,257	\$12,761,213

2A – Budget Increases and Decreases Description

Initiative Costing Methodology

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

Total Changes to Base

+\$37,573,000 / -724 FTE

Maintaining Current Levels (MCLs)

+\$108,423,000 / 0 FTE

Funds are requested for inflation adjustments (1.7 percent) in non-labor expenses such as GSA rent adjustments, postage, supplies and equipment and health benefits and the increase in Federal Employees Retirement System participation. Funds are also requested for the proposed 2013 pay raise (0.5 percent).

Other Adjustments

\$0 / -110 FTE

The technical FTE adjustment reduces the FY 2012 Business Systems Modernization (BSM) FTE level to reflect the labor required to support the BSM program in FY 2013. The FTE assigned to BSM in FY 2012 will be absorbed in the Operations Support appropriation to work on other IRS information technology projects.

Efficiencies and Savings

-\$70,850,000 / -614 FTE

Increase e-File Savings

-\$8,566,000 / -177 FTE

These savings are a result of increased electronic filing (e-File). The IRS projects taxpayers will file 635,000 fewer paper returns in FY 2013 (466,900 individual and 168,100 business) and instead choose to e-file. Savings are based on e-File projected growth, modernization, and the completion of the phased implementation of the Worker, Homeowner, and Business Assistance Act of 2009 (Public Law 111-92), that requires electronic filing by tax return preparers. As a result, the IRS would need 177 fewer FTE in submission processing, generating a savings of \$8,566,000.

Reduce Travel

-\$2,578,000 / 0 FTE

The IRS will reduce non-case related travel by making greater use of technology and increasing the use of alternative workspace, including hoteling.

Targeted Program Reductions

-\$59,706,000 / -437 FTE

The IRS will achieve reductions in the Taxpayer Service, Enforcement, and Business Systems Modernization (BSM) programs by increasing efficiency, reducing costs and streamlining operations. The IRS will:

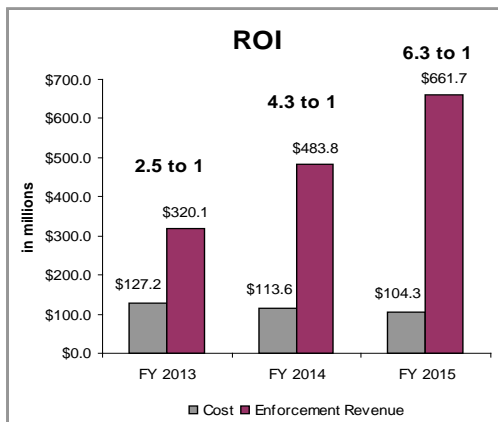
- Reduce staffing in enforcement overhead support and analysis functions to gain efficiencies through greater consolidation of activities such as communications, human resources, and research, both at the program and enterprise level.
- Transition the focus of stakeholder relationship programs. Following the establishment of IRS's customer facing divisions in FY 2001, the IRS made a substantial investment in initiating and building relationships with stakeholder and partner organizations. After many years of fruitful collaboration, these relationships have matured and the focus has shifted to managing and maintaining the effectiveness of existing relationships, reducing resource requirements for these programs.
- Expand use of less expensive service delivery models. The IRS provides service to taxpayers via a range of channels from the internet to telephones to face-to-face field assistance. The development and delivery of more online tools and other improved service channels, such as virtual tax assistance sites, will help the IRS cope with increasing service demands in a cost effective manner.
- Reduce supply and contractual service costs in information technology.

Restoration of FY 2012 Reductions to Enforcement Programs

+\$200,481,000 / +1,680 FTE

Restore Audit Coverage to Address Individual Tax Compliance Issues

+\$127,172,000 / +912 FTE



Position Type/Other Costs	FTE	\$000
Expand Correspondence Examinations of Refundable Credits	314	\$29,999
Revenue Agent	4	548
Tax Compliance Officer	33	3,961
Tax Examiner	225	19,792
Support Staff	52	5,698
Field Examination	305	\$35,582
Revenue Agent	192	23,389
Tax Compliance Officer	113	12,193
Global High Wealth (GHW)	240	\$34,325
Revenue Agent	168	28,274
Tax Examiner	32	2,694
Support Staff	40	3,357
IT Projects	24	\$23,362
2D Barcoding	6	8,618
Document Imaging	13	9,948
Examination Technology Enhancements	5	4,796
Other Direct Costs	29	\$3,904
Appeal Officer	13	1,922
Attorney	6	1,110
Paralegal	3	296
Customer Service Representative	3	163
Taxpayer Advocacy Specialist	3	326
Support Staff	1	87
Total	912	\$127,172

Funding to Restore Audit Coverage to Address Individual Tax Compliance Issues will ensure individual examination coverage does not decline and that critical non-compliance issues are effectively addressed. Apart from detecting non-compliance directly, maintaining examination coverage also promotes voluntary compliance both by increasing the likelihood that intentional non-compliance will be detected and reassuring compliant taxpayers of the fairness of the tax administration system. This initiative will restore resources to traditional field examination programs to ensure consistent audit coverage; address the compliance risks of complex business networks operated by high-wealth individuals; and expand IRS’s correspondence examination program to provide focused attention on refundable credits. Together, these investments will restore annual enforcement revenue of \$661.7 million, an ROI of \$6.3-to-\$1.

Major Activities	Projected Revenue \$M	Protected Revenue \$M	Individual Audits	Business Audits	Pre-Refund & Post Refund Closures
Expand Correspondence Examinations of Refundable Credits	130.9	130.9			79,500
Field Examination	141.4		16,587		
Global High Wealth	389.4		82	115	
Total	\$661.7	\$130.9	16,669	115	79,500

Expand Correspondence Examinations of Refundable Credits

(+\$30.0 million / +314 FTE)

This component will provide additional campus examination resources to conduct correspondence examinations of refundable credit issues. When certain tax credits exceed the total tax liability, the excess is refundable and the government incurs an outlay in the form of a refundable tax credit. To maximize the effectiveness of its refund compliance programs, the IRS has established a new Return Integrity function to develop a comprehensive and integrated compliance strategy to administer refundable credits, improve filters to identify questionable credits and rapidly address refund schemes.

Establishing an office dedicated to refundable credit work will allow the IRS to address non-compliance and fraud trends that emerge from existing and future refundable credits. Once the new hires reach full performance in 2015, the IRS will complete 39,750 more post-refund audits, generating annual enforcement revenue of \$130.9 million. The additional 39,750 pre-refund audits will protect an additional \$130.9 million in revenue.

The additional staffing will allow the IRS to maintain broad exam coverage by meeting the challenges of administering new credits without reducing coverage of existing returns. The IRS will work both individual and small business cases related to refundable credits.

The initiative funding:

- Expedites pre-refund credit review and processing;
- Reduces the time to notify taxpayers of their eligibility for the credit; and
- Increases the number of post-refund audits.

Field Examination (+\$35.6 million / +305 FTE)

Field Examination resources (192 revenue agents and 113 tax compliance officers) will preserve the balanced coverage approach of all taxpayer segments with a focus on effectively addressing the individual taxpayer portion of the tax gap. Revenue agents will continue to concentrate on the priority areas of underreporting compliance for individual taxpayers.

Once the new hires reach full performance in FY 2015, this investment will produce an additional 16,587 closures annually.

Global High Wealth (GHW) (+\$34.3 million / +240 FTE)

High-wealth individuals frequently operate complex enterprises consisting of multiple, interrelated businesses and flow-through entities that have international components. The complex interrelationships and ownership patterns within these enterprises often imitate those of large corporations and pose significant challenges to effective tax administration. Traditional methods of assessing high-wealth compliance risk, done largely on a return-by-return, year-by-year basis, may overlook aspects of complex enterprise structures frequently employed by high-wealth individuals. By adopting the GHW approach, the IRS will take a unified look at the entire web of business entities controlled by high-wealth

individuals to better assess the risks and identify alternative treatment and engagement options to encourage greater voluntary compliance.

These funds will allow the IRS to refine a risk assessment process for GHW enterprises and to conduct additional examinations of GHW individuals and related entities. They will further improve existing methods of capturing data to allow better and quicker identification of abusive transactions related to complex enterprise structures and address non-compliance stemming from multi-jurisdictional tax evasion schemes.

IT Projects (+\$23.4 million / +24 FTE)

- Two Dimensional (2D) Barcode project (+\$8.6 million / +6 FTE)

The 2D Barcode, Campus Bulk Remittance Processing and Modernized e-File enhancement projects, implemented in conjunction with increased data capture, will allow the IRS to:

- Provide the means to convert data from paper tax returns into electronic formats more efficiently;
- Scan barcodes on computer-generated tax returns for a faster and less labor-intensive process than current manual data entry, which will result in fewer transcription errors;
- Process paper payments electronically; and
- Allow the IRS to accept and store individual amended returns electronically.

- Implement Document Imaging (+\$10.0 million / +13 FTE)

Document Imaging (DI) will allow the IRS to share a common, modernized infrastructure for scanning, imaging, and managing documents. DI also will allow IRS employees to collaborate and resolve compliance cases more efficiently. It will establish a common document and imaging infrastructure that can simultaneously support many projects and improve customer support. Projects that will benefit from the common document imaging infrastructure include, but are not limited to:

- Content Management & Collaboration (CMC) – A Web-based tool used by audit teams to facilitate collaboration by integrating document management, forums, calendars, and other inter-personal communication and productivity tools;
- Taxpayer Advocate Service Integrated Systems (TASIS) – A Taxpayer Advocate case management system; and
- Correspondence Imaging Compliance (CIC) – An imaging solution that provides a central repository for imaged correspondence and stored images used by legacy compliance systems.

Further, this resource will improve the efficacy of search queries across applications, indices, and database servers by sharing server content. DI significantly reduces the time, complexity, and costs of current document management and imaging processes, and contributes to improved customer service.

- Examination Technology Enhancements (+\$4.8 million / +5 FTE)

The Partnership Control System (PCS) replacement system will increase productivity by supporting electronic processing, and the processing of larger Global High Wealth and High Income High Wealth cases by providing enhanced functionality to a wider range of users. Electronic processing has many advantages including:

- Improving staff efficiency by not having to physically transfer work between sites;
- Providing the capability to create and generate ad hoc reports allowing management to monitor inventory;
- Reducing the cost to maintain the new system; and
- Reducing printing costs by adding the capability of storing electronic copies of correspondence instead of generating paper copies.

Additionally, the IRS will invest in software tools to improve the efficiency of examinations and reduce the need for traditional paper records.

Other Direct Costs (+\$3.9 million / +29 FTE)

Dollars in Millions

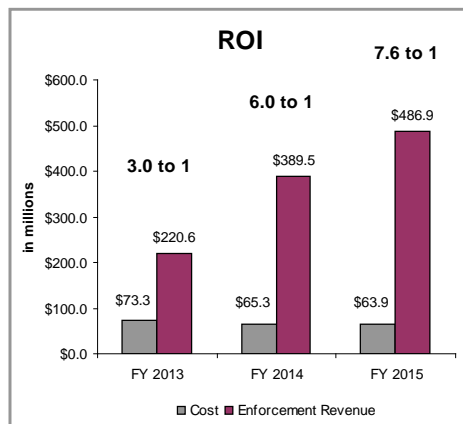
IRS Activity	Cost	FTE	Explanation
Appeals	\$1.9	13	Appeals case receipts will increase by new examination closures that will require adjudication in the appeals process.
Chief Counsel	\$1.5	10	Counsel will litigate cases, provide technical guidance, address the use of trusts and aggressive estate planning techniques, and resolve issues involving employment taxes to partners and employees of pass-through entities.
Taxpayer Advocate Service	\$0.3	3	Staffing will handle additional case receipts.
Wage & Investment	\$0.2	3	Support examination efforts by ensuring staffing is to handle downstream affect on collection, accounts management, and submission processing operations.
Total	\$3.9	29	

Restore Collection Coverage
 +\$73,309,000 / +768 FTE

Position Type/Other Costs	FTE	\$000
Automated Collection Systems Operations	257	\$20,329
Tax Examiner	29	2,259
Customer Service Representative	225	17,758
Support Staff	3	312
Compliance Services Collection Operations	150	\$14,766
Tax Examiner	128	12,800
Support Staff	22	1,966
Centralized Offers in Compromise	154	\$12,932
Tax Examiner	116	9,622
Support Staff	38	3,310
Account Management	180	\$15,122
Customer Service Representative	180	15,122
IT Projects		\$7,200
Compliance Data Warehouse		100
Eliminate SSN from Taxpayer Mailings		7,100
Other Direct Costs	27	\$2,959
Attorney	2	379
Revenue Officer	9	1,422
Customer Service Representative	13	853
Taxpayer Advocacy Specialist	2	218
Support Staff	1	87
Total	768	\$73,309

Funding to Restore Collection Coverage will ensure that the IRS has sufficient resources to work the collection inventory to bring taxpayers who fail to pay their tax debt into compliance. This initiative includes staffing for:

- Automated Collection Systems (ACS) program to address growing collection case inventories and incoming call volumes;
- Compliance Services Collection Operation (CSCO) program to address increased balance due correspondence and phone work in the Withholding Compliance (WHC) Program and to expand the resources dedicated to handling non-streamlined installment agreement calls;
- Offers in Compromise (OIC) program which helps taxpayers, experiencing economic hardship, resolve their tax liabilities; and



- Accounts Management (AM) to assist taxpayers in resolving enforcement-related notices.

This initiative will restore additional annual enforcement revenue of \$486.9 million, an ROI of \$7.6-to-\$1.

Major Activities	Projected Revenue \$M	TDA		Calls	
		Closures	TDI Closures	Answered	Closures
Compliance Service Collection Operation	419.7	120,670	19,587	422,500	21,664
Centralized Offers in Compromise	67.2				15,352
Total	\$486.9	120,670	19,587	422,500	37,016

Automated Collection Systems (ACS) Operations (+\$20.3 million / +257 FTE)

These funds will allow the IRS to address growing collection case inventories and call volumes by expanding the ACS program to address the underpayment and nonfiling portions of the tax gap, estimated at \$74 billion.

The ACS is a call site operation and is the most productive IRS program for revenue collection. Overall receipt of new delinquent accounts increased 19 percent from FY 2010 to FY 2011. These ACS resources will address the growing workload generated by increased balance due and delinquent return notices and the expansion of the international examination program. Additional resources also will allow ACS to address the increased volume of correspondence from taxpayers seeking alternative resolutions to their accounts, reducing processing delays that generate additional taxpayer calls and rework.

In FY 2015, this investment is projected to produce an additional 120,670 tax delinquent accounts (TDA) and 19,587 tax delinquent investigations (TDI).

Compliance Services Collection Operations (CSCO) (+\$14.8 million / +150 FTE)

These funds will allow the IRS to expand CSCO to address non-filing and underpayment of taxes in the notice process by addressing the increased balance due work and expanding the following programs:

- Withholding Compliance Program (WHC) – This automated program brings taxpayers with serious under-withholding problems into compliance by correcting their federal income tax withholding and prevents them from becoming delinquent on the payment of future taxes by issuing a letter requiring the employer to withhold a specific, appropriate amount from the taxpayer’s pay. During a three-year period, the number of filed balance due returns from taxpayers in the current WHC program decreased 65 percent and the refund or returns with a zero balance increased 189 percent. These resources will allow the IRS to add an additional 90,000 taxpayers to the WHC program.
- Non-Streamlined Installment Agreement (NSIA) Phones – By increasing the number of balance due calls answered by CSCO, particularly in the case of NSIA calls, the IRS will resolve taxpayer tax matters more efficiently. The NSIA phone line, worked by CSCO employees, replaces a paperwork handoff from Accounts Management to CSCO with a telephone process that grants taxpayer Currently-Not-Collectible and NSIA requests sooner. By eliminating the handoff and processing delays, time-sensitive collections can begin sooner. With these resources, by FY 2015, the IRS will answer an estimated 422,500 NSIA calls.

Centralized Offers in Compromise (OIC) (+\$12.9 million / +154 FTE)

The OIC program processes taxpayer requests to reduce or eliminate their tax liabilities because of extreme circumstances or hardship. In addition to changes made to the offer process in 2009, the IRS continues to focus on assistance to unemployed taxpayers; understanding their struggle to pay past and present liabilities and resulting in the continued increase of COIC requests. COIC receipts have increased 30 percent since FY 2008 while staffing has slightly decreased. As a result, the percentage of cases closed within six months has decreased from 92 percent in December 2008, to 62 percent in December 2011. Further enhancements to the offer program will encourage more unemployed taxpayers to file a COIC in an effort to settle their tax debts. These funds will allow the IRS to help taxpayers experiencing hardship resolve their tax liabilities.

Account Management (AM) (+\$15.1 million / +180 FTE)

These funds will allow the IRS to expand the AM staff needed to assist taxpayers in resolving enforcement-related issues faster and improve customer service.

In 2011, the IRS:

- Mailed more than 148 million notices to taxpayers;
- Established more than 1.2 million in installment agreements for \$5.4 billion in FY 2011;
- Answered questions on the taxpayer service phone line for 103 million enforcement-related notices;
- Adjusted almost 12.7 million post-filing tax accounts through assisted service including processing 4.2 million amended returns; and
- Answered 34.2 million phone calls, with individual “balance due” calls alone exceeding 4.6 million.

Most tax enforcement actions result in downstream AM activities, including account adjustments, assisted phone calls, amended returns, and installment agreement preparation. Insufficient staffing of these activities results in reduced revenue collected, increased interest paid, and delays for taxpayers attempting to resolve enforcement issues.

IT Projects (+\$7.2 million / 0 FTE)

- Compliance Data Warehouse (+\$0.1 million / 0 FTE)

These funds will allow the IRS to purchase hardware and storage capability to support the IRS Research, Analysis and Statistics compliance data warehouse. The purpose of the compliance data warehouse is to provide high-quality data and information services, primarily to the research community, in support of projects, analyses, and studies related to tax administration, enforcement, and customer service.

- Eliminate Social Security Number (SSN) from Taxpayer Mailings (+\$7.1 million / 0 FTE)

These funds will provide resources for the third phase of a multi-year effort to implement the social security number (SSN) Elimination and Reduction 2D Barcoding project (SSNER-2DB). The SSNER-2DB consists of the creation and application of a 2D barcode on outgoing individual taxpayer notices and the elimination and reduction of the SSN. Funding will provide resources for software, infrastructure, and other related support.

The SSNER-2DB project is being implemented in three phases. Phases I and II will reduce the display of social security numbers (SSNs) on notices. Phase III will reduce the display of SSNs on notices requesting a payment from the taxpayer, print barcodes on additional outgoing notices, and will create a system that reads 2D barcodes in the payment processing systems. In addition, the third phase will reduce the use of SSNs on 85 notice types, eliminating the use of SSNs on notices to 74.1 million taxpayers. Overall, this project will reduce the use of SSNs on 155 notice types, eliminating the use of SSNs on notices mailed to 106.6 million taxpayers.

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

Other Direct Costs (+\$3.0 million / + 27 FTE)

Dollars in Millions

IRS Activity	Cost	FTE	Explanation
Appeals	\$1.4	9	Appeals case receipts will increase because of new Collection closures that will require adjudication in the appeals process.
Chief Counsel	\$0.5	3	Counsel will provide legal advice to identify pockets of noncompliance and equitable resolutions.
Taxpayer Advocate Service	\$0.2	2	Staffing will handle additional case receipts.
Wage & Investment	\$0.9	13	Support collection efforts by ensuring staffing is available to handle the downstream increases in collection, accounts management and submission processing workload.
Total	\$3.0	27	

Program Increases

+\$906,944,000 / +5,270 FTE

Promote Offshore Compliance

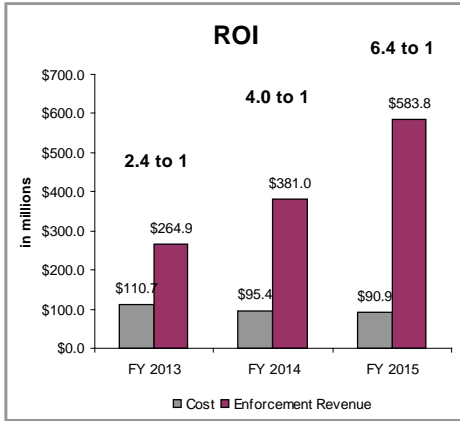
+\$110,739,000 / +700 FTE

Position Type/Other Costs	FTE	\$000
Withholding of Tax on Nonresident Aliens and Foreign Corporations, and Reporting Requirements of Foreign Financial Institutions	204	\$25,739
Revenue Agent	59	11,271
Tax Examiner	123	12,483
Tax Technician	7	697
Support Staff	15	1,288
Strengthen Offshore Enforcement Activities	387	\$51,145
Expand Coverage of Offshore Compliance Issues	165	\$21,023
Revenue Agent	88	14,438
General Attorney, Technical	2	404
Tax Examiner	10	856
Tax Technician	6	759
Support Staff	59	4,566
Expand Offshore Voluntary Disclosure Program	192	\$27,530
Revenue Agent	102	18,044
Tax Technician	48	5,596
Tax Examiner	20	1,990
Support Staff	22	1,900
Enhance Competent Authority	30	\$2,592
Support Staff	30	2,592
Criminal Investigation International Expansion	64	\$13,888
Special Agent	48	11,492
Support Staff	16	2,396
Development and Improvement of IT Systems and Specialized Tools		\$11,401
Equipment		9,782
Contractual Services		1,619
Other Direct Costs	45	\$8,566
Attorney	45	8,566
Total	700	\$110,739

Funding to Promote Offshore Compliance will

allow the IRS to strengthen enforcement activities to address offshore tax evasion; expand the IRS’s global presence and pursuit of international tax and financial crimes; and implement changes required by the enactment of Foreign Account Tax Compliance Act (FATCA) included in the Hiring Incentives to Restore Employment (HIRE) Act of 2010 (Public Law 111-147).

The IRS continues to address tax-avoidance schemes involving offshore activity. New reporting, disclosure and withholding requirements coupled with strengthened compliance efforts related to offshore activity will produce additional annual enforcement revenue of \$583.8 million once the new hires reach full potential in FY 2015, an ROI of \$6.4-to-\$1. (Note that for reasons that are specific to the measurement of direct IRS enforcement revenue, this figure represents a subset of the overall compliance effect of FATCA, estimated by the Joint Committee on Taxation (JCT) and included in the JCT report, *Estimated Revenue Effects of the Revenue Provisions Contained in H.R. 2847, The “Hiring Incentives to Restore Employment Act”* (JCX-6-10), March 4, 2010.)



Major Activities	Projected Revenue \$M	Individual Audits	Cases Completed	Business Audits	Specialty Program Audits
Withholding of Tax on Nonresident Aliens and Foreign Corporations, and Reporting Requirements of Foreign Financial Institutions	265.8	8,015		12	159
Strengthen Offshore Enforcement Activities	318.0	5,407		72	106
Criminal Investigation International Expansion			40		
Total	\$583.8	13,422	40	84	265

Withholding of Tax on Nonresident Aliens and Foreign Corporations, and Reporting Requirements of Foreign Financial Institutions (+\$25.7 million / +204 FTE)

FATCA seeks to improve offshore compliance by imposing new information reporting requirements on foreign financial institutions (FFIs) with respect to U.S. accounts, and new withholding, documentation, and reporting requirements with respect to payments made to certain foreign entities.

FATCA establishes a new set of requirements that seeks to improve offshore compliance by imposing a 30 percent withholding tax on U.S. source payments to foreign financial institutions unless the institution agrees to disclose information on U.S. account holders or certifies that it does not have any U.S. customers. All foreign financial institutions that report U.S. source income must enter into an agreement with the Treasury to report to the IRS all accounts of U.S. persons or the withholding tax penalty will apply. FFIs and non-financial foreign entities (NFFEs) that comply with the disclosure rules for U.S. persons are not subject to the 30 percent FATCA tax. Since foreign investment information is difficult to come by as investment flows may pass through chains of foreign intermediaries, the U.S. Qualified Intermediary program attempts to enforce compliance with U.S. source-based taxation laws.

This initiative will allow the IRS to address foreign withholding compliance and expand coverage of international tax return filings. FATCA creates new information reporting requirements and imposes tax withholding penalties on FFIs that do not disclose holdings by U.S. individuals or firms. To avoid the withholding requirements, the FFIs must enter into an agreement with the Department of the Treasury to identify all U.S. accounts held by it or its affiliates and report annually to the Treasury on each account. Further, the FFI must comply with requests by the Treasury for additional information regarding each U.S. account and must attempt to obtain from each holder of a U.S. account a waiver of any bank secrecy law that would otherwise prevent such a report. If a waiver is not obtained from each holder of a U.S. account, the account will be closed. This initiative funds enforcement of these reporting requirements.

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

Finally, these resources will help the IRS to address potential under-withholding of U.S. source income flowing to undisclosed jurisdictions and unknown recipients offshore. The initiative will involve a systematic analysis of the process surrounding the Form 1042-S to better target compliance and enforcement activities.

Collectively, these efforts will result in more than 8,186 additional audits and more than \$265 million in additional revenues annually.

Strengthen Offshore Enforcement Activities (+\$51.1 million / +387 FTE)

- Expand Coverage of Offshore Compliance Issues (+\$21.0 million / +165 FTE)

These resources will be used to expand coverage and address offshore tax compliance issues, including foreign investments of U.S. taxpayers and U.S.-source income of nonresident aliens. Together, once the new hires reach full potential in FY 2015 these efforts will generate more than 2,000 additional audits and result in \$83 million in additional annual enforcement revenue.

- Expand Offshore Voluntary Disclosure Program (+\$27.5 million / +192 FTE)

These resources will allow the IRS to expand its tools for identifying those assets hiding offshore through both voluntary disclosure and treaty programs. In 2009 and continuing in 2011, the IRS implemented a Voluntary Disclosure Program (VDP) to encourage taxpayers with hidden offshore assets and income to voluntarily come back into the tax system. These two programs have resulted in 33,000 disclosures and more than \$4.4 billion in revenue through mid-December 2011. The recent reopening of the voluntary disclosure program and treaty cases received through agreements with foreign banks will generate additional workload in this area. The additional resources will result in more than 3,000 additional audits and \$235 million in additional revenues annually.

- Enhance Competent Authority (+\$2.6 million / +30 FTE)

IRS's Competent Authority function will increase collaboration with U.S. treaty partners to broaden the international tax treaty base and resolve bilateral competent authority issues. Funding also allows the IRS to comply with recent recommendations from the Treasury Inspector General for Tax Administration (TIGTA) included in the report *Improvements Are Needed to Reduce Erroneous Foreign Earned Income Exclusion Claims* (Audit 2010-40-091); and the Government Accountability Office (GAO) included in the report *IRS May Be Able to Improve Compliance for Nonresident Aliens and Updating Requirements Could Reduce Their Compliance Burden* (GAO-10-429). These efforts will increase income tax collections from small international businesses and individuals by increasing voluntary compliance with U.S. tax laws through both traditional examination activity and targeting contacts with taxpayers through soft letters.

Criminal Investigation (CI) International Expansion (+\$13.9 million / +64 FTE)

These funds will provide resources to expand Criminal Investigation's (CI) pursuit of international tax and financial crimes to include support of:

- CI's international investigative case development efforts and development of foreign law enforcement partner relationships;
- The Department of Justice (DOJ) Law Enforcement Strategy to combat international organized crime; and
- The joint initiative by CI and Financial Crimes Enforcement Network (FinCEN) to identify and investigate U.S. citizens and residents that hold substantial funds in financial institutions located in foreign countries and fail to disclose this to the U.S. Government.

CI attaches respond to CI field office requests to facilitate cooperation with foreign law enforcement partners to acquire records located overseas, apprehend fugitives, and procure witnesses. The attaches also play an integral role in identifying significant compliance issues for CI to investigate. Increasing CI's ability to coordinate with foreign law enforcement partners will have a significant affect on voluntary compliance and deterrence of sophisticated tax evasion schemes and other financial crimes.

With this initiative, the IRS will expand its involvement in the DOJ Law Enforcement Strategy to Combat International Organized Crime (IOC) and the Global Illicit Finance Team (GIFT). GIFT works on and coordinates large financial investigations related to professional money launderers. The IOC-2 develops leads and provides support to case agents and the GIFT investigates those cases. The GIFT will look at violations around the world and not just in one single venue. This will allow the GIFT to investigate international money laundering schemes that affect multiple jurisdictions.

These funds will support the Suspicious Activity Report/Report of Foreign Bank and Financial Accounts (SAR-FBAR). International cross-border financial transactions are increasingly complex to trace and the IRS is taking steps to enhance its ability to address these challenges. The SAR-FBAR project is a joint initiative by the IRS and FinCEN that seeks to identify and investigate U.S. citizens and residents who hold substantial funds with financial institutions located in foreign countries and who fail to disclose such holdings to the IRS. This bilateral collaboration will facilitate a quicker exchange of Bank Secrecy Act (BSA) information so that both U.S. authorities and other participating foreign financial intelligence units can identify and investigate individuals that fail to disclose their financial interest, signature authority, or other authority over any foreign financial account with an aggregate value exceeding \$10,000.

Once the new hires reach full potential in FY 2015, this investment will complete 40 additional cases.

Development and Improvement of IT Systems and Specialized Tools
 (+\$11.4 million / 0 FTE)

These resources will fund the development and improvement of systems to carry out key areas of the FATCA legislation and for the development of specialized tools to detect abuses and trends in international taxpayer data and the linking of international data to tax return data. This includes system capabilities to:

- Allow secure Web-based interactivity to implement provisions that require the creation of formal working agreements between the IRS and Foreign Financial Institutions (FFI);
- Accept, store and retrieve FFI information, such as FFI agreements, annual account reporting, and certifications;
- Automate the interface between the data secured via the Web-based Portal and the IRS Master File (MF) stored data;
- Perform document matching on IRC sections 1471 (imposes a 30 percent tax on foreign financial institutions that do not meet certain reporting requirements) and 6038D (requires U.S. persons to report foreign investments) and Report of Foreign Bank and Financial Accounts (FBAR) account data;
- Generate reports on FATCA audit and registration certifications; and
- Provide public access to published FFI information.

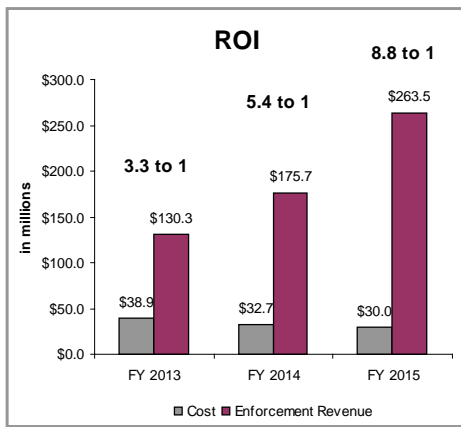
Automatic matching of payments to annual income tax return data is the most efficient and effective tool that the IRS uses to ensure compliance. The Form 1042-S will be used to determine whether tax is owed on U.S. source income flowing to an offshore locality by determining the identity of the recipients. The enhancement of systems to reconcile Forms 1042, and 1041-T with Forms 1042-S will provide significant progress toward achieving international compliance in an efficient manner.

Other Direct Costs (+\$8.6 million / +45 FTE)

Dollars in Millions

IRS Activity	Cost	FTE	Explanation
Chief Counsel	\$8.6	45	Support examinations of Forms 1042 and 1042S and assist audit teams in addressing complicated withholding issues.
Total	\$8.6	45	

Improve International Compliance
 +\$38,884,000 / +223 FTE



Position Type/Other Costs	FTE	\$000
Increase Coverage of International Issues, including Cross Border and Transfer Pricing Issues	194	\$33,358
Revenue Agent	160	28,304
Economist	24	4,050
General Attorney, Technical	2	312
Support Staff	8	692
Other Direct Costs	29	\$5,526
Attorney	29	5,526
Total	223	\$38,884

Funding

to Improve International Compliance strengthens international tax compliance for business entities by providing additional international technical specialists to increase coverage of complex international transactions, including cross-border business arrangements and transfer pricing (i.e., transactions between U.S. multinationals and their foreign subsidiaries, and foreign-controlled corporations doing business in the U.S. and transactions with their foreign parent). This request will address the significant growth in international activities in the global tax environment and produce additional annual enforcement revenue of \$263.5 million once the new hires reach full potential in FY 2015, an ROI of \$8.8-to-\$1.

Major Activities	Projected Revenue \$M	International Issues Examined
Address International Issues including Cross Border & Transfer Pricing	263.5	1,800
Total	\$263.5	1,800

Increase Coverage of International Issues, including Cross Border and Transfer Pricing Issues (+\$33.4 million / +194 FTE)

These resources will be used to expand coverage and address the full range of international business tax compliance issues, including cross-border and transfer pricing issues. Approximately 15 percent of the new staff would control and close additional Foreign Corporation (1120F) returns and the majority (85 percent) will generate enhanced revenue on existing cases by identifying and pursuing additional international issues not currently addressed. Together, once the new hires reach full potential in FY 2015, these efforts will allow the IRS to address an additional 1,800 international issues in large business examinations, resulting in more than \$263 million in additional annual enforcement revenue.

The IRS will increase issue specialization to address complex international transactions, including cross border business arrangements and transfer pricing. These resources combine the skills of international examiners, economists, and technical advisors to address the global

nature of tax administration. Increasingly, U.S. entities are engaging in cross-border transactions, developing complex multinational structures, and using the tax treaty network to lower their effective worldwide tax rate with both appropriate as well as abusive methods. International features on U.S. tax returns have now become the norm rather than an exception. Some of the key tax issues arising from businesses operating worldwide include:

- Transfer pricing;
- Foreign tax credit generators and splitters;
- Abusive transactions involving hybrid instruments;
- Foreign earnings repatriation;
- Valuation issues;
- Transfers of property (tangible and intangible);
- Potential tax shelters;
- Effectively Connected Income (ECI) and Permanent Establishment;
- Withholding on Foreign Payments;
- Subpart F related issues; and
- IRC 367 Foreign Restructuring.

The IRS will strengthen international tax compliance for businesses entities by identifying emerging international compliance issues more quickly; increasing international specialization and improving international coordination; increasing the examination coverage of small foreign corporations and pass-through entities; and addressing reporting and withholding issues to identify U.S.-source income flowing to foreign recipients.

Other Direct Costs (+\$5.5 million / +29 FTE)

Dollars in Millions

IRS Activity	Cost	FTE	Explanation
Chief Counsel	\$5.5	29	Provide legal advice and assistance in addressing significant issues arising from the increased coverage of complex enterprises and high-risk taxpayers.
Total	\$5.5	29	

Implement Tax Legislative Changes
 +\$128,866,000 / +857 FTE

Position Type/Other Costs	FTE	\$000
Implement Information Return Document Matching (IRDM)	535	\$43,505
Information Reporting on Merchant Card Reimbursements - Automated Underreporter Program	447	\$35,294
Tax Examiner	277	24,082
Data Transcriber	126	6,967
Support Staff	44	3,751
IT Equipment		493
Basis Reporting on Security Sales	20	\$1,106
Data Transcriber	20	1,106
Other Costs	68	\$7,105
Revenue Officer (Appeals)	13	2,054
Revenue Agent (Appeals)	1	128
Attorney	4	761
Paralegal	3	273
Customer Service Representative	28	1,879
Taxpayer Advocacy Specialist	16	1,722
Support Staff	3	289
Affordable Health Care Tax Law Changes	322	\$85,361
Administer New Fees on Drug Manufacturers and Health Insurers	9	\$1,750
Revenue Agent	5	990
Manager and Analyst	4	760
Strengthen Oversight of Exempt Hospitals	66	\$8,111
Revenue Agent	32	3,347
Tax Law Specialist	22	3,384
Manager and Analyst	8	1,058
Support Staff	4	322
Promoting Compliance with Other New Provisions	142	\$15,051
Revenue Agent	45	5,345
Tax Examiner	65	5,086
Customer Service Representative	3	228
Manager and Analyst	12	3,017
Support Staff	17	1,375
Program Management Office (PMO)	65	\$23,569
Manager and Analyst	65	10,575
Contractual Services		12,994
Updating Existing IT Systems for Tax Law Changes		\$30,690
Travel		188
Contractual Services		30,458
Supplies and Materials		44
Other ACA Direct Costs	40	\$6,190
Appeals Officer	20	3,228
Attorney	15	2,459
Manager and Analyst	1	115
Support Staff	4	388
Total	857	\$128,866

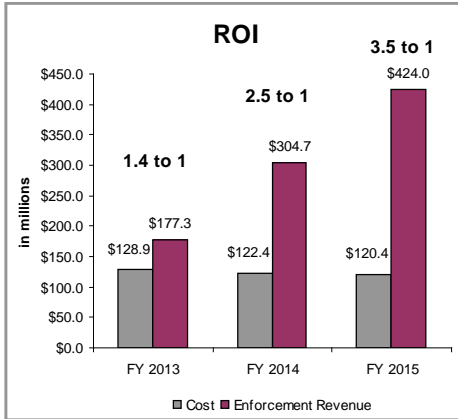
As the tax law changes, the IRS must implement programs to ensure that taxpayers understand the new laws, and that the IRS can address non-compliance. Funding for Implement Tax Legislative Changes will promote compliance activities related to a number of tax law changes implemented over the last several years, including the:

- Information Reporting Document Matching (IRDM) to implement the reporting provisions included on merchant payment card and third party reimbursements enacted in the Housing and Economic Recovery Act of 2008 (Public Law 110-289); and basis

reporting on security sales enacted in the Emergency Economic Stabilization Act of 2008 (Public Law 110-343); and

- Affordable Care Act (ACA) (Public Law 111-148) to address compliance issues and new responsibilities arising from the non-exchange related tax law changes.

Implementing these tax law changes through these initiatives will produce additional annual enforcement revenue of \$424.0 million, once the new hires reach full potential in FY 2015, an ROI of \$3.5-to-\$1.



Major Activities	Projected Revenue \$M	Individual Audits	Business Audits	Calls Answered	Closures	Exams
Document Matching Program	278.0	162,000	16,000			
Strengthen Oversight of Exempt Hospitals						1,700
Promoting Compliance with Other New Provisions	146.0	10,191	566	180,900	210,590	1,000
Total	\$424.0	172,191	16,566	180,900	210,590	2,700

Implement Information Return Document Matching (+\$36.4 million / +467 FTE)

This funding will allow IRS to increase taxpayers' voluntary compliance by implementing two 2008 laws requiring reporting to the IRS and taxpayers of transaction settlement information (i.e., merchants' income from payment cards or third party networks) and of cost basis of sales of certain securities.

- Information Reporting on Merchant Payment Card Reimbursements – Automated Underreporter Program

The IRS is building new IT systems and modifying existing systems to create the Business Master File Automated Underreporter Program (BMF AUR) to implement document matching for merchant card payment transactions. Although information returns will be available for document matching beginning in FY 2012, these additional funds are needed to take advantage of the increased information and, thereby, generate revenue.

Underreporting of gross receipts significantly contributes to the tax gap. The enacted legislation allows the IRS to identify businesses with a high likelihood of underreported gross receipts through analysis of their payment card receipts and third party transactions:

- Payment card processors will report total payments made to a business; and
- Third party settlement organizations will report network transactions settled among participating payees.

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

- Provide a business with an official year-end statement to reconcile merchant card payments and third party network transactions to avoid underreporting of income they may have overlooked;
- Provide IRS information to perform business income validation through document matching; and
- Provide IRS information to more easily identify a business that evades its tax obligations by not filing or understating its income.

This funding will allow the IRS to establish robust document matching compliance and enforcement efforts for merchant payment card and third party transactions. The amount of the transaction and the name, address, and taxpayer identification number

(TIN) of each payee receiving payments from reportable transactions appears on Form 1099-K, *Merchant Card and Third Party Payments*.

To implement the document matching of Merchant Payment Card reimbursements, this initiative funds 126 FTE for data transcribing to capture payment information and new line items from income tax forms, 277 FTE for AUR tax examiners, and 44 FTE for processing to reconcile approximately 178,000 additional tax returns in FY 2015 once new hires reach full potential.

- **Basis Reporting on Security Sales**

GAO estimated that 36 percent of individual taxpayers misreported their securities capital gains or losses in tax year 2001. The estimated capital gains tax gap for Tax Year 2001 is \$11 billion. The enacted legislation requires investment brokers to report the adjusted basis of publicly traded securities owned by customers. The Basis Reporting on Security Sales program audit workload levels would remain the same. However, the additional information would improve productivity, case selection, and greatly reduce the “no change” audit rate.

This initiative includes 20 FTE to transcribe basis information from paper Form 1099-B, *Proceeds From Broker and Barter Exchange Transactions*, and related income tax line items on Form 1040 Schedule D, *Capital Gains and Losses*. This information will capture basis reporting on securities sales to achieve improvements in document matching.

Affordable Care Act Tax Law Changes (+\$79.2 million / +282 FTE)

This funding will allow IRS to address compliance issues and new responsibilities arising from the recent tax law changes included in the ACA, as well as program management. These tax code changes include:

- **Administering New Fees on Drug Manufacturers and Health Insurers**

The IRS must continue to administer a new aggregate annual fee on businesses engaged in manufacturing and importing branded prescription drugs sold to specified government programs. The fee, set at \$2.8 billion for 2013, represents a significant new source of revenue. The IRS will receive and process information from manufacturers/importers and specific government programs (Veterans Affairs, Medicare Parts D and B, Medicaid, Department of Defense and TriCare) to determine each manufacturer’s fee assessment. Continuing administration includes IRS collection of data, computation of each entity’s fee amount, and notification of payment due. In addition, the IRS must administer a new annual fee on health insurance policies and self-insured health plans based on the average number of covered lives, which is effective for policy years ending after September 30, 2012. That fee is expected to raise more than \$2.6 billion in the years 2013 to 2019 to fund the new Patient Centered Outcomes Research Institute. Finally, the IRS must also establish the systems and processes needed to administer a new aggregate annual fee based on net premiums written by health insurance providers, set at \$8 billion for 2014.

- **Strengthening Oversight of Exempt Hospitals**

The ACA establishes new requirements for tax-exempt hospitals, which include a majority of the hospitals in the United States. IRS submission processing operations will need additional staff to process the newly required reports. In addition, the IRS is required to review at least once every three years the community benefit activities of tax-exempt hospital organizations to which new Section 501(r) applies (estimated at more than 3,300 hospital organizations, many with multiple facilities). The first cycle of community benefits activities reviews is scheduled to be completed by December 2013. Additionally, the IRS (in consultation with the HHS) must develop and deliver a new annual report to Congress on levels of charity care in the hospital sector.

- **Promoting Compliance with Other New Provisions**

The IRS must implement several new provisions that take effect during FY 2013. For example, beginning in January 2013 the IRS must administer a new tax on net investment income for taxpayers with an adjusted gross income over certain thresholds (\$200,000 for individual taxpayers, \$250,000 for married filing joint). A second provision establishes a new additional Medicare Tax on wages above the same thresholds, for which employers must implement new withholding. Existing individual and employer compliance processes must be modified to support implementation.

In addition, the IRS must continue to promote compliance with previously implemented provisions of the ACA, including modifying processes in response to filing and compliance trends in the initial processing years. Such provisions include the excise tax on indoor tanning services and the small employer healthcare tax credit.

- **Updating Existing IT Systems for Tax Law Changes**

In the last few years recent tax law changes have required not only the design of new systems, but also have necessitated changes and upgrades to existing IRS systems to ensure that they accurately reflect the new requirements and can interact with other new systems. These changes allow the IRS to keep pace with new tax law, avoid the development of costly manual procedures to counteract unanticipated problems, and maintain the efficiency of IRS programs. It is critical that IRS systems reflect current law and exchange data and information reliably. These additional resources will keep existing IT systems current with recent tax law changes that require the IRS to integrate new information reporting data, administer new revenue provisions (e.g., update tax accounts, send notices, provide updates to customer service), and assess penalties where appropriate (e.g., for failure to pay).

Other Direct Costs (+\$13.3 million / +108 FTE)

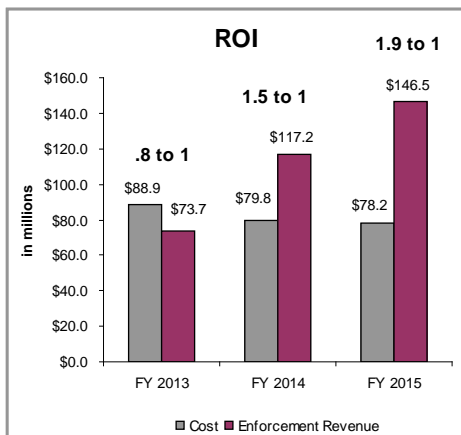
Dollars in Millions

IRS Activity	Cost	FTE	Explanation
Appeals	\$5.5	35	Appeals case receipts will increase because of new Collection closures that will require adjudication in the appeals process.
Chief Counsel	\$4.2	29	Counsel will provide legal advice to identify pockets of noncompliance and equitable resolutions.
Taxpayer Advocate Service	\$1.7	16	Staffing will handle additional case receipts.
Wage & Investment	\$1.8	27	Support collection efforts by ensuring staffing is available to handle the downstream increases in collection, accounts management and submission processing workload.
HCO	\$0.1	1	Handle increased workload to hire and support staff.
Total	\$13.3	108	

Implement Revenue Protection Strategy
 +\$88,856,000 / +885 FTE

Position Type/Other Costs	FTE	\$000
Business Support to Optimize Use of the Return Review Program	23	\$5,673
Manager and Analyst	23	3,064
Contractual Services		2,609
Expand Accounts Management Taxpayer Assurance Program	113	\$8,908
Tax Examiner	96	7,376
Customer Service Representative	13	1,153
Manager and Support Staff	4	379
Identity Theft	400	\$38,100
Tax Examiner	400	38,100
Implement the Prisoner Tax Compliance Strategy	36	\$5,034
Tax Examiner	18	1,744
Manager	18	2,365
Contractual Services		800
Travel		125
Increase Earned Income Tax Credit Examinations	250	\$23,494
Tax Examiner	216	20,567
Program Manager and Analyst	34	2,927
Revenue Protection	44	\$5,150
Tax Examiner	20	1,938
Analyst	8	1,398
IT Specialist	10	1,241
Manager and Support Staff	6	573
Other Direct Costs	19	\$2,497
Appeals Officer	9	1,332
Attorney	5	786
Customer Service Representative	4	262
Support Staff	1	117
Total	885	\$88,856

The tax withholding system allows the IRS to identify and resolve issues prior to issuing a taxpayer's refund, thereby protecting revenue at a lower cost than downstream enforcement collections. Funding for Implement Revenue Protection Strategy will support the implementation of the Return Review Program (RRP), the Accounts Management Taxpayer Assurance Program (AMTAP), Identity Theft, and the Prisoner Tax Compliance Strategy. It will help prevent erroneous refund payments, including non-compliant and fraudulent claims by prisoners and ineligible taxpayers claiming the Earned Income Tax Credit (EITC).



In FY 2011, AMTAP reviewed almost 1.8 million questionable refund returns valued at more than \$14 billion. The IRS protected almost \$3.8

billion in revenue through EITC enforcement efforts (examinations, document matching reviews and math error processing). This request will produce additional annual enforcement revenue of \$146.5 million once the new hires reach full potential in FY 2015, an ROI of \$1.9-to-\$1, in addition to billions of dollars of prevented fraudulent refunds.

Major Activities	Projected Revenue \$M	Protected Revenue \$M	Individual Post Refund Audits	Individual Pre-Refund Audits
Increase Earned Income Tax Credit (EITC) Examinations				
Correspondence Examination	146.5	146.5	50,000	50,000
Total	\$146.5	\$146.5	50,000	50,000

This initiative will protect revenue by:

- Continued improvement of the business rules identifying questionable refund returns in the new Return Review Program (RRP) system;
- Identification and elimination of non-compliant refund claims based upon false wages or withholdings;
- Dedication of a specialized staff to handle identity theft cases associated with pre-refund, post-refund and on-going resolution support;
- Detection of non-compliant and fraudulent refund claims filed by prisoners and the prevention of improper payments;
- Detection of taxpayers who are manipulating net earnings to qualify for the Earned Income Tax Credit (EITC) and the prevention of those improper payments; and
- Development of streamlined processes to prevent erroneous refund payments.

Business Support to Optimize Use of the Return Review Program
(+\$5.7 million / +23 FTE)

The business support component of this initiative will fund the compliance staff and contractor support to ensure that the new RRP system meets the needs of both the compliance and criminal investigation programs. The new RRP supports a cross-functional approach to coordinating and addressing criminal and civil tax noncompliance. The RRP allows analysis and support of case processing needs in criminal prosecution, revenue protection, accounts management, and taxpayer communications. This support will ensure that RRP's new capabilities to protect revenue can be utilized fully by each affected function. The analysts will create and continuously improve the business rules used in models to identify and prevent the issuance of improper refunds. The program subject matter experts will work with the contractor to modify the RRP system to identify scenarios and schemes.

Expand AMTAP Program (+\$8.9 million / +113 FTE)

The IRS AMTAP program focuses on identifying and stopping fraudulent refund claims. The AMTAP program identifies potential fraudulent claims and then works with third parties, such as employers, to verify the source and amount of income and federal income tax withheld claimed on each return. If the IRS establishes that the data reported is false, the taxpayer's account is referred for adjustment or audit (based on current tax law) to prevent the issuance of an improper payment. This information also can be used by IRS to identify and refer schemes for prosecution.

These additional resources will allow AMTAP to identify and stop additional non-compliant refund claims based on false wages and/or withholding. This component will achieve the following objectives:

- Increase the ability to identify potential fraud and refund abuse in a low cost business environment;
- Stop additional non-compliant and fraudulent refunds from being issued;

- Allow AMTAP to stop non-compliant refunds of any amount by lowering current thresholds that are currently constrained by available resources; and
- Investigate and stop additional non-compliant refunds identified as a result of leads provided by banks and prisons.

Identity Theft (+\$38.1 million / +400 FTE)

The rapid growth of tax-related identity theft has resulted in a backlog of more than 228,000 cases. To address this backlog and future cases, the IRS requests resources to increase the specialized staff dedicated to handling identity theft cases associated with pre-refund, post-refund and on-going resolution support. These teams will ensure that taxpayers affected by identity theft have their issues resolved timely and will not be burdened with the same issues from year to year.

The additional staff will address identity theft by:

- Researching thousands of taxpayer social security numbers received through enforcement actions, and resolving situations such as false tax returns and information reporting documents where a taxpayer has been compromised by identity theft;
- Resolving incidents identified through the normal process of filing tax returns;
- Improving the tracking of case resolution by streamlining the process; and
- Supporting the Identity Protection PIN program to help past identity theft victims avoid subsequent filing issues.

Identity theft is costly to the IRS and to taxpayers. These resources will protect revenue and reduce burden on taxpayers by allowing the IRS to improve the identification and resolution of tax-related identity theft from beginning to end.

Implement the Prisoner Tax Compliance Strategy (+\$5.0 million / +36 FTE)

In response to increasing attention from Congress, the Treasury Inspector General for Tax Administration (TIGTA), and the media, the IRS collaborated with internal and external stakeholders to develop the Prisoner Tax Compliance Strategy. This strategy includes five areas of focus:

- Data Exchange – Compiles and improves the accuracy of the annual prisoner file and implements Memoranda of Understanding to disclose tax return information to federal and state prison systems per section 6103(k)(10) of the Internal Revenue Code; trains and provides resources to Federal Bureau of Prisons (FBOP) and state and District of Columbia Department of Corrections officials on safeguarding and disclosure procedures; and conducts required reviews of prison facilities to assess compliance with section 6103 requirements assuming Congress extends this provision which expired December 31, 2011.
- Compliance – Improves the process for detecting non-compliant prisoner tax returns and provides viable solutions for resolving these non-compliant tax returns; and works

proactively with all state and the District of Columbia Departments of Corrections and the FBOP to intercept tax materials, mail, refund checks and other tax information to or from the IRS involving inmates who try to obtain false or fraudulent refunds.

- Outreach – Conducts targeted outreach to prisoners and prison officials to help prisoners better understand and meet their tax responsibilities; and provides resources to prison officials on awareness of prisoner tax filing fraud and sources of reporting to the IRS.
- Memoranda of Understanding (MOU) – Establishes and maintains MOUs with the Federal Bureau of Prisons, all 50 state prison systems, and the District of Columbia prison system that allow for the disclosure of false or fraudulent tax information that will lead to administrative reprimand of non-compliant filers within the prison population assuming Congress extends this provision which expired December 31, 2011.
- Legislation – Ensures compliance with legislative requirements; analyzes annual prisoner file data and reports performance in the Annual Report to Congress on Inmate Tax Fraud in compliance with the Inmate Tax Fraud Prevention Act of 2008. Also, partners with prison officials to identify challenges with implementing legislation and works together on solutions.

The IRS requests resources to ensure voluntary participation by all states and the District of Columbia Department of Corrections and the FBOP to improve the accuracy and reliability of the annual prisoner file and detect and stop false and fraudulent refunds to prisoners.

This funding will allow the IRS to identify and prevent the issuance of improper payments to prisoners. The rapid rise in prisoner non-compliance is shown in the following chart:

Dollars in Millions

Calendar Year	False Tax Returns	Refund Claimed	Refund Prevented	Refund Issued	Percent Prevented
2004	18,103	68.1	54.6	13.4	80.18%
2005	21,254	80.4	67.5	12.8	83.96%
*2006	N/A	N/A	N/A	N/A	N/A
2007	37,447	165.9	136.6	29.2	82.34%
2008	47,898	190.4	162.1	28.3	85.14%
2009	44,944	295.1	256.0	39.1	86.75%
Total	169,646	\$799.9	\$676.8	\$122.8	84.61%

* Data were unavailable in Calendar Year 2006

Source: IRS Criminal Investigation Division. TIGTA Report 2011-40-009

Increase Earned Income Tax Credit (EITC) Examinations (+\$23.5 million / +250 FTE)

The IRS plans to increase EITC examinations to identify taxpayers who are avoiding taxes and obtaining refunds by manipulating Schedule C, *Profit or Loss From Business*, net earnings to qualify for the earned income credit. These resources will allow additional audits to take place before the IRS issues refunds, expedite case processing, and reduce the time it takes to notify taxpayers of credit eligibility. The additional staff requested will augment examination coverage in the EITC program and provide an increased focus without reducing coverage for existing programs.

Revenue Protection (+\$5.2 million / +44 FTE)

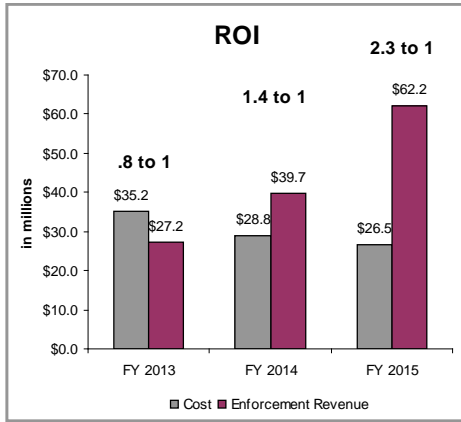
The IRS continues to face challenges in preventing fraud and abuse of refundable credits such as the EITC. The IRS requests resources to develop alternative streamlined processes that will prevent the issuance of erroneous refund payments. The new staffing will identify trends, coordinate and follow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

Other Direct Costs (+\$2.5 million / +19 FTE)

Dollars in Millions

IRS Activity	Cost	FTE	Explanation
Appeals	\$1.3	9	Support examination efforts on key compliance areas focused on improving voluntary compliance.
Chief Counsel	\$0.8	5	Provide advice related to refundable credits and assist in litigation against promoters of schemes to fraudulently claim these credits and any cases resulting from denial of refunds. Advise examiners hired to do employment tax audits.
Wage and Investment	\$0.3	4	Downstream Accounts Management support of added EITC examinations.
Human Capital Office	\$0.1	1	Handle increased workload to hire and support staff.
Total	\$2.5	19	

Build Out Tax Return Preparer Program
 +\$35,166,000 / +228 FTE



Position Type/Other Costs	FTE	\$000
Enforce Tax Return Preparer Compliance	158	\$22,558
Revenue Officer	4	486
Revenue Agent	120	18,732
General Attorney, Technical	2	404
Tax Technician	8	863
Tax Examiner	12	1,010
Analyst	2	298
Support Staff	10	765
Pursue Tax Return Preparer Fraudulent Activity	50	\$10,634
Special Agent	48	10,440
Analyst	2	194
Enforce Ethical Standards of Conduct for Practitioners	20	\$1,974
Support Staff	20	1,974
Total	228	\$35,166

Funding

for Build Out Tax Return Preparer Program will improve taxpayer compliance and the accuracy of returns filed by tax professionals; protects taxpayers by establishing a registered community of qualified tax professionals; and fosters a stakeholder-driven culture that encourages voluntary compliance. This initiative will ensure uniform, high ethical standards of conduct for tax return preparers by enforcing preparer compliance with the IRS rules, increasing preparer examinations, and monitoring and pursuing preparers engaged in fraudulent activities, including noncompliant EITC return preparers. This initiative is core to the IRS’s tax gap strategy and will increase government revenue while ensuring high-priority, preparer-related enforcement activities are funded to execute the appropriate treatment effectively. This request will produce additional annual enforcement revenue of \$62.2 million once the new hires reach full potential in FY 2015, an ROI of \$2.3-to-\$1, in addition to the much larger indirect return that will result from higher professional standards among the tax return preparer community.

Major Activities	Projected Revenue \$M	Individual Audits	Preparer Visits
Enforce Tax Return Preparer Compliance	62.2	750	4,000
Total	\$62.2	750	4,000

Key activities and deliverables of this initiative include deploying a coordinated return compliance strategy by:

- Developing techniques to detect return preparer errors;
- Coordinating return preparer enforcement actions;
- Prioritizing activities through a return preparer enforcement work plan;
- Updating detection tools and selection logic; and
- Determining effective measurement strategies.

Enforce Tax Return Preparer Compliance (+\$22.6 million / +158 FTE)

Given the important role that tax return preparers play in federal tax administration, the IRS has a significant interest in identifying tax return preparers and monitoring their tax return preparation activities. These funds will allow the IRS to deploy a coordinated return preparer compliance strategy by conducting on-site visits and investigating suspicious activity, especially of abusive return preparers.

The IRS revenue agents and CI special agents will conduct visits to return preparers related to the following program areas: the Return Preparer Visitation Program, Electronic Return Originator (ERO)/e-File visits, Certifying Acceptance Agent (CAA)/Individual Tax Identification Number (ITIN), EITC Due Diligence, Knock & Talk monitoring, and the Unidentified Preparer Program. Return preparers identified as not complying with Internal Revenue Code (IRC) 6695 identification rules (requires disclosure of preparer identification numbers) will be identified for audit potential.

Pursue Tax Return Preparer Fraudulent Activity (+\$10.6 million / +50 FTE)

These funds provide resources for CI to form multi-agency taskforces dedicated to tax administration by seeking prosecution at the state and federal levels to prevent fraudulently obtained refunds (refundable credits are a large percentage) from financing and supporting criminal activity in some areas of the country. Special agents will conduct outreach efforts that address return preparer concerns while working with state taxing agencies to leverage resources and seek prosecution at both the federal and state level where deemed appropriate.

The task forces will work with local law enforcement agencies to receive information about criminal activity involving federal and state tax refunds that can be used to expedite a prosecution by the Department of Justice while the criminal activity is still ongoing. These teams will target larger-scale crime rings for maximum compliance results and publicity.

Special agents will conduct outreach efforts with practitioners year round and be available to address return preparer concerns. CI will participate in joint outreach efforts, Knock and Talk Visits with revenue agents and EITC office staff that consists of identifying return preparers who are potentially abusing the EITC, and visiting their offices to educate them about the EITC statutes. CI participation in the visits increases the perceived significance of EITC compliance and the consequences of violating related statutes. In FY 2010, CI completed 44 Knock and Talk visits, resulting in the protection of an estimated \$8 million in revenues. CI conducted another 93 Knock and Talk visits in FY 2011, the impact of which is still being analyzed. These activities are outside CI's normal investigative duties, and the requested resources will ensure that CI can continue to support these educational visits.

Enforce Ethical Standards of Conduct for Practitioners (+\$2.0 million / +20 FTE)

This initiative addresses the growth in the population of practitioners who will become subject to the ethical standards contained in Circular 230 as a result of expanding the definition of practice to include return preparation. This additional staffing will handle conduct cases and

the associated appeals, conferences, allegations, negotiations, administrative hearing preparation, and support the return preparer regulatory recommendations.

The IRS engaged a large and diverse constituent community that included tax return preparers licensed by state authorities, unlicensed tax preparers, software vendors, consumer groups, IRS employees and taxpayers in a wide-ranging review of issues involving tax preparation. With the findings from this review, the IRS developed a comprehensive set of recommendations to ensure consistent standards for tax preparer qualifications, ethics and service. The result has been to provide registration, education, oversight and, when necessary, discipline for tax return preparers in the same manner that other tax professionals are subject to Circular 230. Some of the important changes to oversight of the tax practitioner community include:

- Requiring registration for nearly all paid tax return preparers;
- Establishing mandatory testing and continuing education for identified paid tax return preparers who do not already have this kind of requirement (i.e. exempting attorneys, certified public accountants and enrolled agents);
- Developing a public database so that the public can determine whether a specific tax return preparer is registered with the IRS;
- Making all return preparers subject to the ethical standards of Treasury Circular 230 and subject to discipline by the IRS in the same manner and to the same degree as other tax practitioners; and
- Increasing IRS's enforcement presence in the tax return preparer community.

Other Direct Costs

There are no other direct costs associated with this initiative.

Address Appeals Workload
 +\$20,324,000 / +132 FTE

Position Type/Other Costs	FTE	\$000
Address Appeal's Workload	132	\$20,324
Settlement Officer	92	14,536
Appeals Officer	40	5,788
Total	132	\$20,324

The Appeal's function at the IRS is a critical outlet for taxpayers to get an independent, second review of examination decisions without burdening the court system. Appeal's workload continues to grow at a steady rate, with growth averaging 8.9 percent a year over the past five fiscal years. Anticipating that workload will continue to grow at this rate, the IRS requests additional staff to manage incoming case receipts effectively and additional resources to expand automated data capture.

Major Activities	Cases Completed
Address Appeals Workload	21,000
Total	21,000

Appeal's strives to resolve taxpayer tax disputes accurately in a timely manner. Despite increases in case processing efficiency – average hours per closed case have improved by approximately 7 percent since FY 2009 – additional personnel are needed to handle the rising workload.

These funds provide resources for 92 Settlement Officers and 40 Appeals Officers to address the increasing Appeal's workload. Settlement Officers are specialized case-working staff trained to handle collection actions. Appeals Officers are highly trained tax specialists who typically adjudicate the examination issues that are received in Appeals, including the largest and most technically complex cases that arrive from Large Business and International (LB&I). Collection case receipts have skyrocketed during the past several years, increasing more than 33 percent between FY 2009 and FY 2011.

To address rising inventories, Appeals has implemented many process efficiencies such as:

- Beginning in FY 2004, consolidated case-working staff in campuses to more efficiently handle scores of less-complex cases;
- Improving training, on-the-job instruction, and technical mentoring programs to help staff build a better organizational support structure and a stronger technical foundation; and
- Creating Alternative Dispute Resolution to more quickly and effectively adjudicate cases before they enter the Appeals pipeline.

Despite a 53 percent increase in case receipts since FY 2006, and 168 percent overall since FY 2000, Appeals continues to see improvements in *cycle time* and *average hours per closed case* metrics. Unfortunately, with receipts increasing at almost a double-digit rate annually, efficiencies alone will not maintain inventories at acceptable levels and the IRS needs more staff to manage the increased workload.

Resources used to hire additional staff in Appeals will result in the closure of an additional 21,000 cases once the new hires reach full potential in FY 2015.

Other Direct Costs

There are no other direct costs associated with this initiative.

Implement Uncertain Tax Position Reporting Requirements
+\$4,030,000 / +20 FTE

Position Type/Other Costs	FTE	\$000
Implement Uncertain Tax Position Reporting Requirements	20	\$4,030
Attorney	20	4,030
Total	20	\$4,030

Funding to Implement Uncertain Tax Position Reporting Requirements will allow the IRS to increase its capacity to provide guidance and certainty on areas where there are uncertainty in the tax law. This request complements a new requirement that certain large business taxpayers report information about their uncertain tax positions that could affect their U.S. federal income tax liability. It is a critical part of the IRS’s work to foster greater transparency into large corporate tax returns.

The IRS expects both the volume and complexity of workload including advanced pricing agreements, private letter rulings, published guidance and legal advice to increase as taxpayers seek certainty on the most complex issues facing their organizations and tax administration.

Taxpayers subject to this requirement provide a concise description of each uncertain tax position for which the taxpayer or a related entity has recorded a reserve for U.S. federal income tax in its financial statements. For each uncertain tax position identified, the taxpayer:

- Uses a new schedule to disclose their uncertain tax positions and file it with the taxpayer’s Form 1120, *U.S. Corporation Income Tax Return*, or other business tax returns; and
- Ranks their uncertain positions from highest to lowest based on the size of the position (based on U.S. federal income tax reserve amounts).

The schedule was implemented in 2010 for corporations filing Form 1120, Form 1120F, *U.S. Income Tax Return of a Foreign Corporation*, Form 1120L, *U.S. Life Insurance Company Income Tax Return*, and Form 1120PC, *U.S. Property and Casualty Insurance Company Income Tax Return*.

Other Direct Costs

There are no other direct costs associated with this initiative.

Leverage Digital Evidence for Criminal Investigation (CI)
 +\$4,504,000 / +8 FTE

Position Type/Other Costs	FTE	\$000
Leverage Digital Evidence for Criminal Investigation	8	\$4,504
Contractual Services		3,439
IT and Program Analyst	8	1,065
Total	8	\$4,504

Funding for Leverage Digital Evidence for Criminal Investigation (CI) will automate current CI processes by implementing a virtual digital evidence processing environment. This will allow CI to expedite and enhance the analysis of electronic data by special agents, computer investigative specialists, and other investigative staff assigned to an investigation.

These virtual machines will allow agents to analyze and clean contaminated or unknown third party data more efficiently before moving it to the CI network. This new secure workspace also will allow agents to call in forensic specialists or other agents for support without incurring travel costs.

The IRS is currently building a pilot environment at the e-Crimes Lab in Alexandria, Virginia. In September 2011, CI began to prototype this environment with one or two large investigations. The funding for FY 2013 will allow CI to expand this environment to all agents nationwide.

Other Direct Costs

There are no other direct costs associated with this initiative.

Implement Information Technology and Operational Infrastructure to Deliver New Tax Credits

+\$266,894,000 / +537 FTE

Position Type/Other Costs	FTE	\$000
Implement Information Technology and Operational Infrastructure to Deliver New Tax Credits	537	\$266,894
IT Project Specialist	537	84,456
Contractual Services		180,093
Travel		177
Supplies and Materials		91
Equipment		2,077
Total	537	\$266,894

The Affordable Care Act (ACA) provides a new premium assistance tax credit to help certain individuals afford health insurance starting in 2014. For a number of reasons, administering this credit will require a significant investment in new technology as well as changes to our current systems. This initiative allows the IRS to continue the development of new information technology systems and modification/enhancement of existing systems associated with this new tax credit.

First, eligibility determination for the premium tax credit is based on household-level income information that is not currently maintained. Supporting credit eligibility determination requires a new tax data repository (database).

In addition to the database, new systems and infrastructure components are needed to validate household income and provide tools to assist exchanges in determining the amount of advance payments of premium tax credit a recipient should get during the coverage year and before tax filing. This initiative also funds staff expansion for IRS safeguards and data protection reviews.

IRS must make the necessary adjustments to allow individuals to reconcile any advance payments received throughout the year with the actual premium tax credit amount determined at the time of filing a tax return. IRS must modify systems, forms and instructions to support this process, including the processing of information reports filed by exchanges, employers, and insurance companies.

Together, these systems ensure prompt and accurate delivery of the premium tax credit to eligible taxpayers.

Finally, where taxpayers who receive a premium tax credit work for a large employer – defined in the statute as those with 50 or more full-time employees – the IRS must build procedures to implement the provisions of the statute that establish shared responsibility payments for employers. Under this provision, which takes effect in 2014, large employers who have at least one employee receive a premium tax credit may be required to make a shared responsibility payment. Although in effect in 2014, IRS has until 2015 (after tax year 2014 is over) to complete implementation of the necessary IT systems and procedures. Accordingly this provision represents a small portion (approximately 3%) of the funds requested for this initiative, and is primarily to support planning efforts.

Other Direct Costs

There are no other direct costs associated with this initiative.

Implement Information Technology Changes Needed for Individual Coverage Requirement
 +\$8,200,000 / 0 FTE

Position Type/Other Costs	FTE	\$000
Implement IT Changes Needed for Individual Coverage Requirement		\$8,200
Contractual Services		8,200
Total		\$8,200

This initiative will fund the development of the information technology, infrastructure, and systems to implement the provisions of Subtitle F of Title I of the Affordable Care Act (ACA) (Public Law 111-148) that establish an individual responsibility health coverage requirement.

Beginning in 2014, the ACA requires individuals who are able to afford health insurance to obtain minimum essential coverage or make a payment. The statute outlines a number of exemptions to this requirement that may be available, including if affordable coverage is not available.

This initiative will fund the significant revisions to existing tax administration information technology systems necessary to provide access to information that allows internal systems to determine and separate an individual's liability for an individual responsibility payment from other tax liabilities and to determine whether a taxpayer or a dependent is eligible for an exemption. The statute uses a number of similar concepts in both the premium tax credit and individual coverage requirement, such as the new concept in the tax code of household income. Funding to build these new infrastructure capabilities is requested in the initiative *Implement Information Technology and Operational Infrastructure to Deliver New Tax Credits*.

Other Direct Costs

There are no other direct costs associated with this initiative.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Internal Revenue Service	FY 2011 Actuals ¹	FY 2012 President's Budget	FY 2012 Enacted	Proposed Reprogrammings	FY 2012 Proposed Operating Level	FY 2013 Request
FTE	93,906	99,878	90,711	0	90,711	95,257
Object Classification:						
11.1 Full-Time Permanent Positions	\$6,425,940	\$6,893,278	\$6,377,124	\$0	\$6,377,124	6,679,963
11.3 Other than Full-Time Permanent Positions	107,281	126,721	109,458	0	109,458	109,876
11.5 Other Personnel Compensation	288,234	316,749	236,375	0	236,375	255,519
11.8 Special Personal Services Payments	19,857	18,264	18,386	0	18,386	18,458
11.9 Personnel Compensation (Total)	\$6,841,312	\$7,355,012	\$6,741,343	\$0	\$6,741,343	\$7,063,816
12.0 Personnel Benefits	1,937,761	2,034,508	1,913,867	0	1,913,867	2,048,654
13.0 Benefits to Former Personnel	54,416	51,392	49,048	0	49,048	49,950
21.0 Travel	174,970	259,269	194,691	0	194,691	242,418
22.0 Transportation of Things	23,939	33,144	25,122	0	25,122	27,047
23.1 Rental Payments to GSA	645,183	685,010	674,900	0	674,900	691,659
23.2 Rent Payments to Others	13,161	15,569	13,494	0	13,494	13,752
23.3 Communications, Utilities, & Misc	396,697	461,617	406,871	0	406,871	440,325
24.0 Printing & Reproduction	42,839	64,063	33,510	0	33,510	37,333
25.1 Advisory & Assistance Services	648,392	119,869	529,409	0	529,409	766,580
25.2 Other Services	184,180	1,028,350	242,004	0	242,004	298,636
25.3 Purchase of Goods & Services from Govt. Accounts	186,993	174,263	175,628	0	175,628	186,318
25.4 Operation & Maintenance of Facilities	144,572	168,478	174,554	0	174,554	183,334
25.5 Research & Development Contracts	3,009	8,482	3,041	0	3,041	3,107
25.6 Medical Care	14,275	13,498	14,415	0	14,415	15,702
25.7 Operation & Maintenance of Equipment	85,475	157,566	162,111	0	162,111	171,254
25.8 Subsistence & Support of Persons	2,381	6,788	3,799	0	3,799	4,629
26.0 Supplies and Materials	72,712	84,092	84,429	0	84,429	91,647
31.0 Equipment	346,254	444,096	319,730	0	319,730	364,738
32.0 Lands and Structures	33,981	88,141	18,072	0	18,072	23,407
33.0 Investments & Loans	0	0	0	0	0	0
41.0 Grants, Subsidies	18,103	22,605	27,893	0	27,893	27,893
42.0 Insurance Claims & Indemn	3,651	2,746	3,822	0	3,822	3,898
43.0 Interest and Dividends	0	0	0	0	0	0
44.0 Refunds	0	0	0	0	0	0
91.0 Unvouchered	7,109	5,349	4,943	0	4,943	5,116
Total Budget Authority	\$11,881,365	\$13,283,907	\$11,816,696	\$0	\$11,816,696	\$12,761,213
Appropriations:						
Taxpayer Services	\$2,284,178	\$2,363,162	\$2,239,703	\$0	\$2,239,703	\$2,253,133
Enforcement	5,484,431	5,966,619	5,299,367	0	5,299,367	5,701,670
Operations Support	3,944,505	4,620,526	3,947,416	0	3,947,416	4,476,200
Business Systems Modernization	168,251	333,600	330,210	0	330,210	330,210
Total Budget Authority	\$11,881,365	\$13,283,907	\$11,816,696	\$0	\$11,816,696	\$12,761,213

¹ Actuals represent obligations from FY 2011 budget authority. This excludes obligations from user fees (\$285,805), 50% carryover (\$37,386), multi-year/no year (\$152,857) and recoveries (\$1,464) accounts.

2B – Appropriation Language and Explanation of Changes

Appropriations Language	Explanation of Changes
<p style="text-align: center;">DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE</p> <p>Taxpayer Services</p> <p>For necessary expenses of the Internal Revenue Service to provide taxpayer services, including pre-filing assistance and education, filing and account services, taxpayer advocacy services, and other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, [\$2,239,703,000] <i>\$2,253,133,000</i>, of which not less than \$5,600,000 shall be for the Tax Counseling for the Elderly Program, of which not less than \$9,750,000 shall be available for low-income taxpayer clinic grants, of which not less than \$12,000,000, to remain available until September 30, [2013] <i>2014</i>, shall be available for a Community Volunteer Income Tax Assistance matching grants program for tax return preparation assistance[, of which not less than \$205,000,000 shall be available for operating expenses of the Taxpayer Advocate Service, and of which \$15,481,000]: <i>Provided, That of the amounts appropriated under this heading such sums as are necessary shall be available for expenses necessary to implement the tax credit in title II of division A of the Trade Act of 2002 (Public Law 107-210). (Department of the Treasury Appropriations Act, 2012.)</i></p> <p>Enforcement</p> <p>For necessary expenses for tax enforcement activities of the Internal Revenue Service to determine and collect owed taxes, to provide legal and litigation support, to conduct criminal investigations, to enforce criminal statutes related to violations of internal revenue laws and other financial crimes, to purchase (for police-type use, not to exceed 850) and hire passenger motor vehicles (31 U.S.C. 1343(b)), and to provide other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, [\$5,299,367,000] <i>\$5,701,670,000</i>, of which not less than \$60,257,000 shall be for the Interagency Crime and Drug Enforcement program: <i>Provided, That, of the amounts provided under this heading, not less than \$276,964,000</i></p>	<p>The IRS supports adequate funding for the Taxpayer Advocate Service. Specifying the TAS funding level in law prevents the IRS from proposing an operating plan that allocates resources in the best interest of taxpayers.</p> <p>In FY 2012, the resources to administer the health insurance tax credit program were moved to the Taxpayer Services appropriation under the Consolidated Appropriation Act, 2012 (Public Law 112-74). To maximize flexibility in budget execution the IRS proposes to remove the HCTC earmark.</p> <p>The Budget Request for the Enforcement account is \$5,701,670,000 including a program integrity cap adjustment of \$276,964,000 which, when combined with the \$414,064,000 cap adjustment in</p>

Appropriations Language	Explanation of Changes
<p><i>shall be for an additional appropriation for tax activities, including tax compliance to address the Federal tax gap, as specified for purposes of Section 251(b)(2) of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. (Department of the Treasury Appropriations Act, 2012.)</i></p> <p>Operations Support</p> <p>For necessary expenses of the Internal Revenue Service to support taxpayer services and enforcement programs, including rent payments; facilities services; printing; postage; physical security; headquarters and other IRS-wide administration activities; research and statistics of income; telecommunications; information technology development, enhancement, operations, maintenance, and security; the hire of passenger motor vehicles (31 U.S.C. 1343(b)); and other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner; [\$3,947,416,000] \$4,476,200,000, of which up to \$250,000,000 shall remain available until September 30, [2013] 2014, for information technology support; of which up to \$65,000,000 shall remain available until expended for acquisition of real property, equipment, construction and renovation of facilities; of which not to exceed \$1,000,000 shall remain available until September 30, [2014] 2015, for research; of which not less than \$2,000,000 shall be for the Internal Revenue Service Oversight Board; of which not to exceed \$25,000 shall be for official reception and representation expenses: <i>Provided</i>, That not later than 14 days after the end of each quarter of each fiscal year, the Internal Revenue Service shall submit a report to the House and Senate Committees on Appropriations 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: <i>Provided further</i>, That the Internal Revenue Service shall include, in its budget justification for fiscal year [2013] 2014, a summary of cost and schedule performance information for its major</p>	<p>the Operations Support account, totals \$691,028,000 in additional appropriation for tax enforcement and compliance activities.</p>

Appropriations Language	Explanation of Changes
<p>information technology systems: <i>Provided, That, of the amounts provided under this heading, such sums as are necessary shall be available to fully support tax enforcement and compliance activities, including not less than \$414,064,000 for an additional appropriation for tax activities, including tax compliance to address the Federal tax gap, as specified for purposes of Section 251(b)(2) of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. (Department of the Treasury Appropriations Act, 2012.)</i></p> <p>Business Systems Modernization</p> <p>For necessary expenses of the Internal Revenue Service's business systems modernization program, \$330,210,000, to remain available until September 30, [2014] 2015, 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: <i>Provided, That not later than 14 days after the end of each quarter of each fiscal year, the Internal Revenue Service shall submit a report to the House and Senate Committees on Appropriations and the Comptroller General of the United States detailing the cost and schedule performance for CADE2 and Modernized e-File information technology investments, including the purposes and life-cycle stages of the investments; the reasons for any cost and schedule variances; the risks of such investments and the strategies the Internal Revenue Service is using to mitigate such risks; and the expected developmental milestones to be achieved and costs to be incurred in the next quarter. (Department of the Treasury Appropriations Act, 2012.)</i></p> <p>Administrative Provisions – Internal Revenue Service (including transfer of funds)</p> <p>Sec. 101. Not to exceed 5 percent of any appropriation made available in this Act to the Internal Revenue Service or not to exceed 3 percent of appropriations under the heading “Enforcement” may be transferred to any other Internal Revenue Service appropriation upon the advance [approval] <i>notification</i> of the Committees on Appropriations.</p>	<p>The Budget Request includes additional resources for increased tax enforcement and compliance activities through a program integrity cap adjustment, of which \$414,064,000 is in the Operations Support account.</p>

Appropriations Language	Explanation of Changes
<p>Sec. 102. The Internal Revenue Service shall maintain a training program to ensure that Internal Revenue Service employees are trained in taxpayers' rights, in dealing courteously with taxpayers, and in cross-cultural relations.</p> <p>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.</p> <p>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 the improvement of the Internal Revenue Service 1-800 help line service a priority and allocate resources necessary [to increase phone lines and staff] to improve the Internal Revenue Service 1-800 help line service.</p> <p>Sec. 105. <i>Of the funds made available by this Act to the Internal Revenue Service, not less than \$9,486,842,000 shall be specified to pay for the costs of tax activities, including tax compliance to address the Federal tax gap, as specified for purposes of Section 251(b)(2) of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. (Department of the Treasury Appropriations Act, 2012.)</i></p>	

2C – Legislative Proposals

The FY 2013 Budget Request includes a number of legislative proposals intended to improve tax compliance with minimal taxpayer burden. These proposals will target the tax gap and generate more than \$12 billion over the next ten years. The IRS estimates the implementation cost for the proposals included in the FY 2012 President’s Budget to be \$80.2 million over three years, including the initial startup, processing and compliance operational costs. The Administration proposes to expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties. Should Congress enact these provisions, Treasury requests that the amounts, below, be included as part of the authorizing legislation. The Budget also proposes to amend the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended by the Budget Control Act (BCA) of 2011, to allow adjustments to the 9-year (FYs 2013-2021) discretionary caps to permit program integrity cap adjustments in support of additional IRS investments.

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

- Require information reporting for private separate accounts of life insurance companies (\$0); and
- Require a certified Taxpayer Identification Number (TIN) from contractors and allow certain withholding (\$11.5 million).

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

- Provide Treasury with the regulatory authority to require that information returns be filed electronically (\$0);
- Require corporations and partnerships with assets of \$10 million or more that are required to file Schedule M-3 to file their tax returns electronically (\$0.3 million);
- Provide Treasury with the regulatory authority to reduce the current threshold of filing 250 or more returns during a calendar year to require electronic filing of certain other large taxpayers not required to file Schedule M-3 (such as exempt organizations) (\$0.3 million);
- Provide Treasury with the regulatory authority to require electronic filing of all Form 5500, *Annual Return/Report of Employee Benefit Plan*, information (\$11.2 million);
- Implement standards that clarify when employee leasing companies can be held liable for their clients’ federal employment taxes (\$2.9 million);
- Increase certainty about the rules pertaining to classification of employees as independent contractors (\$1.9 million);
- Repeal special estimated tax payment provision for certain insurance companies (\$2.2 million);

- Eliminate special rules modifying the amount of section 6655 estimated tax payments by corporations (\$0); and
- Mandate streamlined large partnership audit and adjustment procedures for any partnership that has 1,000 or more partners (new in 2013).

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

- Revise offer-in-compromise application rules (\$17.8 million);
- Expand the IRS access to information in the National Directory of New Hires for tax administration purposes (\$12.0 million);
- Make repeated willful failure to file a tax return a felony (\$0);
- Facilitate tax compliance with local jurisdictions (\$1.2 million);
- Extend statutes of limitations where state tax adjustments affect federal tax liability (\$.015 million);
- Improve the investigative disclosure statute (\$0);
- Require taxpayers who prepare their returns electronically, but file their returns on paper, to print their returns with a 2-D bar code (\$6.8 million);
- Allow the IRS to waive credit card processing fees for certain tax payments (\$9.6 million);
- Improve and make permanent the provision authorizing the IRS to disclose certain return information to certain prison officials (new in 2013); and
- Extend IRS math error authority in certain circumstances (new in 2013).

Expand penalties – Penalties play an important role in discouraging intentional noncompliance. A specific proposal to expand penalties would:

- Impose a penalty on failure to comply with electronic filing requirements (\$2.5 million).

Section 3 – Budget and Performance Report and Plan

Taxpayer Services

Appropriation Description

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

The Taxpayer Services President's Budget request for FY 2013 is \$2,253,133,000 in direct appropriations and 30,570 FTE. This is an increase of \$13,430,000, or .60 percent, and 35 FTE more than the FY 2012 enacted budget of \$2,239,703,000 and 30,535 FTE.

2.1 – Budget Adjustments Table

Dollars in Thousands

Taxpayer Services	FTE	Amount
FY 2012 Enacted	30,535	\$2,239,703
Changes to Base		
Maintaining Current Levels (MCLs)		\$17,282
Efficiencies/Savings	(395)	(\$31,544)
Increase e-File Savings	(177)	(8,124)
Reduce Travel		(740)
Targeted Program Reductions	(218)	(22,680)
Subtotal, FY 2013 Changes to Base	(395)	(\$14,262)
FY 2013 Current Services (Base)	30,140	\$2,225,441
Program Changes		
<i>Restoration of FY 2012 Reductions to Enforcement Programs</i>		
Restore Audit Coverage to Address Individual Tax Compliance Issues	6	388
Restore Collection Coverage	195	11,869
Subtotal, Restoration of FY 2012 Reductions to Enforcement Programs	201	\$12,257
Program Increases		
<i>Enforcement Initiatives</i>		
Implement Tax Legislative Changes	189	8,366
Implement Revenue Protection Strategy	40	7,069
Subtotal, Enforcement Initiatives	229	\$15,435
Subtotal, FY 2013 Program Changes	430	\$27,692
Total, FY 2013 Budget Request	30,570	\$2,253,133

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Taxpayer Services ¹	FY 2011 Actuals ²	FY 2012 President's Budget	FY 2012 Enacted	Proposed Reprogrammings	FY 2012 Proposed Operating Level	FY 2013 Request
FTE	31,574	31,701	30,535	0	30,535	30,570
Object Classification:						
11.1 Full-Time Permanent Positions	\$1,559,309	\$1,576,561	\$1,565,525	\$0	\$1,565,525	\$1,566,293
11.3 Other than Full-Time Permanent Positions	52,114	56,752	45,637	0	45,637	45,816
11.5 Other Personnel Compensation	83,223	110,875	60,937	0	60,937	61,983
11.8 Special Personal Services Payments	0	0	0	0	0	0
11.9 Personnel Compensation (Total)	\$1,694,646	\$1,744,188	\$1,672,099	\$0	\$1,672,099	\$1,674,092
12.0 Personnel Benefits	395,234	399,654	368,689	0	368,689	374,028
13.0 Benefits to Former Personnel	4,982	1,603	150	0	150	153
21.0 Travel	23,861	27,655	24,843	0	24,843	25,376
22.0 Transportation of Things	1,203	1,988	432	0	432	441
23.1 Rental Payments to GSA	0	0	0	0	0	0
23.2 Rent Payments to Others	0	172	24	0	24	24
23.3 Communications, Utilities, & Misc	2,071	7,547	2,472	0	2,472	2,551
24.0 Printing & Reproduction	10,985	12,671	6,159	0	6,159	6,305
25.1 Advisory & Assistance Services	26,688	19,590	13,436	0	13,436	13,702
25.2 Other Services	35,305	38,486	40,623	0	40,623	43,997
25.3 Purchase of Goods & Services from Govt. Accounts	60,432	67,123	63,149	0	63,149	64,402
25.4 Operation & Maintenance of Facilities	2	0	2	0	2	2
25.5 Research & Development Contracts	0	0	0	0	0	0
25.6 Medical Care	0	0	0	0	0	0
25.7 Operation & Maintenance of Equipment	0	10	0	0	0	0
25.8 Subsistence & Support of Persons	61	1,509	1,568	0	1,568	1,602
26.0 Supplies and Materials	8,566	16,620	16,658	0	16,658	17,029
31.0 Equipment	876	290	1,037	0	1,037	1,057
32.0 Lands and Structures	610	1,371	257	0	257	263
33.0 Investments & Loans	0	0	0	0	0	0
41.0 Grants, Subsidies	18,103	22,600	27,893	0	27,893	27,893
42.0 Insurance Claims & Indemn	553	85	212	0	212	216
43.0 Interest and Dividends	0	0	0	0	0	0
44.0 Refunds	0	0	0	0	0	0
91.0 Unvouchered	0	0	0	0	0	0
Total Budget Authority	\$2,284,178	\$2,363,162	\$2,239,703	\$0	\$2,239,703	\$2,253,133
Budget Activities:						
Pre-filing Taxpayer Assistance & Education	\$661,256	\$701,035	\$632,414	0	\$632,414	\$625,931
Filing & Account Services	1,622,922	1,662,127	1,607,289	0	1,607,289	1,627,202
Total Budget Authority	\$2,284,178	\$2,363,162	\$2,239,703	\$0	\$2,239,703	\$2,253,133

¹Health Insurance Tax Credit Administration resources are included in the Taxpayer Services account.

²Actuals represent obligations from FY 2011 budget authority. This excludes obligations from user fees (\$128,966), 50% carryover (\$5,900) and multi-year/no year (\$11,995) accounts.

2.3 – Appropriation Detail Table

Dollars in Thousands

Taxpayer Services							% Change	
Resources Available for Obligation	FY 2011 Enacted ¹		FY 2012 Enacted		FY 2013 Request		FY 2012 to FY 2013	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:								
Pre-Filing Taxpayer Assistance and Education	6,404	\$678,204	5,862	\$632,414	5,716	\$625,931	-2.49%	-1.03%
Filing and Account Services	24,850	1,630,549	24,673	1,607,289	24,854	1,627,202	0.73%	1.24%
Subtotal New Appropriated Resources	31,254	\$2,308,753	30,535	\$2,239,703	30,570	\$2,253,133	0.11%	0.60%
Other Resources:								
Recoveries		125						
Offsetting Collections - Reimbursable	515	28,992	476	24,050	476	24,050		
Available multi-year/no-year funds		12,785		10,892		10,892		
50% Carryover		5,900						
Transfers In/Out								
Mandatory Appropriations - User Fees		128,966	66	137,742	66	142,742		3.63%
Subtotal Other Resources	515	\$176,768	542	\$172,684	542	\$177,684		2.90%
Total Resources Available for Obligation	31,769	\$2,485,521	31,077	\$2,412,387	31,112	\$2,430,817	0.11%	0.76%

¹ FY 2011 Enacted represents the approved FY 2011 Operating Plan and interappropriation transfer.

3A – Pre-Filing Taxpayer Assistance and Education (\$625,931,000 in direct appropriations and an estimated \$1,151,000 from reimbursable programs): This budget activity funds services to assist with tax return preparation, including tax law interpretation, publication production, and advocate services. The program activities include the following:

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

- *W&I HQ Management and Administration* provides staffing, training, and direct support for Wage and Investment management activities of strategic planning, communications and liaison, finance, human resources, equity, diversity and inclusion, business modernization, and embedded training.
- *National Distribution Center* processes orders for IRS forms and publications received from individual taxpayers, tax practitioners, and IRS tax return preparation partners.

FY 2013 Program Changes by Budget Activity

Dollars in Thousands

Taxpayer Services		
Pre-filing Taxpayer Assistance and Education	FTE	Amount
Restoration of FY 2012 Reductions to Enforcement Programs	5	\$452
Restore Audit Coverage to Address Individual Tax Compliance Issues	3	271
Restore Collection Coverage	2	181
Enforcement Initiatives	21	\$3,255
Implement Tax Legislative Changes	16	1,445
Implement Revenue Protection Strategy	5	1,810
Total, FY 2013 Program Changes	26	\$3,707

3.1.1 – Budget and Performance Report and Plan

Dollars in Thousands

Pre-Filing Taxpayer Assistance & Education Budget Activity								
Resource Level ¹	FY 2006 Enacted	FY 2007 Enacted	FY 2008 Enacted	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Request
Appropriated Resources	\$577,425	\$576,537	\$645,253	\$661,000	\$679,924	\$678,204	\$632,414	\$625,931
Reimbursable Resources	1,573	843	774	796	862	1,135	1,151	1,151
Mandatory Appropriations - User Fees		1,201	12,827	18,700	5,514			
Total Resources	\$578,998	\$578,581	\$658,854	\$680,496	\$686,300	\$679,339	\$633,565	\$627,082
Budget Activity Total	\$578,998	\$578,581	\$658,854	\$680,496	\$686,300	\$679,339	\$633,565	\$627,082

¹ The FY 2008 - FY 2011 Columns represent realized resources for reimbursable and user fees.

Pre-Filing Taxpayer Assistance & Education Budget Activity									
Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2011 Actual	FY 2012 Target	FY 2013 Proposed Target
Timeliness of Critical Filing Season Tax Products to the Public (O)	83.0%	83.5%	92.4%	96.8%	95.3%	94.0%	96.3%	95.0%	95.0%
Timeliness of Critical TE/GE & Business Tax Products to the Public (O)	61.2%	84.0%	89.5%	95.2%	97.7%	91.0%	96.4%	93.0%	95.0%
Taxpayer Self Assistance Rate (E) (L)	46.8%	49.5%	66.8%	69.3%	64.4%	68.7%	70.1%	72.2%	74.4%
Percent of Eligible Taxpayers Who File for EITC (Oe)	*	*	*	*	*	75-80%	*	75-80%	75-80%

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

*The methodology for estimating the eligibility rate is being revised. Data not available.

Description of Performance

The IRS exceeded FY 2010 performance and the FY 2011 targets for the Timeliness of Critical Individual Filing Season Tax Products to the Public measure and the Taxpayer Self Assistance Rate measure. The IRS exceeded the FY 2011 target for the Timeliness of Critical Tax Exempt & Government Entities (TE/GE) & Business Tax Products to the Public measure.

For FY 2011, the IRS timely delivered 96.3 percent of the Critical Individual Filing Season Tax Products to the public by the fifth workday of January. This was a significant achievement because of late tax law changes that extended expired common tax incentives for individuals such as the deduction for real property taxes for individuals who claim the standard deduction and deductions for state and local sales taxes. During FY 2011, the IRS released early products not affected by legislation to devote more time to analyze, develop, and post or print the tax products affected by legislation. The FY 2012 and FY 2013 goals were set based on a review of current year data. To achieve future targets the IRS will continue to release products not affected by legislation early to devote more time on tax products affected by legislation. In FY 2013, the IRS expects to continue to meet the target of 95 percent for Critical Individual Filing Season Tax Products to the Public.

The IRS Timeliness of Critical TE/GE and Business Filing Season Tax products to the Public reached 96.4 percent, exceeding the FY 2011 target of 91 percent. As a part of the annual workload and planning process, Media & Publications prepared a product development timeline to ensure all products were released early enough for taxpayers to prepare and file their returns timely. To achieve future targets the IRS will continue to release products not affected by legislation early to have more time to analyze, develop, and post or print the tax products affected by legislation. In FY 2013, the IRS expects to continue to meet the target of 95 percent for Critical TE/GE and Business Tax Products to the Public measure.

Taxpayer Self-Assistance Rate reached 70.1 percent in FY 2011, exceeding the target of 68.7 percent. This increase is attributed to a 20 percent increase in the use of the *Where's My Refund?* application. The IRS expects performance to increase as more taxpayers choose to use automated applications to resolve issues and questions instead of more traditional methods such as contact with the IRS by telephone and written correspondence. To achieve future targets, the IRS will continue to increase the self-service applications provided to taxpayers through IRS.gov and release new Smartphone applications such as IRS2Go; which lets taxpayers interact with the IRS where they want and when they want it. Through continued use of automation, the IRS expects to meet the FY 2013 target of 74.4 percent.

3B – Filing and Account Services (*\$1,627,202,000 in direct appropriations, an estimated \$22,899,000 from reimbursable programs, and an estimated \$142,742,000 from user fees*): This budget activity funds programs that provide filing and account services to taxpayers, process paper and electronically-submitted tax returns, issue refunds, and maintain taxpayer accounts. The IRS continues to make progress in decreasing paper returns and increasing the use of electronic filing and payment methods. This budget activity also provides operating resources to administer the advance payment feature of the Trade Act of 2002 (Public Law 107-210) health insurance tax credit program, which assists dislocated workers with their health insurance premiums.

The program activities include the following:

- *Filing and Account Services Management* administers filing and account services programs.
- *Submission Processing* processes paper and electronically-submitted tax returns and supplemental documents, accounts for tax revenue, processes information documents, and issues refunds and tax notices.
- *Account Management and Assistance – Electronic/Correspondence Assistance* provides education and assistance to taxpayers and resolves accounts and notice inquiries through telephone, paper, and internet correspondence.
- *Electronic Products and Services Support* provides centralized operations and support capabilities for the IRS suite of electronic products, including e-help desk, technology support, and operations support.
- *Electronic Tax Administration (ETA)* markets and administers electronic tax administration products and services.
- *Pre-Refund* provides coordination support for the pre-refund activities to ensure timely issuance of refunds and credits that are legally due to taxpayers.
- *Joint Operations Center (JOC)* provides service, support, and technology for telephone, correspondence, and electronic media inquiries; real time monitoring and routing of inbound calls; monitoring of Customer Service Representative accuracy; and management of the enterprise telephone database.
- *Files Most Efficient Organization (MEO)* provides staffing, training, and direct support for the management associated with the MEO for files in Submission Processing. This organization stores the administrative files and the most recent tax returns in process, which are the returns most often requested for research by various IRS organizations before forwarding to federal records centers.
- *Health Insurance Tax Credit Administration (HITCA)* provides funds to administer the health insurance tax credit portion of the Trade Adjustment Assistance Reform Act of 2002.

FY 2013 Program Changes by Budget Activity

Dollars in Thousands

Taxpayer Services		
Filing and Account Services	FTE	Amount
Restoration of FY 2012 Reductions to Enforcement Programs	196	\$11,805
Restore Audit Coverage to Address Individual Tax Compliance Issues	3	117
Restore Collection Coverage	193	11,688
Enforcement Initiatives	208	\$12,180
Implement Tax Legislative Changes	173	6,921
Implement Revenue Protection Strategy	35	5,259
Total, FY 2013 Program Changes	404	\$23,985

3.1.2 – Budget and Performance Report and Plan

Dollars in Thousands

Filing and Account Services								
Resource Level ^{1, 2}	FY 2006 Enacted	FY 2007 Enacted	FY 2008 Enacted	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Request
Appropriated Resources	\$1,584,625	\$1,576,557	\$1,561,067	\$1,647,406	\$1,614,418	\$1,630,549	\$1,607,289	\$1,627,202
Reimbursable Resources	49,496	20,081	36,037	37,094	21,993	27,857	22,899	22,899
Mandatory Appropriations - User Fees		63,458	139,109	108,300	115,998	128,966	137,742	142,742
Total Resources	\$1,634,121	\$1,660,096	\$1,736,213	\$1,792,800	\$1,752,409	\$1,787,372	\$1,767,930	\$1,792,843

Budget Activity Total **\$1,634,121** **\$1,660,096** **\$1,736,213** **\$1,792,800** **\$1,752,409** **\$1,787,372** **\$1,767,930** **\$1,792,843**

¹ The FY 2008 - FY 2011 Columns represent realized resources for reimbursable and user fees.

² In FY 2012, the resources to administer the health insurance tax credit program were moved to the Taxpayer Services appropriation under the P.L. 112-74. For comparison purposes, FY 2006 through FY 2011 include these resources.

Filing and Account Services									
Measures	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2011 Actual	FY 2012 Target	FY 2013 Proposed Target
Percent Individual Returns Processed Electronically (Oe) (L)	54.1%	57.1%	57.6%	65.9%	69.3%	74.0%	76.9%	79.0%	80.0%
Percent of Business Returns Processed Electronically (Oe) (L)	16.6%	19.1%	19.4%	22.8%	25.5%	27.0%	31.8%	32.0%	34.0%
Customer Accuracy - Tax Law Phones (O)	90.9%	91.2%	91.2%	92.9%	92.7%	92.7%	93.4%	92.7%	92.7%
Customer Accuracy - Accounts (Phones) (O)	93.2%	93.4%	93.7%	94.9%	95.7%	95.0%	96.0%	95.0%	95.0%
Customer Contacts Resolved per Staff year (E)	7,414	7,648	12,634	12,918	10,744	12,074	12,419	13,300	14,400
Customer Service Representative Level of Service (Oe) (L)	82.0%	82.1%	52.8%	70.0%	74.0%	71.0%	70.1%	61.0%	63.0%
Refund Timeliness - Individual (paper) (O)	99.3%	98.9%	99.1%	99.2%	96.1%	97.0%	99.4%	98.0%	98.0%
Cost per Taxpayer Served (\$) (HCTC) (E) (L)	\$13.71	\$14.90	\$16.94	\$13.79	\$9.52	\$10.00	\$12.36	\$13.00	\$13.00

Sign-up Time (days) - Customer Engagement (HCTC) (O)

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

Description of Performance

The IRS exceeded FY 2010 performance and met or exceeded the FY 2011 targets for Customer Contacts Resolved per Staff Year, Customer Accuracy - Tax Law Phones, Percent of Individual and Business Returns Processed Electronically, and Refund Timeliness.

The IRS Customer Contacts Resolved Per Staff Year reached 12,419, exceeding the FY 2011 target and FY 2010 performance. This measure includes activities such as automated and assistor calls answered and web services completed. For FY 2011, performance improved 15.6 percent compared to FY 2010 because of a significant increase in web usage, up more than 21 percent compared to last year. The FY 2012 and FY 2013 targets are set at 13,300 and 14,400, respectively, and are based on the most recent call and web usage data. To achieve these targets, the IRS will continue to provide efficient responses to customer contacts with the resources available and provided more self-service applications on IRS.gov.

While rising to challenges posed by tax legislation passed in December 2010, which required significant tax form changes, the IRS correctly answered 93.4 percent of tax law questions and 96.0 percent of account questions via the telephone, exceeding FY 2010 performance and meeting or exceeding the FY 2011 targets. The IRS expects to maintain high performance on

the accuracy goals through several initiatives, including the development of new online tools for assistors to research taxpayer questions. For FY 2012 and FY 2013, the IRS will keep the tax law accuracy targets at 92.7 percent and the account accuracy targets at 95.0 percent, but responding to legislative changes in tax laws will continue to be a major challenge moving forward.

Millions of individual and business taxpayers file their returns electronically. The IRS achieved a 76.9 percent individual e-file rate and a 31.8 percent business e-file rate in FY 2011, exceeding the targets for both measures. The increase in individual returns filed electronically for FY 2011 can be attributed to a new law requiring paid tax return preparers who anticipate filing one hundred or more returns for individuals to electronically file federal income tax returns. Continued business e-file growth is the result of states mandating e-filing of state submissions and the positive residual affect of the Return Preparer program. In addition, the overall benefits of e-file (i.e. faster refunds, greater accuracy, secure and confidential submission, quick confirmation, and the ability to file amended, superseded, and prior year returns) continue to drive performance. The IRS is promoting the benefits of e-filing via social media such as IRS2Go. In January 2011, the IRS unveiled IRS2Go, the first Smartphone application that lets taxpayers check on the status of their tax refund and obtain helpful tax information. The IRS will increase the individual e-filing target to 79 percent for FY 2012 and 80 percent for FY 2013 and the business e-filing target to 32 percent for FY 2012 and 34 percent for FY 2013 by continuing to promote the benefits of e-filing.

In FY 2011, Refund Timeliness reached 99.4 percent, exceeding the FY 2011 target of 97 percent as the number of paper refunds declined. Fewer returns filed in FY 2011 included the *Making Work Pay Credit (MWPC)* or the *First-Time Homebuyer Credit (FTHC)*, which contributed to improved timeliness because the IRS, in some cases, had to accurately compute these credits for taxpayers, which delayed the refund. For FY 2012 and FY 2013, the IRS will increase the target to 98.0 percent. To achieve performance, the IRS will continue to monitor Individual Master File (IMF) return cycles and inventories through various reports and production meetings.

The Customer Service Representative Level of Service was 70.1 percent for FY 2011 falling short of the FY 2011 target of 71.0 percent. The shortfall is primarily attributed to higher demand as the IRS answered 2.5 million more calls than originally planned. Additional, new legislation required more training for telephone assistors. The FY 2012 target was lowered to 61 percent based on a projected higher telephone demand. The FY 2013 target is 63 percent. Despite these challenges, the IRS will continue to properly staff toll-free sites to achieve future level of service targets.

In FY 2011, the Health Coverage Tax Credit (HCTC) program, enacted by the Trade Adjustment Assistance Reform Act of 2002 continued to extend health insurance to a larger population of HCTC candidates. The IRS exceeded the FY 2011 target for Sign-up Time, but fell short of FY 2011 target for Cost per Taxpayer Served (CPTS), Sign-up Time in FY 2011 (which involved mailing delays) improved by seven days (117 vs. 124) compared to last year. In FY 2011 CPTS was \$12.36 compared to \$9.52 in FY 2010 largely because of the continued decrease in Monthly Taxpayers Served. In FY 2012 and FY 2013, fewer participants are

expected than originally anticipated and the FY 2012 and FY 2013 target for CPTS was raised to \$13.00 and Sign-Up Time was raised to 125.

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 collecting unpaid accounts.

The Enforcement President's Budget request for FY 2013 is \$5,701,670,000 in direct appropriations and 51,583 FTE. This is a \$402,303,000, or 7.59 percent, and 3,997 FTE increase from the FY 2012 enacted budget of \$5,299,367,000 and 47,586 FTE. The total direct appropriations level includes an additional appropriation for tax enforcement and compliance activities funded through a program integrity cap adjustment totaling \$691,028,000, of which \$276,964,000 will be funded from the Enforcement appropriation.

2.1 – Budget Adjustments Table

Dollars in Thousands

Enforcement	FTE	Amount
FY 2012 Enacted	47,586	\$5,299,367
Changes to Base		
Maintaining Current Levels (MCLs)		\$38,156
Efficiencies/Savings	(219)	(\$31,489)
Targeted Program Reductions	(219)	(31,489)
Subtotal, FY 2013 Changes to Base	(219)	\$6,667
FY 2013 Current Services (Base)	47,367	\$5,306,034
Program Changes		
<i>Restoration of FY 2012 Reductions to Enforcement Programs</i>		
Restore Audit Coverage to Address Individual Tax Compliance Issues	882	83,265
Restore Collection Coverage	573	35,407
Subtotal, Restoration of FY 2012 Reductions to Enforcement Programs	1,455	\$118,672
Program Increases		
<i>Enforcement Initiatives</i>		
Promote Offshore Compliance	700	81,738
Improve International Compliance	223	33,033
Implement Tax Legislative Changes	619	51,694
Implement Revenue Protection Strategy	832	60,490
Build Out Tax Return Preparer Program	228	29,190
Address Appeals Workload	132	16,466
Implement Uncertain Tax Position Reporting Requirements	20	3,576
Leverage Digital Evidence for Criminal Investigation (CI)	7	777
Subtotal, Enforcement Initiatives	2,761	\$276,964
Subtotal, FY 2013 Program Changes	4,216	\$395,636
Total, FY 2013 Budget Request	51,583	\$5,701,670

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Enforcement	FY 2011	FY 2012	FY 2012	Proposed	FY 2012	FY 2013
	Actuals ¹	President's Budget	Enacted	Reprogrammings	Proposed Operating Level	Request
FTE	49,920	54,582	47,586	0	47,586	51,583
Object Classification:						
11.1 Full-Time Permanent Positions	\$3,735,000	\$4,084,707	\$3,621,142	\$0	\$3,621,142	\$3,860,487
11.3 Other than Full-Time Permanent Positions	45,140	57,151	49,786	0	49,786	49,979
11.5 Other Personnel Compensation	171,682	170,898	142,407	0	142,407	157,915
11.8 Special Personal Services Payments	19,857	18,264	18,386	0	18,386	18,458
11.9 Personnel Compensation (Total)	\$3,971,679	\$4,331,020	\$3,831,721	\$0	\$3,831,721	\$4,086,839
12.0 Personnel Benefits	1,164,084	1,231,973	1,161,821	0	1,161,821	1,251,352
13.0 Benefits to Former Personnel	0	0	0	0	0	0
21.0 Travel	118,572	184,863	131,766	0	131,766	173,052
22.0 Transportation of Things	2,591	8,808	3,105	0	3,105	4,127
23.1 Rental Payments to GSA	23	0	30	0	30	30
23.2 Rent Payments to Others	479	496	358	0	358	375
23.3 Communications, Utilities, & Misc	4,625	4,402	6,154	0	6,154	6,472
24.0 Printing & Reproduction	5,515	6,848	3,664	0	3,664	4,043
25.1 Advisory & Assistance Services	56,992	21,238	15,463	0	15,463	16,612
25.2 Other Services	54,224	72,197	58,337	0	58,337	63,220
25.3 Purchase of Goods & Services from Govt. Accounts	46,653	42,792	48,513	0	48,513	49,691
25.4 Operation & Maintenance of Facilities	155	195	154	0	154	157
25.5 Research & Development Contracts	3,009	3,049	3,007	0	3,007	3,072
25.6 Medical Care	89	79	89	0	89	90
25.7 Operation & Maintenance of Equipment	1,907	2,185	180	0	180	226
25.8 Subsistence & Support of Persons	2,299	4,966	2,008	0	2,008	2,800
26.0 Supplies and Materials	28,424	34,963	22,983	0	22,983	25,945
31.0 Equipment	15,074	8,134	2,582	0	2,582	5,908
32.0 Lands and Structures	127	934	629	0	629	643
33.0 Investments & Loans	0	0	0	0	0	0
41.0 Grants, Subsidies	0	5	0	0	0	0
42.0 Insurance Claims & Indemn	801	2,123	1,860	0	1,860	1,900
43.0 Interest and Dividends	0	0	0	0	0	0
44.0 Refunds	0	0	0	0	0	0
91.0 Unvouchered	7,109	5,349	4,943	0	4,943	5,116
Total Budget Authority	\$5,484,431	\$5,966,619	\$5,299,367	\$0	\$5,299,367	\$5,701,670
Budget Activities:						
Investigations	\$652,623	\$678,849	\$636,067	0	\$636,067	\$688,296
Exam & Collections	4,672,757	5,103,420	4,510,245	0	4,510,245	4,846,749
Regulatory	159,051	184,350	153,055	0	153,055	166,625
Total Budget Authority	\$5,484,431	\$5,966,619	\$5,299,367	\$0	\$5,299,367	\$5,701,670

¹ Actuals represent obligations from FY 2011 budget authority. This excludes obligations from user fees (\$13,249), 50% carryover (\$12,522) and multi-year/no year (\$530) accounts.

2.3 – Appropriation Detail Table

Dollars in Thousands

Enforcement Resources Available for Obligation	FY 2011 Enacted ¹		FY 2012 Enacted		FY 2013 Request		% Change FY 2012 to FY 2013	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:								
Investigations	4,284	\$644,479	4,254	\$636,067	4,725	\$688,296	11.07%	8.21%
Exam and Collections	44,911	4,689,220	42,133	4,510,245	45,556	4,846,749	8.12%	7.46%
Regulatory	1,254	159,293	1,199	153,055	1,302	166,625	8.59%	8.87%
Subtotal New Appropriated Resources	50,449	\$5,492,992	47,586	\$5,299,367	51,583	\$5,701,670	8.40%	7.59%
Other Resources:								
Recoveries		19						
Offsetting Collections - Reimbursable	161	74,963	161	73,604	161	73,604		
Available multi-year/no-year funds		3,196		2,538		2,538		
50% Carryover		12,597						
Transfers In/Out		12						
Mandatory Appropriations - User Fees ²	18	13,249	130	17,750	130	17,750		
Subtotal Other Resources	179	\$104,036	291	\$93,892	291	\$93,892		
Total Resources Available for Obligation	50,628	\$5,597,028	47,877	\$5,393,259	51,874	\$5,795,562	8.35%	7.46%

¹ FY 2011 Enacted represents the approved FY 2011 Operating Plan.

² FY 2011 User Fee and reimbursable dollars and FTE represent actual realized and FY 2012 and FY 2013 represent user fee and reimbursable spend plans.

3C – Investigations (\$688,296,000 in direct appropriations and an estimated \$61,633,000 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; and campus support of the Questionable Refund program. The program activities include the following:

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

FY 2013 Program Changes by Budget Activity

Dollars in Thousands

Internal Revenue Service		
Investigations		
	FTE	Amount
Enforcement Initiatives	471	\$47,129
Promote Offshore Compliance	64	12,144
Implement Revenue Protection Strategy	350	25,090
Build Out Tax Return Preparer Program	50	9,118
Leverage Digital Evidence for Criminal Investigation (CI)	7	777
Total, FY 2013 Program Changes	471	\$47,129

3.1.3 – Budget and Performance Report and Plan

Dollars in Thousands

Investigations Budget Activity								
Resource Level ¹	FY 2006 Enacted	FY 2007 Enacted	FY 2008 Enacted	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Request
Appropriated Resources	\$579,555	\$576,785	\$592,906	\$611,601	\$639,363	\$644,479	\$636,067	\$688,296
Reimbursable Resources	74,842	32,441	49,404	39,639	67,549	63,146	61,633	61,633
Mandatory Appropriations - User Fees								
Total Resources	\$654,397	\$609,226	\$642,310	\$651,240	\$706,912	\$707,625	\$697,700	\$749,929
Budget Activity Total	\$654,397	\$609,226	\$642,310	\$651,240	\$706,912	\$707,625	\$697,700	\$749,929

¹ The FY 2008 - FY 2011 Columns represent realized resources for reimbursable and user fees.

Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2011 Actual	FY 2012 Target	FY 2013 Proposed Target
Criminal Investigations Completed (O) (L)	4,157	4,269	4,044	3,848	4,325	3,900	4,697	4,000	4,000
Number of Convictions (O) (L)	2,019	2,155	2,144	2,105	2,184	2,135	2,350	2,175	2,175
Conviction Rate (Oe) (L)	91.5%	90.2%	92.3%	87.2%	90.2%	92.0%	92.7%	92.0%	92.0%
Conviction Efficiency Rate (\$) (E) (L)	\$328,750	\$301,788	\$315,751	\$327,328	\$324,776	\$350,000	\$310,029	\$325,000	\$325,000

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

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 foster confidence in the tax system and compliance with the law. The following measures are used to evaluate the success of achieving its mission.

In FY 2011, the IRS exceeded its FY 2010 performance and FY 2011 targets for Criminal Investigations Completed, Number of Convictions, and Conviction Rate. The IRS also met the FY 2011 target for Conviction Efficiency Rate.

The Number of Criminal Investigations Completed in FY 2011 (4,697) increased 9 percent compared to FY 2010 and exceeded the FY 2011 target by 20 percent. Approximately 73 percent of the investigations completed consisted of prosecutions that were recommended to the Department of Justice (DOJ). The increase was attributed to a larger number of

investigations initiated in FY 2010 and FY 2011. To achieve future targets, CI will continue to leverage interagency partnerships and develop case selection methods using advanced technologies. In FY 2013, the IRS expects to meet its target of 4,000 investigations completed.

The Number of Convictions in FY 2011 (2,350) was 8 percent higher compared to FY 2010 while 10 percent above the FY 2011 target. A higher number of short-term cases, which include money laundering and narcotics conviction, caused this measure to exceed the year-end target. To achieve future targets, managers will review and monitor performance on a monthly basis and make adjustments, as necessary, to keep on plan. In FY 2013, the IRS expects to meet its target of 2,175 convictions. The FY 2013 target was set based on the quality of the cases and the length of time before prosecution.

The Conviction Rate in FY 2011 was 92.7 percent, an increase up 2.5 percentage points over FY 2010 performance. During this period, convictions increased 8 percent, acquittals increased 38 percent, and dismissals decreased 26 percent when compared to FY 2010. The IRS exceeded the FY 2011 target by almost 1 percent. To achieve future targets, CI will continue to pursue our core mission of tax enforcement, as well as participate in multi-agency investigations of national and international importance. In FY 2013, the IRS expects to meet its target of 92 percent using this strategy.

The Conviction Efficiency Rate is the cost of the criminal investigation program divided by the Number of Convictions. The FY 2011 target for the Conviction Efficiency Rate was set higher than previous years, at \$350,000, because of increases in the overall CI financial plan and reimbursable monies over the prior year. With the additional funding, CI was able to complete 4,697 convictions in FY 2011, 166 more compared to last year and decrease the Conviction Efficiency Rate by 13 percent to \$310,029. To achieve the FY 2012 and FY 2013 goal of \$325,000, CI will continue to monitor its performance and adjust program focus and resources as necessary to ensure efforts garner the greatest deterrent effect possible.

3D – Exam and Collections (\$4,846,749,000 in direct appropriations and an estimated \$11,307,000 from reimbursable programs): This budget activity funds programs that enforce tax laws through examination and collection programs that ensure proper payment and tax reporting. This budget activity also supports appeals and litigation activities associated with exam and collection. The program activities include the following:

- *Compliance Services Management* supports management associated with compliance 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, EEO and diversity, business system planning, and embedded training.
- *EITC Management and Administration* supports headquarters management associated with administering the EITC program service-wide.

- *Whistleblower* provides staffing, training, and direct support to process, assess, and analyze tips from individuals who identify tax problems in the course of their daily personal business, regardless of where encountered (including the workplace).
- *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.

FY 2013 Program Changes by Budget Activity

Dollars in Thousands

Internal Revenue Service		
Exam and Collections	FTE	Amount
Restoration of FY 2012 Reductions to Enforcement Programs	1,455	\$118,672
Restore Audit Coverage to Address Individual Tax Compliance Issues	882	83,265
Restore Collection Coverage	573	35,407
Enforcement Initiatives	2,187	\$217,263
Promote Offshore Compliance	636	69,594
Improve International Compliance	223	33,033
Implement Tax Legislative Changes	556	44,326
Implement Revenue Protection Strategy	482	35,400
Build Out Tax Return Preparer Program	158	18,444
Address Appeals Workload	132	16,466
Total, FY 2013 Program Changes	3,642	\$335,935

3.1.4 – Budget and Performance Report and Plan

Dollars in Thousands

Exam and Collections									
Resource Level ¹	FY 2006 Enacted	FY 2007 Enacted	FY 2008 Enacted	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Request	
Appropriated Resources	\$3,919,275	\$3,959,741	\$4,037,812	\$4,355,186	\$4,700,345	\$4,689,220	\$4,510,245	\$4,846,749	
Reimbursable Resources	10,948	8,764	8,302	8,970	8,729	11,163	11,307	11,307	
Mandatory Appropriations - User Fees		5,452	12,679	3,103	49				
Total Resources	\$3,930,223	\$3,973,957	\$4,058,793	\$4,367,259	\$4,709,123	\$4,700,383	\$4,521,552	\$4,858,056	
Budget Activity Total	\$3,930,223	\$3,973,957	\$4,058,793	\$4,367,259	\$4,709,123	\$4,700,383	\$4,521,552	\$4,858,056	

¹ The FY 2008 - FY 2011 Columns represent realized resources for reimbursable and user fees.

Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2011 Actual	FY 2012 Target	FY 2013 Proposed Target
Examination Coverage - Individual (Oe) (L)	1.0%	1.0%	1.0%	1.0%	1.1%	1.1%	1.1%	1.0%	1.0%
Field Exam National Quality Review Score (Oe) (L)	85.9%	85.9%	86.0%	85.1%	84.9%	83.7%	85.8%	85.8%	86.4%
Office Exam National Quality Review Score (Oe) (L)	88.2%	89.4%	90.0%	92.1%	91.6%	90.4%	90.4%	90.4%	90.4%
Examination Quality - Industry (Oe) (L)	85.0%	87.0%	88.0%	88.0%	87.0%	89.0%	90.0%	90.0%	90.0%
Examination Quality - Coordinated Industry (Oe) (L)	96.0%	96.0%	97.0%	95.0%	95.0%	96.0%	96.0%	97.0%	97.0%
Examination Coverage - Business (Assets > \$10 million) (Oe) (L)	7.3%	6.8%	6.1%	5.6%	5.7%	5.3%	6.2%	5.6%	5.4%
AUR Efficiency (E) (L)	1,832	1,956	1,982	1,905	1,924	1,980	2,007	2,067	2,067
AUR Coverage (E) (L)	2.4%	2.5%	2.6%	2.6%	3.0%	3.3%	3.3%	3.2%	3.2%
Examination Efficiency - Individual (E) (L)	128	137	138	138	140	134	139	134	134
Collection Coverage - Units (O) (L)	54.0%	54.0%	55.2%	54.2%	50.1%	49.1%	50.0%	47.8%	46.8%
Collection Efficiency - Units (E) (L)	1,677	1,828	1,926	1,845	1,822	1,824	1,952	2,073	2,028
Field Collection National Quality Review Score (O) (L)	84.2%	84.0%	79.0%	80.5%	80.6%	81.0%	80.3%	78.0%	79.0%
Automated Collection System (ACS) Accuracy (Oe)	91.0%	92.9%	95.3%	94.3%	95.9%	94.0%	94.9%	94.5%	95.0%

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

Description of Performance

The IRS Strategic goal, *Enforce the Law to Ensure Everyone Meets Their Obligation to Pay Taxes*, drives the IRS effort to enhance voluntary compliance. The IRS enforcement activities, such as examination and collection, target elements of the tax gap and remain a high priority. These programs make sure taxpayers pay what they owe and assist individuals who may have trouble meeting their tax liabilities because of hardship situations.

Exam

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

The IRS met the FY 2011 Individual Exam Coverage target of 1.1 percent. Though individual coverage has been fairly stable from FY 2007 through FY 2011, the IRS audited more than 13 percent more individual taxpayers while the calendar year filings decreased by 1 percent during the same period. Future plans include leveraging National Research Program (NRP) data to improve return selection criteria, streamlining automation, an emphasizing multi-year non-compliance, and using risk analysis/assessment in all business processes. New initiatives are included in the FY 2013 budget request to ensure Individual Exam Coverage does not drop below 1 percent.

In FY 2011, the Field Exam National Quality Review Score reached 85.8 percent, exceeding the 83.7 percent target. The IRS focused on improving the lowest scoring quality attributes, including income probes and efficient resolution/time frames met. Actions undertaken to improve quality include:

- Ongoing delivery of Income Toolkit training;
- Establishing a Process Improvement Challenge team to focus on the quality of income determinations; and
- Emphasizing quality casework by area directors (especially income determinations, and timeframes) during their operational reviews and staff meetings.

As a result, there was a 1 percent improvement from FY 2010. In addition, because of the new scoring methodology, the number of attributes reviewed decreased from 22 to 18 in FY 2011 contributing to the 16 percent decrease in the total number of case reviews. (Attributes are concise statements of expectations for quality examinations and are guidelines to assist examiners in fulfilling their professional responsibilities. These attributes are utilized by the Examination Quality Measurement Staff (EQMS) in determining the quality score.) Based on these improvements, the IRS will increase its FY 2012 and FY 2013 targets to 85.8 percent and 86.4 percent, respectively, and continue its focus on improving quality by developing tools and communications to assist examiners with approving the lowest scoring attributes.

The IRS met the FY 2011 Office Exam National Quality Review Score target of 90.4 percent. In FY 2011, the quality score was 1 percent lower than the FY 2010 score but still at or above 90 percent for most industries. The number of attributes reviewed decreased from 22 to 18 in FY 2011 contributing to a 17 percent decrease in the total number of cases reviewed. Anticipated improvements within the weakest performing quality attributes (i.e. Exam Income Determination and Time Span) are currently being implemented. Exam continues efforts to improve the weakest performing quality attributes with initiatives including:

- Establishment of an Exam General Processes Quality Improvement Team to develop actions to address weaknesses found within Attribute 510 (Time Span);
- Development of an income website to provide examiners with income probe resources compiled in a centralized location; and
- Delivery of Income Toolkit Training for Income Examinations.

In FY 2013, through these quality improvement efforts, the IRS expects to meet the target of 90.4 percent by continuing to identify and resolve quality weaknesses.

In FY 2011, the Exam Quality Industry Score met the year-end target of 89.0 percent and increased by 3 percentage points compared to FY 2010. The biggest increase was in the overall quality score for Financial Services which improved 7 percentage points over the previous year. This improvement was because of significant increases to three of the five Auditing Standards that comprise the Quality Measurement scoring process. Elements within each standard showed improvement. In particular, there was improvement in conducting taxpayer interviews and in report writing procedures. Feedback is provided to field teams through the development and circulation of quality articles, reports, memos, and partnering with the industries in quality improvement efforts. Based on FY 2011 quality improvements, in FY 2013, the IRS expects to meet the target of 90 percent.

The IRS met the FY 2011 Exam Quality Coordinated Industry Target of 96 percent. For FY 2011, improvement actions implemented in FY 2010, such as ensuring that work papers fully documented the audit trail, improving how conclusions were reached, and ensuring that Administrative Procedures documents were signed, appear to have been successful, as Coordinated Industry Quality increased 1 percentage point compared to FY 2010 (96 percent vs. 95 percent). For FY 2012 and FY 2013, the IRS will increase the target to 97 percent by focusing on the importance of meeting the quality measures through direct feedback to field teams, partnering with the industries in quality improvement efforts, quality articles, quarterly reports/memos, and outreach to field teams. The IRS expects to meet its FY 2013 target of 97 percent using this strategy.

In FY 2011, the IRS achieved a 6.2 percent score for Business Exam Coverage (assets greater than \$10 million), exceeding FY 2010 performance by 9 percent and the FY 2011 target by 17 percent. The year-end coverage rate is the result of an increase in the number of closures for Corporations (3.5 percent) and Flow-Throughs (5.3 percent). Coverage for FY 2013 is projected to be slightly lower than FY 2011 because of an anticipated increase in return filings coupled with a decrease in FTE. As coverage is based on closures compared to filings, the IRS will continue to monitor its plan in FY 2013 to assure that closures are achieved as projected and that plans reflect the large business and international population. New audit tools will be used to enhance audit selection so that the plan is achieved and coverage is maintained. In FY 2013, the IRS expects to meet its target of 5.4 percent using this strategy.

The IRS exceeded the FY 2010 performance and the FY 2011 target for Automated Underreporter (AUR) Efficiency. In FY 2011, AUR Efficiency reached 2,007 closures per FTE, while exceeding FY 2010 performance (1,924) and the FY 2011 target of 1,980 closures per FTE. The high results were primarily because of an 8.5 percent increase in AUR contact closures over FY 2010. The increase in total contact closures in FY 2010 and FY 2011 is attributed to the new employees hired in late FY 2009 through early 2010 as part of the Enforcement initiative. Although FTEs are declined because of funding, AUR efficiency is planned to increase to 2,067. To achieve future targets, the IRS plans improve case selection and enhance systems to allow for the closures of more cases per FTE. By meeting the AUR Efficiency target, the IRS supports the achievement of Treasury's goal to Pursue

Comprehensive Tax and Fiscal Reform. In FY 2013, the IRS expects to meet its target of 2,067 closures per FTE using this strategy.

The IRS exceeded FY 2010 performance and met the FY 2011 AUR Coverage target of 3.3 percent. As mentioned for AUR Efficiency, the primary reason for the increase is that contact closures were up 8.5 percent, which was attributed to the new employees hired in late FY 2009 through early 2010 as part of the enforcement initiative. To achieve future targets, the IRS plans improve case selection and continued enhance systems to allow the closure of more cases per FTE. By meeting the AUR Coverage target, the IRS supports the achievement of Treasury's goal to Pursue Comprehensive Tax and Fiscal Reform. In FY 2013, the IRS expects to meet its target of 3.2 percent using this strategy.

The IRS exceeded its FY 2011 target for Individual Exam Efficiency. Individual Exam Efficiency reached 139 in FY 2011, exceeding the FY 2011 target of 134 by 4 percent. While FY 2011 total closures decreased 1 percent compared to FY 2010, small business closures increased 2.3 percent and large business and international individual closures increased more than 121 percent. Individual Exam Efficiency is planned to decline in FY 2013 because FTEs are anticipated to decline. To meet future targets, the IRS plans to improve the work stream through better case identification and classification and by leveraging NRP data to improve Exam's ability to select the best workload for examination. The IRS expects to meet the FY 2013 target of 134 closures using these strategies as well as through monitoring of cycle times, related pickups, and multi-year examinations.

Collection

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

In FY 2011, Collection Coverage was 50 percent, exceeding the target by almost 1 percent. Compared to FY 2010, there was a 3.5 percent decrease in net dispositions and 30 percent more collection work was returned to inventory. The notice decrease will negatively affect Collection Coverage and Efficiency even though the reduction in dispositions has a positive affect on potentially collectible inventory. To meet future plans, the IRS will work with the campuses throughout the year to identify and assign inventory to mitigate the notice deposition shortfall. In FY 2013, the IRS expects to meet its target of 46.8 percent using this strategy.

The IRS exceeded FY 2010 performance and FY 2011 Collection Efficiency target (1,854) by 7 percent. FY 2011 year-end results (1,952) were driven by the over-delivery of 966,000 module closures coupled with a 3 percent under-delivery in FTE. To meet future targets, the IRS plans to gain efficiencies by improving case selection and systemic processing. In FY 2013, the IRS expects to meet its target of 2,028 collection closures per FTE.

At 80.3 percent, the IRS was within 1 percent of the FY 2011 target of 81 percent for Field Collection Quality. One of the major factors that contributed to the shortfall was that in previous years, the Case File Folder attribute, which is used to determine the documentation necessary to support the method of disposition included with the closed case file, was reviewed in roughly 80 percent of cases and scored consistently at 90 percent accuracy. In mid-FY 2010, Collection Field function began conducting History Only reviews, which resulted in a rating of "N/A" for this attribute. Through the end of FY 2011, the Case File Folder attribute was rated in only 23 percent of cases reviewed. Additionally, 13.8 percent of the cases reviewed in FY 2011 have been older than the normal Collection Field function case closure time of six to eight months. In FY 2013, the target was lowered slightly because of the reliance on History Only reviews. By improving sampling and reducing the reliance on History Only reviews, the result will be a more complete review process coupled with further revisions to the attributes. In FY 2013, the IRS expects to meet its target of 79 percent using these strategies.

The IRS met the FY 2011 Automated Collection System Accuracy (ACS) target of 94 percent. Results for this measure have been consistently above 94 percent for the past four years and remained above the year-end target for FY 2011 at 94.9 percent. This high rate is attributed to an experienced staff who have a smaller margin of error and receives higher quality scores. To achieve future targets, the IRS will continue to focus on process and performance reviews to maintain the highest accuracy rate possible. Enhanced collaboration and information sharing between ACS sites will be key to meeting the FY 2013 target of 95 percent.

3E – Regulatory (*\$166,625,000 in direct appropriations, an estimated \$664,000 from reimbursable programs, and an estimated \$17,750,000 from user fees*): This budget activity funds the development and printing of published IRS guidance materials; interpretation of tax laws; internal advice to IRS on general non-tax legal issues; enforcement of regulatory rules, laws, and approved business practices; and support for taxpayers in the areas of pre-filing agreements, determination letters, and advance pricing agreements. The program activities include the following:

- *Tax Law Interpretation and Published Guidance* interprets the tax law through published guidance, technical advice, and other technical legal services.
- *General Legal Services* provides advice to the IRS on non-tax legal issues, including procurement, personnel, labor relations, equal employment opportunity, fiscal law, tort claims and damages, ethics, and conflict of interest.
- *Rulings and Agreements* applies the tax law to specific taxpayers in the form of pre-filing agreements, determination letters, advance pricing agreements, and other pre-filing determinations and advice.
- *International Regulatory Legal Support* supports Counsel's work in tax law interpretation and rulings and agreements related to international issues.
- *Return Preparer Strategy* provides staffing, training, and direct support associated with the Return Preparer Strategy initiative.

- *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.

FY 2013 Program Changes by Budget Activity

Dollars in Thousands

Internal Revenue Service		
Regulatory	FTE	Amount
Enforcement Initiatives	103	\$12,572
Implement Tax Legislative Changes	63	7,368
Build Out Tax Return Preparer Program	20	1,628
Implement Uncertain Tax Position Reporting Requirements	20	3,576
Total, FY 2013 Program Changes	103	\$12,572

3.1.5 – Budget and Performance Report and Plan

Dollars in Thousands

Regulatory	FY 2006 Enacted	FY 2007 Enacted	FY 2008 Enacted	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Request
Resource Level ¹								
Appropriated Resources	\$209,611	\$149,951	\$149,282	\$150,480	\$164,292	\$159,293	\$153,055	\$166,625
Reimbursable Resources	251	255	435	469	574	654	664	664
Mandatory Appropriations - User Fees			168			13,249	17,750	17,750
Total Resources	\$209,862	\$150,206	\$149,885	\$150,949	\$164,866	\$173,196	\$171,469	\$185,039
Budget Activity Total	\$209,862	\$150,206	\$149,885	\$150,949	\$164,866	\$173,196	\$171,469	\$185,039

¹ The FY 2008 - FY 2011 Columns represent realized resources for reimbursable and user fees.

Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2011 Actual	FY 2012 Target	FY 2013 Proposed Target
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TE/GE Determination Case Closures (Ot)

108,462 109,408 100,050 96,246 105,247 97,151 91,205 65,794 62,600

Key: Ot - Output/Workload Measure

Description of Performance

Tax Exempt and Government Entities (TEGE) Determination Closures include both applications for tax-exempt status for employee retirement plans and applications from various charitable entities seeking tax-exempt status. Applications are reviewed to determine their eligibility and closed upon approval or disapproval. The IRS fell short of the FY 2011 target of 97,151 for determination case closures by 6 percent. Factors contributing to the shortfall include:

- Exempt Organizations (EO) - A shift in processing methods resulted in more time applied than anticipated to cases requiring more extensive reviews. EO also shifted resources to cases that take longer to process to reduce aging inventory; and
- Employee Plans (EP) - Agents were shifted to work more complex individually-designed plans and pre-approved plan receipts. To address these issues and achieve future targets, Tax Exempt & Government Entities (TEGE) plans to shift more complex cases from EO to technical groups with the knowledge to dispose of these cases much quicker. In EP, TEGE will implement improvements, such as

changing submission procedures to better control receipts and inventory levels while enhancing business rules to close cases faster.

The FY 2012 and FY 2013 targets were lowered because of the anticipated complexity of the work and reduced staffing. In FY 2013, the IRS expects to close 62,600 determination cases. To address these issues and achieve future targets, TEGE plans to shift more complex cases from EO to technical groups with the knowledge to dispose of these cases more quickly. EP will implement improvements, such as changing submission procedures to better control receipts and inventory levels while enhancing business rules to close case faster.

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 IRS's information systems.

The Operations Support President's Budget request for FY 2013 is \$4,476,200,000 in direct appropriations and 12,609 FTE. This is an increase of \$528,784,000, or 13.40 percent, and 624 FTE more than the FY 2012 enacted budget of \$3,947,416,000 and 11,985 FTE. The direct appropriations level includes an additional appropriation for tax enforcement and compliance activities funded through a program integrity cap adjustment totaling \$691,028,000, of which \$414,064,000 will be funded from the Operations Support appropriation.

2.1 – Budget Adjustments Table

Dollars in Thousands

Operations Support	FTE	Amount
FY 2012 Enacted	11,985	\$3,947,416
Changes to Base		
Maintaining Current Levels (MCLs)		\$52,698
Efficiencies/Savings		(\$7,530)
Increase e-File Savings		(442)
Reduce Travel		(1,708)
Targeted Program Reductions		(5,380)
Subtotal, FY 2013 Changes to Base		\$45,168
FY 2013 Current Services (Base)	11,985	\$3,992,584
Program Changes		
<i>Restoration of FY 2012 Reductions to Enforcement Programs</i>		
Restore Audit Coverage to Address Individual Tax Compliance Issues	24	43,519
Restore Collection Coverage		26,033
Subtotal, Restoration of FY 2012 Reductions to Enforcement Programs	24	\$69,552
Program Increases		
<i>Enforcement Initiatives</i>		
Promote Offshore Compliance		29,001
Improve International Compliance		5,851
Implement Tax Legislative Changes	49	68,806
Implement Revenue Protection Strategy	13	21,297
Build Out Tax Return Preparer Program		5,976
Address Appeals Workload		3,858
Implement Uncertain Tax Position Reporting Requirements		454
Leverage Digital Evidence for Criminal Investigation (CI)	1	3,727
Subtotal, Enforcement Initiatives	63	\$138,970
<i>Infrastructure Initiative</i>		
Implement Information Technology and Operational Infrastructure to Deliver New Tax Crea	537	266,894
Implement Information Technology Changes Needed for Individual Coverage Requireme		8,200
Subtotal, Infrastructure Initiative	537	\$275,094
Subtotal, FY 2013 Program Changes	624	\$483,616
Total, FY 2013 Budget Request	12,609	\$4,476,200

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Operations Support	FY 2011 Actuals ¹	FY 2012 President's Budget	FY 2012 Enacted	Proposed Reprogrammings	FY 2012 Proposed Operating Level	FY 2013 Request
FTE	12,103	13,142	11,985	0	11,985	12,609
Object Classification:						
11.1 Full-Time Permanent Positions	\$1,098,904	\$1,182,167	\$1,122,032	\$0	\$1,122,032	\$1,198,751
11.3 Other than Full-Time Permanent Positions	9,653	11,693	11,612	0	11,612	11,654
11.5 Other Personnel Compensation	32,456	33,586	30,110	0	30,110	32,795
11.8 Special Personal Services Payments	0	0	0	0	0	0
11.9 Personnel Compensation (Total)	\$1,141,013	\$1,227,446	\$1,163,754	\$0	\$1,163,754	\$1,243,200
12.0 Personnel Benefits	370,043	387,046	366,121	0	366,121	407,452
13.0 Benefits to Former Personnel	49,434	49,789	48,898	0	48,898	49,797
21.0 Travel	31,600	46,282	36,679	0	36,679	42,717
22.0 Transportation of Things	20,145	22,348	21,585	0	21,585	22,479
23.1 Rental Payments to GSA	645,160	685,010	674,870	0	674,870	691,629
23.2 Rent Payments to Others	12,673	14,901	13,103	0	13,103	13,344
23.3 Communications, Utilities, & Misc	389,806	449,668	395,835	0	395,835	428,892
24.0 Printing & Reproduction	26,313	44,544	23,677	0	23,677	26,975
25.1 Advisory & Assistance Services	460,649	79,041	312,980	0	312,980	534,320
25.2 Other Services	93,718	740,967	141,864	0	141,864	190,239
25.3 Purchase of Goods & Services from Govt. Accounts	79,898	64,348	63,822	0	63,822	72,081
25.4 Operation & Maintenance of Facilities	144,412	168,283	174,398	0	174,398	183,175
25.5 Research & Development Contracts	0	5,433	34	0	34	35
25.6 Medical Care	14,186	13,419	14,326	0	14,326	15,612
25.7 Operation & Maintenance of Equipment	82,728	94,389	159,581	0	159,581	168,678
25.8 Subsistence & Support of Persons	21	313	223	0	223	227
26.0 Supplies and Materials	35,716	32,453	44,610	0	44,610	48,652
31.0 Equipment	311,449	408,472	272,120	0	272,120	312,413
32.0 Lands and Structures	33,244	85,836	17,186	0	17,186	22,501
33.0 Investments & Loans	0	0	0	0	0	0
41.0 Grants, Subsidies	0	0	0	0	0	0
42.0 Insurance Claims & Indemn	2,297	538	1,750	0	1,750	1,782
43.0 Interest and Dividends	0	0	0	0	0	0
44.0 Refunds	0	0	0	0	0	0
91.0 Unvouchered	0	0	0	0	0	0
Total Budget Authority	\$3,944,505	\$4,620,526	\$3,947,416	\$0	\$3,947,416	\$4,476,200
Budget Activities:						
Infrastructure	\$925,094	\$986,045	\$940,765	\$0	\$940,765	987,730
Shared Services & Support	1,255,062	1,313,050	1,242,470	\$0	1,242,470	1,348,363
Information Services	1,764,349	2,321,431	1,764,181	\$0	1,764,181	2,140,107
Total Budget Authority	\$3,944,505	\$4,620,526	\$3,947,416	\$0	\$3,947,416	\$4,476,200

¹ Actuals represent obligations from FY 2011 budget authority. This excludes obligations from user fees (\$54,642), 50% carryover (\$18,964), multi-year/no year (\$62,241) and recoveries (\$1,464) accounts.

2.3 – Appropriation Detail Table

Dollars in Thousands

Operations Support								% Change	
Resources Available for Obligation	FY 2011 Enacted ¹		FY 2012 Enacted		FY 2013 Request		FY 2012 to FY 2013		
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	
New Appropriated Resources:									
Infrastructure		\$926,190		\$940,765		\$987,730		4.99%	
Shared Services and Support	6,050	1,291,568	5,806	1,242,470	5,858	1,348,363	0.90%	8.52%	
Information Services	6,455	1,838,958	6,179	1,764,181	6,751	2,140,107	9.26%	21.31%	
Subtotal New Appropriated Resources	12,505	\$4,056,716	11,985	\$3,947,416	12,609	\$4,476,200	5.21%	13.40%	
Other Resources:									
Recoveries		2,034							
Offsetting Collections - Reimbursable	106	37,123	106	37,564	106	37,564			
Available multi-year/no-year funds		70,629		80,915		80,915			
50% Carryover		18,964							
Transfers In/Out									
Mandatory Appropriations - User Fees		54,642		55,368		57,958		4.68%	
Subtotal Other Resources	106	\$183,392	106	\$173,847	106	\$176,437		1.49%	
Total Resources Available for Obligation	12,611	\$4,240,108	12,091	\$4,121,263	12,715	\$4,652,637	5.16%	12.89%	

¹ FY 2011 Enacted represents the approved FY 2011 Operating Plan and interappropriation transfer.

3F – Infrastructure (\$987,730,000 in direct appropriations, an estimated \$889,000 from reimbursable programs, and an estimated \$21,867,000 from user fees): This budget activity funds administrative services related to space and housing, rent and space alterations, building services, maintenance, guard services, and non-IT equipment. The program activities include the following:

- *Building Delegation* oversees and manages the IRS GSA-delegated buildings, including cleaning, maintenance, utilities, protection, administrative, and recurring and one-time repair costs.
- *Rent* provides resources for all IRS rent needs.
- *Space and Housing/Non-IT Equipment* provides management of all IRS building services, maintenance, space alterations, guard services, custodial overtime, utility services needs, and non-IT equipment.
- *Security* covers building security costs related to contract guard services.

FY 2013 Program Changes by Budget Activity

Dollars in Thousands

Internal Revenue Service		FTE	Amount
Infrastructure			
Restoration of FY 2012 Reductions to Enforcement Programs			\$10,585
	Restore Audit Coverage to Address Individual Tax Compliance Issues		5,745
	Restore Collection Coverage		4,840
Enforcement Initiatives			\$18,294
	Promote Offshore Compliance		4,410
	Improve International Compliance		1,406
	Implement Tax Legislative Changes		4,460
	Implement Revenue Protection Strategy		5,574
	Build Out Tax Return Preparer Program		1,436
	Address Appeals Workload		832
	Implement Uncertain Tax Position Reporting Requirements		126
	Leverage Digital Evidence for Criminal Investigation (CI)		50
Infrastructure Initiatives			\$1,576
	Implement Information Technology and Operational Infrastructure to Deliver New Tax Credits		1,576
Total, FY 2013 Program Changes			\$30,455

3.1.6 – Budget and Performance Report and Plan

Dollars in Thousands

Infrastructure	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Resource Level ¹	Enacted	Enacted	Enacted	Enacted	Enacted	Enacted	Enacted	Request
Appropriated Resources	\$864,403	\$845,203	\$826,313	\$875,538	\$895,202	\$926,190	\$940,765	\$987,730
Reimbursable Resources	385	121	149	14,120	505	880	889	889
Mandatory Appropriations - User Fees			13,049			23,290	21,277	21,867
Total Resources	\$864,788	\$845,324	\$839,511	\$889,658	\$895,707	\$950,360	\$962,931	\$1,010,486
Budget Activity Total	\$864,788	\$845,324	\$839,511	\$889,658	\$895,707	\$950,360	\$962,931	\$1,010,486

¹ The FY 2008 - FY 2011 Columns represent realized resources for reimbursable and user fees.

Description of Performance

Through September 30, 2011, the IRS achieved cost savings by completing or partially completing 18 space reduction projects, releasing a cumulative total of 128,893 rentable square feet for an annualized savings of \$2.8 million. These FY 2011 savings, coupled with those from previous years, have helped to offset the increased costs associated with GSA rate increases, as well as infrastructure improvement initiatives, such as the consolidation of the Philadelphia campus.

For FY 2012, the IRS plans for 35 space reduction projects with a projected release of 421,928 rentable square feet and associated annualized expenses, mainly rent of \$8.4 million. For FY 2013, the IRS is evaluating 10 space reduction projects that, if implemented, would total approximately 42,800 square feet with \$956,000 in annual rent savings. The IRS also intends, where possible, to place new hires in existing space and renew leases at existing sites

rather than move to new locations. These and other actions will help offset the projected rent costs in FY 2012 and beyond, as well the cost of future campus consolidation projects.

3G – Shared Services and Support (\$1,348,363,000 in direct appropriations, an estimated \$20,207,000 from reimbursable programs, and an estimated \$11,700,000 from user fees):

This budget activity funds policy and management, IRS-wide support for research, strategic planning, communications and liaison, finance, human resources, and equity, diversity and inclusion program. It also funds printing and postage, business systems planning, security, corporate training, legal services, procurement, and employee benefits programs. The program activities include the following:

- *National Headquarters Management and Administration* directs the management activities of strategic planning, communications and liaison, finance, human resources, equity, diversity and inclusion, and business systems planning and embedded training. This activity sets policies and goals, provides leadership and direction for the IRS and builds partner relationships with key stakeholders (Congress, GAO, OMB, and the Oversight Board). It provides policy guidance for conducting planning and budgeting strategies, conducting analysis of programs and investments to support strategic decision-making, and developing and managing human resources. It also includes official reception and representation expenses.
- *Real Estate and Facilities Management* provides services and supplies required to manage IRS facilities.
- *Procurement* supports the procurement function of the IRS.
- *Equity, Diversity and Inclusion Field Services*: This activity provides staffing, training, and direct support to plan and manage the IRS's Equity, Diversity and Inclusion program.
- *Communications and Liaison* coordinates local government and liaison relationships; handles congressional, state, and national stakeholder relationships and issues; coordinates cross-cutting issues, including managing audits and legislative implementation; handles national media contacts and local media relationships; and ensures IRS-wide compliance with disclosure and privacy laws.
- *Employee Support Services* plans and manages financial services, including relocation, travel, purchase cards, corporate express, and employee clearances.
- *Treasury Complaint Centers* plan and manage the Treasury Complaint Centers.
- *Shared Support not provided by Agency-Wide Shared Services* provides resources for shared cross-functional support, such as copiers, postage meters, shredders, courier services, and post office boxes.
- *Printing and Postage – Media and Publications* provides operating divisions with printing and postage, including shipping of taxpayer and internal use materials.
- *Statistics of Income* provides resources for researching annual income, financial, and tax data from tax returns filed by individuals, corporations, and tax-exempt organizations.

- *Research* provides resources for market-based research to identify compliance issues, for conducting tests of treatments to address noncompliance, and for the implementation of successful treatments of taxpayer non-compliant behavior.
- *Security Administration and Management* manages and oversees the staffing, training, equipment, and direct support for the protection of IRS employees, facilities, assets, and the availability of taxpayer services.
- *Wage and Investment (W&I) Business Modernization Support* provides staffing, training, and direct support for W&I's enterprise-wide business modernization efforts, including Customer Account Data Engine 2 (CADE 2), and Account Management Services (AMS) technology solutions, and re-engineered business processes.
- *Benefit Payments* provides resources to fund Workers' Compensation benefits and Unemployment Compensation for federal employee payments.
- *Shared Services* provides additional services, such as Public Transit Subsidy.

FY 2013 Program Changes by Budget Activity

Dollars in Thousands

Internal Revenue Service		
Shared Services and Support	FTE	Amount
Restoration of FY 2012 Reductions to Enforcement Programs		\$30,080
Restore Audit Coverage to Address Individual Tax Compliance Issues		12,732
Restore Collection Coverage		17,348
Enforcement Initiatives	52	\$61,466
Promote Offshore Compliance		10,105
Improve International Compliance		3,442
Implement Tax Legislative Changes	49	30,578
Implement Revenue Protection Strategy	3	11,319
Build Out Tax Return Preparer Program		3,584
Address Appeals Workload		2,138
Implement Uncertain Tax Position Reporting Requirements		238
Leverage Digital Evidence for Criminal Investigation (CI)		62
Infrastructure Initiatives		\$1,431
Implement Information Technology and Operational Infrastructure to Deliver New Tax Credits		1,431
Total, FY 2013 Program Changes	52	\$92,977

3.1.7 – Budget and Performance Report and Plan

Dollars in Thousands

Shared Services and Support								
Resource Level ¹	FY 2006 Enacted	FY 2007 Enacted	FY 2008 Enacted	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Request
Appropriated Resources	\$1,176,202	\$1,179,216	\$1,291,296	\$1,269,642	\$1,311,127	\$1,291,568	\$1,242,470	\$1,348,363
Reimbursable Resources	13,844	13,649	30,796	20,763	20,315	19,957	20,207	20,207
Mandatory Appropriations - User Fees			19,114	2	17,887	4,588	11,700	11,700
Total Resources	\$1,190,046	\$1,192,865	\$1,341,206	\$1,290,407	\$1,349,329	\$1,316,113	\$1,274,377	\$1,380,270
Budget Activity Total	\$1,190,046	\$1,192,865	\$1,341,206	\$1,290,407	\$1,349,329	\$1,316,113	\$1,274,377	\$1,380,270

¹ The FY 2008 - FY 2011 Columns represent realized resources for reimbursable and user fees.

Description of Performance

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

Human Capital

One of the foundations to become the Best Place to Work in Government was the 2011 Workforce of Tomorrow (WoT) Summit, held in June, with 43 emerging IRS leaders and NTEU partners in attendance. Summit participants leveraged information provided from field events, during which more than 600 employee-participants provided more than 2,400 ideas and feedback on six focus areas. The focus of the Summit was on communications and the theme “*A better informed workforce of today leads to a more dynamic workforce of tomorrow.*” Recommendations from the Summit will improve communications to keep the IRS workforce well informed, resulting in consistent messages that reach diverse audiences within the IRS, and driving the organization’s processes, culture, and workforce toward making the IRS the Best Place to Work. For FY 2011, the Best Places to Work ranked the IRS 65 out of 240 agency subcomponents. The rankings improved because of the IRS’s significantly higher scores in three core areas: job satisfaction, satisfaction with the overall organization and willingness of employees to recommend the IRS as a good place to work.

The IRS will continue to ensure the success of every business unit by providing human capital strategies and tools for recruiting, hiring, developing, retaining, and transitioning a highly-skilled and high-performing workforce to support the mission.

Security

The IRS collects a tremendous amount of sensitive information and protecting this information is vital to maintaining the public trust. The IRS continues to face challenges as it strives to protect sensitive information from being obtained by identity thieves and to address online threats. As the prevalence of identity theft has increased across the United States and the world, so have the counter measures put in place by the IRS. The IRS has implemented several identity theft indicators that allow taxpayer accounts to be flagged for potential identity theft and fraud.

The IRS takes the issue of identity theft seriously. In CY 2011, to preserve and enhance public confidence, the IRS advocated the protection and proper use of identity information by:

- Ensuring identity theft indicators and business rules isolated returns for additional screening to validate whether the true taxpayer filed the return;
- Removing more than 324,725 returns from processing and preventing more than \$1.3 billion in fraudulent refunds through October 13, 2011;
- Issuing Identity Protection Personal Identification Numbers (PIN) to approximately 56,000 taxpayers who self-reported they were victims of identity theft. The PIN allows identity theft victims to avoid delays in processing their returns; and
- Establishing the Identity Theft Assessment and Action Group (ITAAG) to implement, promote, and refine identity theft procedures to ensure that the IRS resolves taxpayer account issues timely and completely.

Attempts to obtain taxpayer personally identifiable information continue to occur as phishing and vishing (voice + phishing) remain a challenge. As the threats from both identity theft and online sources evolve, so does the IRS response. By working proactively with the Internet Service Providers (ISPs) and the Domain Name Registrars to identify and quickly shut down fake e-filing sites, the IRS eliminated e-File scams that would have resulted in paying out refunds to tax cheats and identify thieves. The IRS has shut down 17,024 sites since the beginning of FY 2009. There was an unprecedented spike between June 20 and July 6, 2011, during which 7,449 phishing/malware attacks using the IRS name were identified and shut down. However, as the IRS shuts down fraudulent sites and addresses schemes, new and innovative tactics continue to evolve. The IRS works to identify and quickly shut down these new schemes to protect tax information and maintain public confidence.

Research

During FY 2011, the IRS continued its research studies of filing, payment, and reporting compliance, including the National Research Program (NRP), to provide a comprehensive picture of overall taxpayer compliance levels. Research allows the IRS to target specific areas to improve voluntary compliance and to allocate resources more effectively to reduce the tax gap. The NRP efforts included analyzing individual income tax returns for tax years (TY) 2006 - 2010 as part of an on-going reporting compliance study. In addition, the IRS began an employment tax compliance study for TY 2008 - 2010, and is preparing to begin a reporting compliance study of corporate income tax. The IRS also devised a new method for measuring the filing compliance rate.

In FY 2011, the IRS continued to develop tools and models to detect non-compliance, to identify emerging issues related to compliance activities (with a focus on international issues), to analyze results of implemented compliance efforts, and to support the Return Preparer initiative. Research efforts in FY 2011 also concentrated on providing taxpayer-based information and analyses necessary to implement new tax laws; in particular, health care-related legislation and provisions of the American Recovery and Reinvestment Act of 2009.

The IRS will continue to:

- Build and deploy advanced information technology systems, processes, and tools to improve the IRS efficiency and productivity; and
- Use data and research across the organization to make informed decisions and allocate resources.

3H – Information Services (\$2,140,107,000 in direct appropriations, an estimated \$16,468,000 from reimbursable programs, and an estimated \$24,391,000 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 tax administration programs. This includes the design and operation of 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.

Modernization and Information Technology Services (MITS) is responsible for information systems and technology, ranging from cyber security and networks to applications development and end user equipment and services. The program activities include the following:

- *Security Services* ensures effective security policies and programs to safeguard taxpayer records, IRS employees, facilities, business processes, systems and other resources. The program is responsible for corrective action efforts to establish adequate service-wide security, including Security Policy Support and Oversight, Mission Assurance, and Modernization Security. Policies are set using a governance process including executive steering committees. Compliance review teams perform vulnerability assessments. Mission assurance activities include operation of the Computer Systems Incident Response and Situation Awareness and Management Centers, as well as coordination of service-wide disaster recovery and business continuity planning. Operational programs include security training and awareness, sensitive system certification and accreditation with Treasury on the federal Critical Infrastructure Protection Program.
- *Tier B* provides support to one single-owner business unit for small to medium new investment projects (not Operations & Maintenance (O&M)), using core data, Business Master File (BMF) and Individual Master File (IMF), to support specialized functions (Submission Processing, Enforcement, and Taxpayer Service).
- *Management Services* provides for the design, development, delivery, and evaluation of a wide range of human resource programs for the MITS organization. These programs include workforce planning, recruitment and retention, career management, performance management, labor/employee relations, position management, workplace improvement, succession management and service-wide IT training and education.
- *National Headquarters (NHQ) IT Management* provides for the management and oversight of investments in IT for the Chief of Staff and Research, Analysis and

Statistics (RAS). The program allows NHQ to manage and leverage IT solutions that are responsive to IRS-wide management, tax compliance, enforcement, and strategic and tactical research projects.

- *Affordable Care Act – Program Management Office (PMO)* manages the strategic planning, development, and implementation of new information systems in support of business requirements with regard to the healthcare reform initiative.
- *MITS Executive Oversight* provides support to the immediate Office of the Chief Technology Officer, as well as the direct reports for Equity, Diversity and Inclusion, and the Director, Stakeholder Management (including Communications Services and Program Oversight). The program provides executive direction for the MITS organization, enabling MITS to be a customer-focused supplier of IT solutions that are responsive to customer business priorities and meet functional and operational needs effectively.
- *Application Development* performs the analysis, design, development, testing, and implementation of approximately 85,000 application programs supporting critical tax processing, management information reporting and financial management support systems for the IRS. This program also supports external trading partner data exchanges with federal government agencies, state and local governments, and other third-party entities. The program controls application source code and deploys applications to the production environment.
- *Enterprise Operations* designs, develops, and maintains IT that supports critical tax processing, management information reporting and financial management support systems for the IRS. The program supports data exchanges with external organizations, such as other federal agencies, state and local governments, and external entities (e.g., employers and banks), and includes a comprehensive disaster recovery capability to ensure continued operations in the event of a major interruption of service.
- *Enterprise Network* provides telecommunications service delivery to all customer segments, including management of day-to-day operations of the telecommunications environment. This includes the operation of equipment and services to meet business user needs and the execution of routine changes for scheduled and unscheduled modifications to the telecommunications infrastructure and applications. It addresses all phases of engineering, acquisition, implementation, and operation of telecommunications systems and services, including voice, video, and data communications.
- *Enterprise Services* plans and manages service and delivery methods used across the MITS organization, including demand analysis, enterprise architecture, configuration management, project reporting, enterprise life cycle management, release management, systems engineering, dashboard reporting, and internal management.
- *End User Equipment and Services* maintains the IRS automated business processes at headquarters and field sites, effectively allowing the IRS to fulfill its missions. The support includes technical systems and applications software support to end users, maintaining legacy operations, local and corporate systems administration activities,

email and domain user account maintenance. This activity monitors IRS network and systems administration by utilizing automated management tools. It performs asset management activities, and maintenance of the voice and data infrastructure at the territory offices.

- *Strategy and Planning* provides the management and oversight of investments in IT, demand analysis, project reporting, portfolio management and other MITS operational priorities.
- *IT Security Certification and Accreditation* provides design and operations of security controls and the technical mechanisms used by the IRS systems and applications as part of the development of the system security plan, system risk assessment, and IT contingency plan. It also supports security testing and evaluation as part of the certification process, including time preparing system documentation, interviewing contractors, and responding to information requests.
- *Disaster Recovery* supports activities related to Enterprise Disaster Recovery planning, including testing, evaluations, plan development, and technical and business impact assessments.
- *IT Security Training* provides training for Federal Information Security Management Act (FISMA) reporting purposes.
- *IT Homeland Security Presidential Directive-12* oversees the use of Personal Identity Verification (PIV) technology for physical access to federally-controlled facilities and logical access to information systems for all federal employees and contractors who require long-term access.
- *IT Infrastructure* funds the replacement of IRS IT infrastructure that has reached or surpassed its useful life cycle. The IRS centralizes the resources achieved through efficiencies in various parts of MITS to ensure that replacement of the aging infrastructure is addressed corporately.
- *Treasury Working Capital Fund* is a centralized functional area for separating from the Information Services base budget the resources required to pay Treasury billings for services provided through the Working Capital Fund.
- *Integrated Document Solutions Enterprise (IDSE) Campus Operations Most Efficient Organization (MEO)* captures savings resulting from IDSE MEO activities (i.e., activities that reduce FTE, re-engineer processes, and enhances use of technology).

FY 2013 Program Changes by Budget Activity

Dollars in Thousands

Internal Revenue Service		
Information Services	FTE	Amount
Restoration of FY 2012 Reductions to Enforcement Programs	24	\$28,887
Restore Audit Coverage to Address Individual Tax Compliance Issues	24	25,042
Restore Collection Coverage		3,845
Enforcement Initiatives	11	\$59,210
Promote Offshore Compliance		14,486
Improve International Compliance		1,003
Implement Tax Legislative Changes		33,768
Implement Revenue Protection Strategy	10	4,404
Build Out Tax Return Preparer Program		956
Address Appeals Workload		888
Implement Uncertain Tax Position Reporting Requirements		90
Leverage Digital Evidence for Criminal Investigation (CI)	1	3,615
Infrastructure Initiatives	537	\$272,087
Implement Information Technology and Operational Infrastructure to Deliver New Tax Credits	537	263,887
Implement IT Changes Needed for Individual Coverage Requirement		8,200
Total, FY 2013 Program Changes	572	\$360,184

3.1.8 – Budget and Performance Report and Plan

Dollars in Thousands

Information Services	FY 2006 Enacted	FY 2007 Enacted	FY 2008 Enacted	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Request
Resource Level ¹								
Appropriated Resources	\$1,420,600	\$1,520,416	\$1,723,500	\$1,721,831	\$1,877,555	\$1,838,958	\$1,764,181	\$2,140,107
Reimbursable Resources	7,481	14,006	14,310	5,481	17,231	16,286	16,468	16,468
Mandatory Appropriations - User Fees	19,000	66,678	50,000	9,543	36,081	26,764	22,391	24,391
Total Resources	\$1,447,081	\$1,601,100	\$1,787,810	\$1,736,855	\$1,930,867	\$1,882,008	\$1,803,040	\$2,180,966
Budget Activity Total	\$1,447,081	\$1,601,100	\$1,787,810	\$1,736,855	\$1,930,867	\$1,882,008	\$1,803,040	\$2,180,966

¹ The FY 2008 - FY 2011 Columns represent realized resources for reimbursable and user fees.

Description of Performance

The IRS taxpayer service and enforcement programs rely heavily on information systems that fall into the non-business systems modernization (BSM) major products categories to process tax and information returns, account for tax revenues collected, send bills for taxes owed, issue refunds, assist in the selection of tax returns for audit, and provide telecommunication services for all business activities, including the public's toll-free access to tax information.

In addition, in FY 2011, the IRS provided new applications to make it easier for taxpayers to secure tax information.

- Starting in January 2011, taxpayers could request account and return transcripts through IRS.gov and have transcripts mailed directly to them, eliminating the need to contact a customer service representative. During FY 2011, the application processed more than 755,000 transcripts.
- The Federal Student Aid Datashare was deployed successfully on December 12, 2010. As a result, taxpayers completing the Department of Education's web-based Free Application for Student Aid have access to a Spanish and English language on-line

application to obtain relevant tax return data from their filed 1040 series individual federal tax return.

In FY 2011, the IRS had a consistent record-managing cost and schedule variance for the 52 non-BSM, information service related projects that are part of major programs as illustrated in the chart below. These projects comprise a significant component of the overall MITS funding total and receive the same management approach and scrutiny as the more public BSM activity.

Non-BSM Major Projects		
Fiscal Year	Percent Within +/- 10% Cost Variance	Percent Within +/- 10% Schedule Variance
2009	85%	98%
2010	89%	100%
2011	90%	99%

In addition, in FY 2011, the IRS continued to strengthen management of its IT Infrastructure by implementing an Enterprise Infrastructure Strategy. This strategy incorporates a risk-based approach to the replacement and upgrade of hardware and software in the infrastructure and includes assessments of aging components together with consideration of new technology and customer demand.

For FY 2012 and beyond, the IRS will use the newly implemented Enterprise Infrastructure Strategy to assess the need to replace/upgrade hardware and software in the most effective manner.

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 President's Budget request for FY 2013 is \$330,210,000 in direct appropriations and 495 FTE. This is a decrease of 110 FTE less than the FY 2012 enacted budget of \$330,210,000 and 605 FTE.

2.1 – Budget Adjustments Table

Dollars in Thousands

Business Systems Modernization	FTE	Amount
FY 2012 Enacted	605	\$330,210
Changes to Base		
Maintaining Current Levels (MCLs)		\$287
Other Adjustments	(110)	
Efficiencies/Savings		(\$287)
Reduce Travel		(130)
Targeted Program Reductions		(157)
Subtotal, FY 2013 Changes to Base	(110)	
FY 2013 Current Services (Base)	495	\$330,210
Subtotal, FY 2013 Program Changes		
Total, FY 2013 Budget Request	495	\$330,210

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Business Systems Modernization	FY 2011	FY 2012	FY 2012	Proposed	FY 2012	FY 2013
	Actuals ¹	President's Budget	Enacted	Reprogrammings	Proposed Operating Level	Request
FTE	309	453	605	0	605	495
Object Classification:						
11.1 Full-Time Permanent Positions	\$32,727	\$49,843	\$68,425	\$0	\$68,425	54,432
11.3 Other than Full-Time Permanent Positions	374	1,125	2,423	0	2,423	2,427
11.5 Other Personnel Compensation	873	1,390	2,921	0	2,921	2,826
11.8 Special Personal Services Payments	0	0	0	0	0	0
11.9 Personnel Compensation (Total)	\$33,974	\$52,358	\$73,769	\$0	\$73,769	\$59,685
12.0 Personnel Benefits	8,400	15,835	17,236	0	17,236	15,822
13.0 Benefits to Former Personnel	0	0	0	0	0	0
21.0 Travel	937	469	1,403	0	1,403	1,273
22.0 Transportation of Things	0	0	0	0	0	0
23.1 Rental Payments to GSA	0	0	0	0	0	0
23.2 Rent Payments to Others	9	0	9	0	9	9
23.3 Communications, Utilities, & Misc	195	0	2,410	0	2,410	2,410
24.0 Printing & Reproduction	26	0	10	0	10	10
25.1 Advisory & Assistance Services	104,063	0	187,530	0	187,530	201,946
25.2 Other Services	933	176,700	1,180	0	1,180	1,180
25.3 Purchase of Goods & Services from Govt. Accounts	10	0	144	0	144	144
25.4 Operation & Maintenance of Facilities	3	0	0	0	0	0
25.5 Research & Development Contracts	0	0	0	0	0	0
25.6 Medical Care	0	0	0	0	0	0
25.7 Operation & Maintenance of Equipment	840	60,982	2,350	0	2,350	2,350
25.8 Subsistence & Support of Persons	0	0	0	0	0	0
26.0 Supplies and Materials	6	56	178	0	178	21
31.0 Equipment	18,855	27,200	43,991	0	43,991	45,360
32.0 Lands and Structures	0	0	0	0	0	0
33.0 Investments & Loans	0	0	0	0	0	0
41.0 Grants, Subsidies	0	0	0	0	0	0
42.0 Insurance Claims & Indemn	0	0	0	0	0	0
43.0 Interest and Dividends	0	0	0	0	0	0
44.0 Refunds	0	0	0	0	0	0
91.0 Unvouchered	0	0	0	0	0	0
Total Budget Authority	\$168,251	\$333,600	\$330,210	\$0	\$330,210	\$330,210
Budget Activities:						
IT Investments	\$168,251	\$333,600	\$330,210	\$0	\$330,210	\$330,210
Total Budget Authority	\$168,251	\$333,600	\$330,210	\$0	\$330,210	\$330,210

¹ Actuals represent obligations from FY 2011 budget authority. This excludes obligations from user fees (\$88,948) and multi-year/no year (\$78,093) a

2.3 – Appropriation Detail Table

Dollars in Thousands

Business Systems Modernization								% Change	
Resources Available for Obligation	FY 2011 Enacted ¹		FY 2012 Enacted		FY 2013 Request		FY 2012 to FY 2013		
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	
New Appropriated Resources:									
Business Systems Modernization	333	\$263,369	605	\$330,210	495	\$330,210	-18.18%		
Subtotal New Appropriated Resources	333	\$263,369	605	\$330,210	495	\$330,210	-18.18%		
Other Resources:									
Recoveries		3,611							
Offsetting Collections - Reimbursable									
Available multi-year/no-year funds		98,019		118,199		144,363		22.14%	
50% Carryover									
Transfers In/Out									
Mandatory Appropriations - User Fees ²	203	88,948							
Subtotal Other Resources	203	\$190,578		\$118,199		\$144,363		22.14%	
Total Resources Available for Obligation	536	\$453,947	605	\$448,409	495	\$474,573	-18.18%	5.83%	

¹ FY 2011 Enacted represents the approved FY 2011 Operating Plan.

² FY 2011 User Fee and reimbursable dollars and FTE represent actual realized and FY 2012 and FY 2013 represent user fee and

3I – Business Systems Modernization (\$330,210,000 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.

In 2012, the IRS delivered the most significant update to its core tax processing system in decades. Since the 1960s, the IRS has operated on a weekly batch cycle, which starting in 2012 transitioned to a daily processing cycle. Also, for the first time, IRS processing systems are accepting all 1040 forms electronically through a modernized e-filing capability, and will feed into a single consolidated taxpayer account database which will allow the next generation of taxpayer service and enforcement functions. In 2013, the IRS will build on this momentum by strategically investing in state-of-the-art capabilities, such as online taxpayer services, that can utilize the database infrastructure put in place in 2012. The IRS also will focus effort on the second phase of the CADE 2 initiative, which addresses risks associated with the continued legacy of antiquated systems and programming languages in the current IRS environment. This next phase, known as Transition State 2, will ensure the long-term viability of the IRS tax processing systems.

The FY 2013 BSM request of \$330.2 million funds the projects listed in the table below:

Dollars in Thousands

Business Systems Modernization	FY 2011 Enacted ¹	FY 2012 Enacted	FY 2013 Budget Request ²	Change FY 2012 to FY 2013
Application Migration to CADE 2 (Taxpayer Account Database) Build on the foundation set in Transition State 1 (TS1) and continue the development of Transition State 2 (TS2). Employ a single system for managing individual taxpayer accounts. Core applications are structured to directly access and update the authoritative relational database established in TS1. TS2 addresses critical financial management applications and the IRS's financial material weaknesses, such as capturing line item data attributes, which was not possible in the legacy master file. TS2 eliminates security weaknesses associated with individual taxpayer account processing, which provides more exact compliance with privacy and disclosure policy and better protection of personally identifiable information. Using agile development methods, FY 2013 funds will be used for early deployment of some incremental components of the solution, such as: <ul style="list-style-type: none"> • Facilitate the utilization of Foreign Address • Single Penalty & Interest calculation engine for IMF, BMF and IDRS • Data Distribution engine for CADE2 and IPM databases and feed downstream systems • Replace select 701 extracts with direct data pull from CADE2 and IPM databases • On-line viewing: Updated Individual Account access services and/or components 	\$136,100	\$139,500	\$148,000	\$8,500
Current CADE Implement tax law changes and enhance the overall security posture (description applicable to FY 2011).	28,000	0	0	0
Modernized e-File Final deployment of Form 94X family of forms for Employment/ Unemployment Tax; development and deployment of Form 1041 (U.S. Income Tax Return for Estates and Trusts); and begin requirements development for a release designed to add additional forms to the MeF platform. Forms being considered include: 706, 709, 720-X, 8038, 8038-B, 8038-CP, and 1040X Amended returns).	39,100	23,900	24,800	900
Core Infrastructure Provide services in architecture, engineering, and deployment of standardized, consolidated, virtual, and secure modernized Development, Integration, and Testing Environments (DITE) and shared infrastructure components (Employee User Portal, Registered User Portal, and Security) of the production environments.	32,000	37,700	37,750	50
Architecture, Integration, and Management Provide system engineering management capabilities including systems strategy, architecture, and engineering capabilities across IT Infrastructure, Business Applications, Data Management, and IT Security. Provide portfolio control and management processes and tools including governance, enterprise lifecycle support, tiered program management, business rules and requirements, transition management, cost estimation, configuration/change management, and risk management.	27,555	27,645	32,445	4,800
Management Reserve	8,925	7,780	9,315	1,535
Subtotal Capital Investments	\$271,680	\$236,525	\$252,310	\$15,785
BSM Labor	80,689	93,685	77,900	(15,785)
Total BSM	\$352,369	\$330,210	\$330,210	\$0

¹ Includes \$89,000,000 in user fees.

² BSM labor includes \$287,000 of inflation costs.

Customer Account Data Engine 2 (CADE 2) (Taxpayer Account Database): The CADE 2 program will build and deploy an authoritative database and complete data model for all individual taxpayers, providing the foundation for more efficient and effective tax administration. The CADE 2 authoritative database will provide a feed to the Integrated Production Model (IPM), which is as an analytical data store with a single point of access for end users. The IPM analytic data store will centralize individual taxpayer account information along with other data to provide more meaningful business intelligence and expanded opportunities for analytic capabilities to increase compliance and accelerate the identification of fraudulent trends.

In FY 2013, the IRS will continue the development of the CADE 2 Program. The CADE 2 program implements a single data-centric solution that provides daily processing of taxpayer accounts. The CADE 2 program will accomplish the following:

- Establish a solid data foundation for the future by leveraging relational database processing capability (Completed);
- Make substantial progress toward addressing financial material weaknesses for individual taxpayer account processing, demonstrate compliance with Federal

Financial Management System Requirements (FFMSR), and maintain a clean audit opinion;

- Maintain best practices and industry standards around security and privacy posture;
- Continue the focus on moving away from 1960s technology (i.e., aging infrastructure, applications, and sequential flat file processing) with redesign and rewrite of core individual taxpayer account processing applications in a modern programming language; and
- Demonstrate substantive progress toward achieving long-term viability and maintainability of the individual taxpayer account processing system.

The CADE 2 program will deliver its program scope incrementally through a series of transition states:

- In **Transition State 1 (TS 1)**, the IRS established a single database to house all individual taxpayer accounts. Processing is enhanced to include daily batch processing. The key IRS customer service operational database, Integrated Data Retrieval System (IDRS), will benefit from more timely posted data. The CADE 2 database will populate the Integrated Production Model (IPM) analytical data store and provide business users with tools to use the data for compliance and customer service more effectively. Enhanced data security will be in place.
 - Downstream systems that must be modified to support daily processing are included in the scope of Transition State 1. Downstream systems that do not need to be modified, but want to take advantage of daily processing, are not included.
- In **Transition State 2 (TS 2)**, the IRS will build upon the foundation started in Transition State 1 to establish a modern tax processing system for managing individual taxpayer accounts with an integrated, state-of-the-art tax-processing platform that allows deployment of modular applications using modern programming language. After its completion, core applications will have access to a single source of individual taxpayer account data. The CADE 2 program will make substantial progress toward addressing financial material weaknesses associated with individual taxpayer account processing. Improvements include standardized data distribution for downstream systems combined with an integrated view of the standardized data through our data store. In TS 2, the IRS will use a combination of current-state components and transitional components and this will improve the IRS's ability to maintain and improve security and privacy associated with individual taxpayer account processing.
- The **Target State** completes the transition to the target-state applications and database; provides a data-centric solution that enables faster and more effective use of taxpayer account data; retires all transitional components; and addresses financial statement audit and security material weaknesses identified at the inception of the program.

In FY 2013, the IRS will continue development of the CADE 2 TS 2 solution under its program framework for the Enterprise Life Cycle, developing functionality on an incremental basis using agile and iterative practices. Building on earlier milestone work in FY 2012, the IRS will use the FY 2013 funds to address financial material weaknesses associated with individual taxpayer processing by designing a tax processing platform based on modern architecture, modern programming language, and a modular applications framework. This new tax processing platform will provide all of the existing tax processing capabilities plus the capability to do the following:

- Provide a single penalty and interest calculation engine for Individual Master File (IMF), Business Master File (BMF) and IDRS to ensure consistent calculation of penalty and interest, eliminate manual calculations, and ensure financial integrity;
- Track Taxpayer Identification Numbers across multiple accounts and master files in order to identify duplicate tax assessments (e.g., innocent spouse, Trust Fund Recovery Program) and to identify and prevent the issuance of fraudulent returns;
- Provide greater visibility into tax assessments allowing line-by-line capture of obligations for taxpayers to support more detailed analysis of obligation data and better financial reporting;
- Provide the ability to store and retrieve financial transaction data, account collection data, business rules and case data for individual taxpayer accounts;
- Perform validity checks on Return line items (including Schedules) before processing;
- Support enhanced financial reporting by allowing the IRS to maintain more extensive historical records of taxpayer account activity, providing traceability from general ledger to multiple levels of taxpayer debit and credit history;
- Address all applicable Federal Financial Management System Requirements (FFMSRs); and
- Provide data from authoritative data source to downstream systems.

In addition, the IRS will use the FY 2013 funds for early deployment of some incremental components of the solution, such as:

- Downstream system changes to allow candidate downstream systems to leverage the CADE 2 database access information sooner because of daily processing;
- Accurate capture of foreign addresses from upstream systems, store them in the database, and provide them to downstream systems;
- Improved business analytics to identify and select tax cases for examination based on both historical and current filing season data;
- Data distribution engine for CADE 2 and IPM databases to distribute data to downstream systems securely; and
- Replace current data extracts process in select areas with a more direct data pull from IPM.

Modernized e-File (MeF): MeF provides a standard filing structure for all IRS return types, a robust platform that can meet performance and capacity needs, enhanced and up-to-date technologies, and customer service benefits that are of great appeal to external customers and stakeholders. With MeF, the IRS stores all tax return data in XML format in a Modernized Tax Return Database (MTRDB) allowing all authorized viewers of the data to see an entire tax return online over the internet. Once fully implemented, all tax returns and transmission files will adhere to IRS rules/schemas.

The first release of MeF went into production in February 2004, when Form 1120, *U.S. Corporation Income Tax Return*, Form 1120-S, *U.S. Income Tax Return for an S Corporation*, and Form 990, *Return of Organization Exempt from Income Tax* were accepted on the modernized platform. Subsequent releases added Form 1065, *U.S. Return of Partnership Income*, Form 1120-F, *U.S. Income Tax Return of a Foreign Corporation*, and Form 990N, *Electronic Notice (e-Postcard) for Tax-Exempt Organizations Not Required to File Form 990 or 990-EZ*.

The first phase of the implementation of Form 1040, *U.S. Individual Income Tax Return*, onto the MeF platform took place in January 2010. In FY 2011, the IRS implemented the second phase by providing enhanced Disaster Recovery capabilities to ensure appropriate management of operational risk and the optimization code necessary to support the anticipated volume of returns in 2012. The third and final phase will take place in FY 2012 by migrating the 125 remaining 1040 family forms and schedules, including Forms 1040A, *Making Work Pay and Government Retiree Credits*, and 1040EZ, *Income Tax Return for Single and Joint Filers With No Dependents*. This phase will expand the reach of MeF to all of the e-File population, or approximately 98.3 million filers by January 2012.

In FY 2013, the IRS will complete the implementation of Form 94X (Release 8), *Employment/Unemployment Tax*, and Form 1041 (Release 9), *U.S. Income Tax Return for Estates and Trusts*, to the MeF platform. Also, MeF will develop the requirements and logical design for Release 10, an assorted bundle of forms.

The request for MeF will:

- Complete Milestone 5 (Deployment) of Release 8, the migration of Forms 94X, *Employment/Unemployment Tax*, to the Modernized e-File platform.
 - Forms to be implemented include Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*, Form 941, *Employer's Quarterly Federal Tax Return*, Form 943, *Employer's Annual Federal Tax Return for Agricultural Employees*, Form 944, *Employer's Annual Federal Tax Return*, and Form 945, *Annual Return of Withheld Federal Income Tax*.
- Complete Milestones 4a (Physical Design), 4b (Development), and 5 (Deployment) of Release 9: implementation of Form 1041, *U.S. Income Tax Return for Estates and Trusts*.
- Complete Milestones 2 (Domain Architecture Design) and 3 (Requirements and Logical Design) of Release 10 (Assorted Bundle of Forms, which may include Form 706, *United States Estate (and Generation-Skipping Transfer) Tax Return*, Form 709,

United States Gift (and Generation-Skipping Transfer) Tax Return, Form 720X, Amended Quarterly Federal Excise Tax Return, Form 8038, Information Return for Tax-Exempt Private Activity Bond Issues, Form 8038-B, Information Return for Build America Bonds and Recovery Zone Economic Development Bonds, and Form 8038-CP, Return for Credit Payments to Issuers of Qualified Bonds), and 1040X, Amended Returns.

By adding Form 94X, Form 1041, and the assorted bundle of forms to the MeF platform, trading partners (i.e., one of the two or more participants in an ongoing business relationship) and taxpayers realize the following benefits:

- Extensive business rule validation and error checking, which improves the accuracy of the tax return;
- Sophisticated math error validation checking, which increases the likelihood that the tax return will be successfully processed;
- Ability to attach all necessary documents supporting the data on the tax returns; and
- Capability to provide a justification to the taxpayer/trading partner when the IRS rejects the tax return.

Productivity and IRS efficiency gains include:

- Improving Customer Service – IRS customer service representatives will provide faster responses to taxpayers by viewing the original 94X and 1041 documents online and in real-time, and eliminating back-end re-keying and data entry. Without MeF, only a limited subset of these documents would be available and would result in a time-consuming process of source document retrieval.
- Enhancing Compliance and Enforcement Operations – Online capabilities and 100 percent data access to 94X and 1041 forms will enhance compliance and enforcement activities by allowing access of taxpayer data in a timely and accurate manner.
- Enhancing the Production Volumes – Returns submitted through the MeF encounter fewer processing errors than do paper returns.
- Retiring retire the Legacy 94X e-File system – Allow the IRS to disable the capability for the legacy Electronic Management System (EMS) to accept this family of returns.

Core Infrastructure: The Core Infrastructure provides mission-critical services to BSM projects. In FY 2013 the Core Infrastructure will continue to provide mission critical services in designing, engineering, testing, and deploying standardized, consolidated, virtual and secure modernized development and production environments for use by BSM projects.

The IRS is modernizing taxpayer applications to take advantage of web-based technologies that allow taxpayers to communicate with the IRS through the internet using commercially available technology. The modernized infrastructure provides a complete environment (hardware, software, processes, and management) for developing, testing, deploying, operating, and monitoring both customer and internal applications in support of business practices. This includes updating the access portals and standardizing telecommunication 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. The core infrastructure consists of two primary program elements – Infrastructure Shared Services (ISS), and the Development, Integration and Testing Environment (DITE):

- ISS provides integrated architectural and engineering services required to deploy and deliver the BSM projects, including infrastructure requirements identification and management, security engineering, systems engineering, performance engineering, capacity planning, transition management support, configuration management, and expanded e-services and online filing. The continued development and management of this infrastructure incorporates the identification and development of common infrastructure, security, and application integration services for use and reuse by the BSM projects and reduces delivery time, application development, and operations and maintenance costs.
- The increased use of shared infrastructure will reduce future costs associated with infrastructure implementation and maintenance. In FY 2013, ISS will emphasize effectively engineered common information technology (IT) infrastructure services, security, and infrastructure enhancement initiatives that affect the BSM projects, while continuing to support efforts begun in FY 2010 related to enhanced availability and portal improvements. The ISS also must address the effect on the modernized infrastructure environments caused by an increase in the number of electronic documents, online transactions, and online tax filers. During FY 2013, ISS will continue to provide capacity planning and performance engineering services for BSM projects. This includes additional unit, integration, and testing support to increase the IRS's confidence in deployed systems. ISS will provide subject matter experts and institute security measures approved by IRS executive management to protect the modernized infrastructure from intrusion and unauthorized access. In addition, the ISS will plan and implement processes to move the IRS toward the Capability Maturity Model (CMM) Level III, a process improvement approach that yields efficiencies in software engineering. The ISS will implement the Library of Infrastructure Engineering Design Patterns and repeatable processes for the design of infrastructure engineering solutions.
- DITE is comprised of a Virtual Development Environment (VDE) and an Enterprise Integration and Test Environment (EITE). The VDE provides a software development environment for modernization projects such as MeF and CADE 2 that allows geographically distributed developers access to standardized tools, information, and services. EITE provides the more structured, production-like, comprehensive

integration and testing environment necessary to test end-to-end system capabilities and performance before release into the BSM production environment.

- In FY 2013, DITE will continue to engineer, install, maintain, and support the development and test environments needed for each BSM project through deployment and acceptance in the production environment. It will:
 - Improve the efficiency of server administration;
 - Engineer, install, maintain, and support core DITE infrastructure, to include web portals and common IT infrastructure services;
 - Provide a mechanism for remote access to core DITE data by authorized users; and
 - Provide maintenance of a suite of standard software development and testing tools for use on BSM projects.

Funding also provides for enhancements enabling the DITE to provide a more integrated test environment for CADE 2 and other BSM projects. The enhanced environment will enable the execution of extensive performance and capacity tests in a more “production like” environment, increasing the probability of success when the product is moved into the production environment. This approach provides for significant cost savings when compared to replicating the production environment on a project-by-project basis.

Architecture, Integration and Management (AI&M): AI&M activities ensure that systems solutions meet IRS business needs and effectively integrate modernization projects/programs; examples include CADE 2, MeF, expanded e-services, and online filing programs. To ensure the success of the planned business change, AI&M provides a single authoritative source of guidance for integrating each project as it moves from the development environment to the business environment.

In FY 2013 AI&M will continue to support BSM projects. This program provides the engineering management capabilities essential to delivering a program of the magnitude, nature, and complexity of BSM. It also delivers essential IRS systems strategy, architecture, and engineering capabilities to the major modernization projects across all technology platforms: IT Infrastructure, Business Applications, Data Management, and IT Security. AI&M translates enterprise and project objectives into targeted, actionable investments to provide the necessary enterprise technical framework and direction for cohesive and successful modernization.

Major AI&M components are:

- Architecture and Integration (A&I) – The A&I activities ensure systems solutions meet business needs and provide a single authoritative source of guidance for integrating each project effectively as it moves from the development to the business environment. This program produces the principles, strategies, and standards to guide the construction and delivery of coherent and integrated enterprise systems.

- Enterprise Architecture (EA) – EA ensures that the IRS follows mandated requirements in developing its EA. This includes business and technical architecture, enterprise data management/architecture, web-services strategy and architecture, enterprise transition strategy, release architecture, and security architecture.
- Systems Architecture and Engineering (SAE) – SAE supports the BSM projects in the conceptual design of the architectures to ensure that they comply with EA-mandated Guidelines. SAE also is responsible for providing systems architecture and engineering support, which includes outlining the design and ensuring performance metrics are established.
- Enterprise Data Management (EDM) – The EDM manages the XML vocabulary along with the naming and design rules used on all BSM projects. The program accomplishes this through the development of Enterprise Data Models and the Enterprise Data Architecture. In addition, EDM defines the data strategy and supports the data components and activities that in part define the IRS Enterprise Architecture. EDM documents this process through the publication and enforcement of data management policies, standards (including XML standards), and procedures at both the enterprise and project levels.
- Integrated Process Management (IPM) – IPM supports the continued implementation of an end-to-end process management framework, through refinement of the Process Asset Library (PAL) and Integrated Process Framework (IPF) to support implementation of the Capability Maturity Model Integration (CMMI) and Information Technology Information Library (ITIL) disciplines. The IRS plans to implement a three-phased migration (process centralization, process integration, and process analysis) to an IPM framework. It is responsible for leveraging the research and development expertise of industry experts to implement the plan to transition from the current fragmented state to the integrated framework.
- Change and Configuration Management (CCM) – CCM provides program support and oversight to key information technology projects and is responsible for developing and implementing IT Service Management in accordance with MITS direction and ITIL best practices. In addition, CCM develops and conducts configuration management (CM) training for program management, project managers, and CM representatives MITS-wide; conducts CM compliance assessments and oversight on all CM practitioners; assists Prime Systems Integration Services Contractor (PRIME) in planning, developing, and integrating reasonable, manageable, and attainable release schedules and release packages on IRS modernization projects; and tracks and facilitates resolution of risks, issues, schedule, and resource conflicts.
- Portfolio Governance and Control (PG&C) – PG&C processes and standards allow the IRS to define, manage, and deliver its IT portfolio successfully. Activities include IT portfolio investment management, cost estimation, and transition management. PG&C will provide an integrated IT portfolio assessment of organizational capacity for delivering BSM capabilities. This IT portfolio assessment is critical to ensure the technical effect of BSM program decisions on the current production environment are considered fully and understood. Engineering analyses and resource estimates are integral to ensuring organizational capacity needs are incorporated into both plans and

budgets. This assessment results in an integrated portfolio which includes maintaining current operations, delivering filing season readiness, addressing significant legislative proposals, and supporting BSM initiatives.

- Requirements Management (RM) – RM improves the conduct of business analysis, process redesign, business rules harvesting and management, and business requirements elicitation, definition, and management. RM standards and expertise allow the IRS to incorporate industry best practices for requirements into the Enterprise Life Cycle for consistent systems development processes; apply business rules methods, tools, and processes to BSM projects; and develop enterprise policy and standards for requirements and business rules management.

RM provides requirements planning and management support, business process redesign, rules and requirements development, business modeling, requirements training and outreach, requirements baseline management, and solution development support. In addition, RM allows for integrating the technical requirements engineering process into requirements management methodology.

- Management Processes (MP) – MP provides management disciplines leading to consistent quality, managed risk, increased stakeholder satisfaction, and delivery of modernized business systems within established cost and schedule parameters. The IRS is continually working to strengthen its management processes through the development and deployment of processes and procedures such as Earned Value Management (EVM) and Enterprise Life Cycle (ELC). The dynamic nature of modernization drives BSM to assess its operation and implement continuous improvements. Additionally, the IRS has initiated an effort to establish corporate IT Strategic Planning, technical analyses, and program integration processes that identify and map key activities across IT and enhance cross-program decision making.
- Program Management (PM) – PM provides centralized services for the PRIME task orders to ensure consistency and quality of the products delivered to the IRS and to assist PRIME staff in providing timely and efficient services to the IRS. The PRIME contractor will continue to provide overall executive and contractual support for the task orders, with the IRS integrating the task orders' results and measuring program-critical success factors. The PRIME task order provides the management data and IT infrastructure that supports risk management activities, high-level project cost and schedule estimates, contracts and procurement management, and security services for the PRIME contract, and associated task orders.
- Federally Funded Research and Development (FFRDC) – The IRS has undertaken a complete redesign and modernization of its computer-based information processing system through its modernization program. The IRS must improve its procedures and practices through the injection of public and private sector expertise. The FFRDC provides national experts in systems engineering, architectural design and development, information technology, security, and other technical disciplines that are critical to the modernization success. The FFRDC also provides support services to promote consistency with enterprise goals and objectives to ensure efficient operations. Areas of support include Security Architecture; Data Strategy; System Architecture and Engineering; and IRS Enterprise Architecture, consisting of the

Enterprise Architecture, Enterprise Requirements, and Enterprise Transition components.

Management Reserve: The management reserve funds are not designated for specific projects or programs and allow the IRS some flexibility to cover unanticipated cost adjustments.

Labor: This activity provides the labor costs associated with the development of projects within the BSM portfolio.

3.1.9 – Budget and Performance Report and Plan

Dollars in Thousands

Business Systems Modernization								
Resource Level ¹	FY 2006 Enacted	FY 2007 Enacted	FY 2008 Enacted	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Request
Appropriated Resources	\$242,010	\$212,569	\$267,090	\$229,914	\$263,897	\$263,369	\$330,210	\$330,210
Reimbursable Resources								
Mandatory Appropriations - User Fees						88,948		
Total Resources	\$242,010	\$212,569	\$267,090	\$229,914	\$263,897	\$352,317	\$330,210	\$330,210
Budget Activity Total	\$242,010	\$212,569	\$267,090	\$229,914	\$263,897	\$352,317	\$330,210	\$330,210

¹ The FY 2008 - FY 2011 Columns represent realized resources for reimbursable and user fees.

Business Systems Modernization Budget Activity									
Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY 2011 Actual	FY 2012 Target	FY 2013 Proposed Target
Percent of BSM Projects within +/- 10% Cost Variance (E)	*	*	92.0%	60.0%	40.0%	90.0%	71.4%	90.0%	90.0%
Percent of BSM Projects within +/- 10% Schedule Variance (E)	*	*	92.0%	90.0%	100.0%	90.0%	100.0%	90.0%	90.0%

Key: E - Efficiency Measure

* Prior to FY 2008, Cost and Schedule Variance was reported separately for each project. In FY 2008, these measures were changed to reflect an overall percentage of all major BSM projects that were within the +/- 10% threshold.

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. The following highlights BSM accomplishments in FY 2011:

- Customer Account Data Engine 2 (CADE 2) logical and physical designs were completed on time in December 2010 and April 2011, respectively. The IRS successfully deployed CADE 2 daily processing January 2012, and is in the process of moving to a single authoritative database for all individual taxpayer records, moving the IRS away from its legacy flat-file data storage model in the 2012 filing season.
- Modernized e-File (MeF) Release 6.2 increased performance in MeF for both individual and business returns to account for the anticipated increase in volume of returns in 2012. It also enhanced the disaster recovery capabilities that were delivered in a previous version. MeF accepted more than 18.5 million returns in 2011, a 262 percent increase compared to the same period in 2010. The majority of the growth was because of an increase in 1040 tax returns submitted with the changes implemented for the 2012 filing season, the IRS is anticipating a substantial increase in the use of the MeF platform for 2012.

- Customer Account Data Engine (CADE) Release 6.2 deployed in January 2011, with technical improvements to the infrastructure and availability of the system. CADE also facilitated a mid-season restart in February to implement Extender legislative changes affecting individual taxpayers. CADE posted more than 40 million tax returns and issued more than 35.1 million refunds totaling in excess of \$65.6 billion. CADE also posted 4.4 million payments submitted with taxpayer returns.

For the Business Systems Modernization program (BSM), the IRS met 50 percent (1 of 2) of its BSM targets for FY 2011. These targets pertain to the two budget level measures, which track the percentage of major BSM projects that are within the +/-10 percent Cost and Schedule variance threshold. The IRS met its Schedule variance target while falling short of the Cost variance target. As listed in the tables below, there were seven project segments completed in FY 2011.

In FY 2011, five out of seven (71.4 percent) project segments met the cost variance threshold. Two of the project segments exceeded the cost variance threshold. As shown in the table below, MeF Release 7 Milestone 3 was 24 percent below expected costs because of lower than expected hardware and software costs in addition to lower than expected contract expenditures. Improved pricing opportunities provided a positive affect on the project costing. CADE Release 6.2 Milestone 4b was also 15 percent below expected costs because of changes related to filing season and tax legislation being less complex and extensive than originally projected. Legislative changes are an unknown quantity until passed and each year projections are based on the best information available.

Cost Variance for Project Segments Completed in FY 2011							
Project	Release	Milestone	Planned Cost (\$000)	Current Cost (\$000)	Variance (\$000)	Variance (%)	Within Acceptable Tolerance
MeF	R6 2	4b	7,800	7,800	0	0%	Yes
MeF	R6 2	5	5,200	5,200	0	0%	Yes
MeF	R7	3	15,875	12,121	-3,754	-24%	No
MeF	R7	4a	11,830	11,830	0	0%	Yes
CADE	R6 2	4b	22,000	18,670	-3,330	-15%	No
CADE 2	Trans. State 1	3	14,200	13,834	-366	-3%	Yes
CADE 2	Trans. State 1	4a	7,200	7,200	0	0%	Yes

In FY 2011, the IRS completed 100 percent of all project segments within the schedule variance threshold, exceeding the goal of 90 percent, as improved planning and project management continues to have a positive effect on the projects.

Schedule Variance for Project Segments Completed in FY 2011

Project	Release	Milestone	Planned Finished Date	Current Finished Date	Variance (\$000)	Variance (%)	Within Acceptable Tolerance
MeF	R6 2	4b	12/29/10	12/29/10	0	0%	Yes
MeF	R6 2	5	05/17/11	05/18/11	1	1%	Yes
MeF	R7	3	12/21/10	10/21/10	0	0%	Yes
MeF	R7	4a	04/26/11	04/26/11	0	0%	Yes
CADE	R6 2	4b	01/31/11	01/14/11	-10	-6%	Yes
CADE 2	Trans. State 1	3	12/15/10	12/13/10	-2	-1%	Yes
CADE 2	Trans. State 1	4a	04/30/11	04/18/11	-9	-6%	Yes

To meet future targets, the IRS will continue to improve on its modernization efforts by implementing new practices, such as the Capability Maturity Model Integration (CMMI) and the Information Technology Infrastructure Library (ITIL), which help to improve in areas such as development, services, and acquisitions. In FY 2013, the IRS expects to meet a target of 90 percent for cost and schedule variance through better project management and oversight.

Section 4 – Supplemental Information

4.1 – Summary of Capital Investments

Internal Revenue Service FY 2013 CJ Submission Capital Investments							
Investments / Funding Source	FY 2010 Actuals	FY 2011 Actual*	% Change from FY10 to FY11	FY 2012 Enacted	% Change from FY11 to FY12	FY 2013 Congressional Justification	% Change from FY12 to FY13
Major IT Investments							
Account Management Services (AMS)	\$27,988	\$18,162	-35.1%	\$20,860	14.9%	\$21,019	0.8%
IRS BSM 015-45-0921	6,688	59		0		0	
IRS Operations Support 015-45-0919	21,300	18,103		20,860		21,019	
Affordable Care Act (ACA)	\$0	\$0		\$0		\$303,535	
IRS Operations Support 015-45-0919 One-year	0	0		0		128,535	
IRS Operations Support 015-45-0919 Multi-year	0	0		0		175,000	
Current CADE	\$68,569	\$50,102	-26.9%	\$694	-98.6%	\$0	-100.0%
IRS BSM 015-45-0921	67,810	49,843		674		0	
IRS Operations Support 015-45-0919	758	257		20		0	
IRS EITC 015-45-0919-0	0	1		0		0	
CADE 2	\$77,687	\$214,409	176.0%	\$210,261	-1.9%	\$203,392	-3.3%
IRS BSM 015-45-0921	77,524	214,406		210,252		203,383	
IRS Operations Support 015-45-0919	163	3		9		10	
e-Services	\$16,518	\$17,033	3.1%	\$13,884	-18.5%	\$13,970	0.6%
IRS BSM 015-45-0921	5	1		0		0	
IRS Operations Support 015-45-0919	16,513	17,031		13,884		13,970	
Electronic Fraud Detection System (EFDS)	\$13,737	\$13,212	-3.8%	\$15,558	17.8%	\$15,809	1.6%
IRS BSM 015-45-0921	10	0		0		0	
IRS Operations Support 015-45-0919	10,021	9,554		11,928		12,112	
IRS EITC 015-45-0919-0	3,657	3,657		3,630		3,697	
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfeiture	50	0		0		0	
Return Review Program (RRP)	\$18,383	\$24,015	30.6%	\$18,417	-23.3%	\$18,337	-0.4%
IRS Operations Support 015-45-0919	18,383	24,015		18,417		18,337	
Individual Master File (IMF)	\$8,995	\$8,143	-9.5%	\$10,281	26.3%	\$10,363	0.8%
IRS BSM 015-45-0921		0		0		0	
IRS Operations Support 015-45-0919	8,923	8,143		10,281		10,363	
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfeiture	72	0		0		0	
Information Reporting and Document Matching (IRDM)	\$18,824	\$24,354	29.4%	\$19,955	-18.1%	\$20,448	2.5%
IRS Operations Support 015-45-0919	15,905	24,354		19,955		20,448	
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfeiture	2,920	0		0		0	
IRS End User Systems and Services (EUSS)	\$215,781	\$274,004	27.0%	\$201,964	-26.3%	\$194,760	-3.6%
IRS Operations Support 015-45-0919	194,035	274,004		201,964		194,760	
IRS EITC 015-45-0919-0	0	0		0		0	
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfeiture	21,746	0		0		0	
IRS Main Frames and Servers Services and Support (MSSS)	\$563,945	\$443,418	-21.4%	\$449,250	1.3%	\$453,668	1.0%
IRS BSM 015-45-0921	69,738	59,561		41,580		41,642	
IRS Operations Support 015-45-0919	477,266	383,668		407,670		412,026	
IRS Private Collection Agent Program 015-45-5510	0	188		0		0	
IRS EITC 015-45-0919-0	0	0		0		0	
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfeiture	16,941	0		0		0	

**Internal Revenue Service
FY 2013 CJ Submission
Capital Investments**

Investments / Funding Source	FY 2010 Actuals	FY 2011 Actual*	% Change from FY10 to FY11	FY 2012 Enacted	% Change from FY11 to FY12	FY 2013 Congressional Justification	% Change from FY12 to FY13
IRS Telecommunications Systems and Support	\$299,838	\$329,442	9.9%	\$218,563	-33.7%	\$221,024	1.1%
IRS Operations Support 015-45-0919	293,451	327,262		217,490		219,931	
IRS Private Collection Agent Program 015-45-5510	0	1,053		0		0	
IRS EITC 015-45-0919-0	1,065	1,081		1,073		1,092	
IRS Txyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfeiture	5,322	46		0		0	
Integrated Customer Communications Environment (ICCE)	\$16,752	\$16,321	-2.6%	\$16,005	-1.9%	\$16,149	0.9%
IRS Operations Support 015-45-0919	16,680	16,320		16,005		16,149	
IRS BSM 015-45-0921	0	1		0		0	
IRS Txyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfeiture	72	0		0		0	
Integrated Data Retrieval Systems (IDRS)	\$20,351	\$18,627	-8.5%	\$18,257	-2.0%	\$18,382	0.7%
IRS Operations Support 015-45-0919	20,351	18,627		18,257		18,382	
Integrated Financial System/CORE Financial System (IFS)	\$18,357	\$26,579	44.8%	\$16,643	-37.4%	\$16,922	1.7%
IRS Operations Support 015-45-0919	18,051	26,579		16,643		16,922	
IRS Txyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfeiture	306	0		0		0	
Integrated Submission and Remittance Processing System (ISRP)	\$17,311	\$17,458	0.8%	\$20,900	19.7%	\$13,699	-34.5%
IRS Operations Support 015-45-0919	17,311	17,458		20,900		13,699	
Internal Revenue Service.gov (IRS.gov)	\$51,825	\$52,470	1.2%	\$31,156	-40.6%	\$31,700	1.7%
IRS Operations Support 015-45-0919	39,779	52,470		31,156		31,700	
IRS Txyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfeiture	12,046	0		0		0	
Foreign Account Tax Compliance Act (FATCA)		\$897			-100.0%	\$11,401	
IRS Operations Support 015-45-0919		897		0		11,401	
Modernized e-File (MeF)	\$89,127	\$89,347	0.2%	\$49,122	-45.0%	\$50,414	2.6%
IRS BSM 015-45-0921	70,585	68,067		30,713		31,639	
IRS Operations Support 015-45-0919	18,178	21,280		18,409		18,775	
IRS Txyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfeiture	364	0		0		0	
Service Center Recognition/Image Processing System (SCRIPS)	\$19,693	\$16,047	-18.5%	\$19,670	22.6%	\$10,653	-45.8%
IRS Operations Support 015-45-0919	19,693	16,047		19,670		10,653	
IRS EITC 015-45-0919-0	0	0		0		0	
Subtotal, Major IT Investments	\$1,563,681	\$1,654,038	5.8%	\$1,351,440	-18.3%	\$1,645,644	21.8%
Non-Major IT Investments	\$688,016	\$729,042	6.0%	\$752,668	3.2%	\$834,566	10.9%
TOTAL IT Investments	\$2,251,697	\$2,383,081	5.8%	\$2,104,108	-11.7%	\$2,480,210	17.9%
* FY2011 Actuals includes funding from all sources, all other years are Appropriated Funds only.							
Major Non-IT Investments							
Criminal Investigations Capital Assets	\$2,548	\$7,089	178.2%	\$9,900	39.7%	\$10,280	3.8%
IRS Enforcement (Reimbursable)	2,548	7,089		9,900		10,280	
Security Equipment	\$2,990	\$3,701	23.8%	\$3,300	-10.8%	\$3,300	0.0%
IRS Operations Support (One Year)	2,990	3,701		3,300		3,300	
Leasehold Improvements	\$38,586	\$27,277	-29.3%	\$11,688	-57.2%	\$16,031	37.2%
IRS Operations Support (One Year)	38,586	27,277		11,688		16,031	
Total Major Non-IT Investments	\$44,124	\$38,067	-13.7%	\$24,888	-34.6%	\$29,611	19.0%
Total Capital Investments	\$2,295,821	\$2,421,147	5.5%	\$2,128,996	-12.1%	\$2,509,821	17.9%

4.2 – Summary of Cost and Schedule Performance for Major Information Technology Systems

Investment	Cost Variance %	Schedule Variance %	Overall Red/Yellow/Green Rating
Account Management Services (AMS)	2.97%	0.00%	GREEN
Current CADE ¹	0.00%	0.00%	GREEN
Customer Account Data Engine 2 (CADE 2) ¹	0.00%	0.00%	GREEN
e-Services (e-SVS)	-0.40%	-9.24%	GREEN
Electronic Fraud Detection System (EFDS)	-2.36%	-6.14%	GREEN
Implement RRP (Replaces EFDS)	0.00%	0.00%	GREEN
Individual Master File (IMF)	0.00%	0.00%	GREEN
Information Reporting and Document Matching (IRDM)	0.00%	0.00%	GREEN
Integrated Customer Communication Environment (ICCE)	26.16%	0.00%	GREEN
Integrated Data Retrieval System (IDRS)	0.00%	0.00%	GREEN
Integrated Financial System/CORE Financial System (IFS)	0.00%	0.00%	GREEN
Integrated Submission and Remittance Processing System (ISRP)	0.00%	0.00%	GREEN
IRS End User Systems and Services (EUSS)	0.00%	0.00%	GREEN
IRS Main Frames and Servers Services and Support (MSSS) ²	0.00%	-112.05%	GREEN
IRS Telecommunications Systems and Support (TSS)	0.00%	-9.84%	GREEN
IRS.GOV - Portal Environment	0.00%	0.00%	GREEN
Modernized e-File (MeF) ¹	-9.35%	0.00%	GREEN
Service Center Recognition/Image Processing System (SCRIPS)	0.00%	0.00%	GREEN

Data reported as of December 20, 2011.

¹ The cost variance for BSM projects includes labor and differs from the variance calculated in section 3.1.9.

² Bureau CIO Comments: The schedule variance for the Modernized Infrastructure Solaris 10 & Supporting Technologies Upgrade project was caused by delays in funding approval which did not occur until 06/21/11. Additional scheduling variances were created by scheduling adjustments towards filing season readiness testing and the late delivery of ordered equipment. However, the project is on track to be completed by December 30, 2011.

[A summary of capital investment resources, including major information technology and non technology investments, can be viewed/downloaded here:](#)

4A – Capital Investment Strategy

Information Technology (IT)

Moving to World Class Information Technology (IT): Focus on People, Process and Technology

The IRS, widely regarded as the one of the world's most efficient tax administration organizations, processes hundreds of millions of tax returns and collects trillions of dollars in revenue each year.

The IRS IT organization plays an important role in helping the IRS meet its tax administration responsibilities. The IT organization provides efficient and secure processing, transfer of taxpayer data, and ensures equipment and system availability to support the needs of 100,000 IRS employees.

The IRS IT organization's vision is to become a world-class provider of IT services, and to achieve this goal, it will focus on three key components – *people, process, and technology*.

People: The IRS needs a high-quality, dedicated IT workforce to tackle the challenges posed by an increasingly complex external environment. To develop current employees and hire qualified candidates, the IRS will examine and improve employee recruitment, recognition, training, and evaluations for all tenures and positions.

Process: One of the two strategic foundations needed to achieve the IRS service and enforcement goals is technology. The IRS's objective is to build and deploy advanced IT systems, processes and tools to improve IRS efficiency and productivity. To meet this objective, the IRS implemented a Capability Maturity Model Integration (CMMI) process improvement approach that integrates traditionally separate organizational processes. CMMI is adopted worldwide by top companies to improve areas, such as development, services, and acquisitions. The IRS is using CMMI to guide process improvements across projects to:

- Produce quality products and services;
- Create value for the business stakeholders;
- Enhance customer satisfaction; and
- Gain industry-wide recognition for excellence.

The IRS also uses Information Technology Infrastructure Library (ITIL), one of the most widely accepted approaches to IT service management in the world. ITIL is being integrated throughout the IRS, and it is a proven method based on industry standards for best practices regarding planning common processes, roles, and activities. The benefits to ITIL best practices are:

- Improved IT services;
- Reduced costs;

- Improved productivity;
- Improved use of skills and experience; and
- Improved delivery of third party services.

Technology: The IT organization balances the right technology solutions with optimal service levels to meet the IT needs of the IRS. By doing so, the IRS is able to increase operational efficiencies and decrease costs. The IRS continues to identify and implement appropriate technology solutions such as Customer Account Data Engine (CADE) 2. The IRS will continue to test and evaluate new and innovative technologies as part of a commitment to provide customers with the tools they need to get the job done as efficiently and effectively as possible.

CyberSecurity – Safeguarding Taxpayer Data

The IRS has a portfolio of IT initiatives to ensure the integrity and confidentiality of taxpayer data, while maintaining secure electronic interaction within the IRS. These initiatives comprise solutions that resolve long-standing Computer Security Material Weakness (CSMW) goals and offer increased security for taxpayer transactions. The IRS is implementing stronger authentication measures that provide enhanced data security and a continuous monitoring capability to identify and deter cyber attacks that could compromise IRS systems and data. Collectively, these IT initiatives will increase taxpayer trust and confidence in the federal tax administration process.

The following IRS CyberSecurity initiatives will protect taxpayer data:

- ***Social Security Numbers (SSN) Elimination and Reduction 2-D Barcoding*** – Leverages barcoding to eliminate use of SSNs on taxpayer notices;
- ***Enterprise Security Audit Trails*** – Facilitates the capability for continuous monitoring of user, system, and application activity to identify and prevent unauthorized access and targeted cyber attacks or security compromises;
- ***Security Compliance Posture Monitoring and Reporting*** – Manages risk proactively through automated security compliance and risk posture monitoring;
- ***Safeguarding Personally Identifiable Information (PII) Data Extracts*** – Detects and prevents the loss of PII and sensitive agency information through a phased implementation for data-in-motion (i.e., data that is moving through a network, including wireless transmissions); data-at-rest (i.e., that resides in databases, file systems, or other structured storage methods); and data-in-use (i.e., endpoints of a network where the data is being used such as desktop hard drives, and other mobile media);
- ***Enterprise Vulnerability Assessment Management*** – Proactively assesses, manages, and prevents the exploitation of vulnerabilities across IRS networks and applications through a comprehensive suite of scanning tools;

- ***Internal Identity and Access Management*** – Consolidates disparate data sources for identity management, providing a trusted repository for administration of access and rights management;
- ***Secure Registration Based Email*** – Allows email communication using encryption security to mitigate the risk of compromising Sensitive but Unclassified (SBU) data or PII exchanged in email communications with external agencies and constituents;
- ***E-Authentication*** – Provides a common service framework to authenticate taxpayers for access to IRS systems, applications and data;
- ***Federal Information Security Management Act (FISMA) Enhancements*** – Continues diligence in assessing and resolving the security and certification of systems to properly safeguard systems, services, and taxpayer data; and
- ***Disaster Recovery*** – Ensures the continued reliability and resilience of enterprise capabilities of services offered to taxpayers.

IT Infrastructure

The Sustaining Infrastructure Program (SIP) centrally funds IRS IT infrastructure investments primarily to replace hardware and system software that have reached or surpassed their useful life. The infrastructure strategy (further described in Section 4B, *IRS Aging Legacy Information Technology (IT) Infrastructure (non-BSM) Proposed Long-term Multiyear Funding Strategy and Timetable*), provides a strategic sequencing plan to a mature portfolio of infrastructure services and establishes the technology for effective integration with the IT operations and management processes.

The centrally managed infrastructure portfolio and shared scalable infrastructure services offer world-class security, control, consistency, flexibility, and standardization. Server virtualization and consolidation, desktop and laptop refreshment, Microsoft platform upgrades, Enterprise Internet Protocol (IP) telephony rollout and Public Branch Exchange (PBX) retirement are examples of major infrastructure projects scheduled for implementation.

IT Project Management

The IRS MITS Strategy and Capital Planning Office are responsible for prioritizing the IT investment portfolio according to the Senior Executive Team (SET) strategic priorities. MITS accomplishes this by utilizing a Pre-Select/Select process that considers available resources. This process provides a level playing field when evaluating investment proposals by using a business case approach and driving IT investment decisions from the top down to ensure that investments deliver strategic benefits for the organization.

- The pre-select/select process requires that each IT investment proposal:
 - Maintain executive sponsorship;
 - Include an executive synopsis (business case) that states the business problem to be solved, identifies alternative solutions to solving the problem, reflects a cost analysis with a documented basis of estimate for the lifecycle, identifies known risks, applicable benefits and return on investment; and

- Align to the SET investment priorities.
- Governance Process

The IRS uses an integrated governance model that reflects industry best practices. IT projects are assigned to an appropriate governance body for oversight. The enterprise governance model:

- Considers IT projects or systems, from selection through retirement, regardless of dollar value or life cycle phase;
 - Empowers governance bodies to determine project cost, schedule, and scope decisions for “at risk” projects that require escalation within the tiered governance model to boards with greater authority to intervene for corrective actions; and
 - Promotes accountability and decision-making at the enterprise and project level, specifying the appropriate thresholds and governance bodies for elevating issues.
- Health Assessment Process

The IRS implemented a standardized health assessment process as a key component of the governance framework. The health assessment process uses:

- Enterprise Key Performance Indicators (EKPIs) to rate project performance and to identify potential risks;
- A color-coded rating for EKPIs to rate projects in the areas of cost, schedule, risk, scope, technical, organizational readiness, and overall performance; and
- Control and governance organizations to review the EKPI rating and take corrective actions as appropriate.

Potential issues are identified for remediation through the analysis of project specific data. IRS governance and control organizations guide project managers in remediation activities to assess the issues at hand and determine the appropriate actions to be taken. Project assistance teams are formed, as needed, to identify and remediate those project issues. Metrics regarding cost and schedule variances are reported both internally and externally to oversight organizations.

As of April 2011, 100 percent of the non-BSM IT Portfolio had risk and contingency management plans; and, approximately 96 percent of non-BSM projects were within established thresholds for cost variance and schedule slippage. For those projects exceeding established thresholds, mitigation strategies are underway, as appropriate. In addition, IRS IT organizations conduct quality assurance reviews of project data to monitor compliance with methodologies and assist project managers in implementing components of the IRS Enterprise Lifecycle methodology.

Criminal Investigations (CI) Capital Assets

These capital assets are used to protect CI special agents from threats and bodily injury when performing their law enforcement duties including conducting investigations concerning alleged criminal tax fraud violations, financial crimes, and other related offenses. CI special agents use law enforcement vehicles to conduct or participate in surveillance, armed escorts, undercover operations, execution of search and arrest warrants, seizures, etc.

Security Equipment

The IRS purchases security equipment such as cameras, digital video recorder system (DVRs), access control panels, and card readers. The IRS uses facility-specific security assessments to prioritize asset needs and develop criteria for replacing equipment in a given facility. Additionally, emergency needs arise over the course of the year. These needs are ranked and funded according to the affect the equipment has on the overall security posture.

Performance is measured through security reviews, testing, and the assessment of individual facilities for their overall security posture using a number of criteria including location, size, number of employees, and type of work done in the facility. These criteria are used to develop an overall security posture. This posture is then compared to existing equipment in the facility to determine additional needs. If a facility has a large divergence from the posture, equipment is ordered. Reviews are done on a regular basis to measure and evaluate performance.

The useful life of security equipment is usually five years. The need for equipment can arise at any time, such as when employees are moved into a new building, during internal moves, or intermittently when equipment needs to be replaced. The benefit of this capital asset investment is that it supports the IRS priority to provide a safe and secure environment for its employees, equipment, and facilities.

Leasehold Improvements

Many projects undertaken by IRS entail the design, alteration, and furnishing of space either upon acquisition, at lease renewal, or for other purposes, such as supporting space consolidation or reduction. The portion of the project that is captured as a capital asset is reflected in OMB Object Class 3200, Land and Structures, and includes alterations to buildings; fixtures such as elevators, plumbing, power-plant boilers, fire-alarm systems, lighting, heating systems, air-conditioning systems, flooring, and carpeting. The total figure is a sum of the expenditures in that object class for all IRS projects in that particular year.

The IRS employs a scheme to rank projects in priority order and keeps a comprehensive list of projects across the territories. Projects are considered based on the critical need for the project. Projects approved but not funded in the current year are deferred to the following year. Proposed projects are identified throughout the year and are prioritized and added to list as appropriate.

Performance is measured utilizing the following measures:

- Project Spend per total rentable square feet (RSF) in Portfolio;
- Project Spend per usable square feet (USF) on Closed Projects;
- Total USF Touched by Projects; and
- Percent of Total USF Under Management; Percent Customers Satisfied With Completed Space Projects.

The useful life of these alterations is usually five years or the remaining fixed term of the lease. The fixed term of most leases is five years, with options to renew or to extend for some additional period. The need for alterations can arise at any time, including, but not limited to:

- Adding personnel workspaces;
- Consolidating functions; and
- Addressing other space issues.

The benefit of these alterations is that they provide the means for the business unit occupants to perform their mission efficiently and in user-friendly space. In some cases, a portion of the investment may provide a savings such as in the area of energy consumption.

The IRS Sustaining Infrastructure (SI) Prioritization Process is the IRS long-term multi-year funding strategy within the Operations Support account to upgrade and modernize the aging legacy information technology infrastructure. The process is built on leading business practices that support the IRS mission and strategic objectives while ensuring compliance with Federal laws and agency oversight guidance. To provide for infrastructure viability over the long-term, with the flexibility to meet dynamically changing business requirements, the Sustaining Infrastructure program established a prioritization process to replenish aged assets that first support the most critical IRS business processes. Overlaying the annual budget onto this prioritization, the program establishes its infrastructure investment timetable. Extending beyond legacy systems, investments in innovation such as network convergence and desktop virtualization will allow the IRS to gain efficiencies such that foreseeable budgets will meet IRS requirements to replace aged assets. This innovation element, as part of the SI program, is a key component to IRS' long-term infrastructure viability. Projects are assessed and funded annually across three Portfolios to include:

Portfolio Name	Description	Average Percentage of Portfolio
Sustaining Infrastructure	Aged inventory beyond useful life	70%
Sustaining Architecture & Engineering	Aged inventory not past its useful life, but tied to production applications or critical business need	19%
Sustaining Other	Operational Demand	11%

The SI strategy objectives are:

- Achieve an acceptable level of aged assets (20 – 25%);
- Reduce the aged inventory of IRS infrastructure;
- Describe an IRS future infrastructure replacement decision model;
- Focus replacement investment decisions on the future infrastructure vision;
- Assist in preparing annual asset retirement goals; and
- Make the most efficient infrastructure investments.

The benefits of the SI Prioritization Process include reducing the overall operational infrastructure cost of Modernization & Information Technology Services (MITS) wherever possible; reducing equipment diversity and quantity; improving infrastructure capacity; improving governance; increasing IT security; improving disaster recovery operations; and driving infrastructure to a more efficient world-class environment.

The SI Prioritization Process is defined by four lifecycle phases: 1) Pre-Select (Screen and Rank), 2) Select (Choose), 3) Control, and 4) Evaluate. IRS governance bodies make decisions using defined processes and data regarding the investments during each of these phases. Approved investments become part of the larger sustaining infrastructure investment portfolio. The process is dynamic. Proposed and ongoing investments are continually monitored throughout their lifecycle and compared to other investments in the overall portfolio. Post-investment assessments review successful investments as well as those that have been terminated or delayed.

Sustaining Infrastructure Prioritization Process Lifecycle:

The *Pre-Select Phase* provides a process to assess proposed IT solutions for unmet business requirements. The pre-selection phase creates a portfolio of IT project investments designed to improve overall organizational performance. The three-step selection process is:

- ***Step 1 – IT proposals are screened for the level of review as well as relevance and feasibility.*** A mature investment screening process prescribes the amount of documentation and level of analytical rigor depending on the project's type (i.e., mission critical infrastructure, etc.) and phase (i.e., initial concept, new, ongoing, and operational).
- ***Step 2 – Proposals are reduced to those with the highest potential to support the IRS critical mission and/or operations.*** If viable, it moves into the Investment Management Plan (IMP) development stage where it undergoes the development of a full IMP.
- ***Step 3 – IT projects are rigorously compared against one another to create a prioritized list of all investments under consideration.*** After completing analysis, the IRS develops a ranked listing of information technology projects. A prioritized list of IT projects and proposals with supporting documentation and analysis is completed.

During the *Select (fund) phase*, an executive level decision-making body determines which projects are funded based on the analyses completed in the previous steps. The process is used to prioritize IT investments to align with priorities and strategy. Projects are funded based on budget constraints with consideration for technical soundness of projects, contribution to mission needs, performance improvement priorities, and overall available funding levels.

The *Control Phase* begins once investments have been selected, budgeted, and have received funding. The Control Phase monitors on-going IT projects during the planning, acquisition, deployment and maintenance/operational phases of the IT investment life cycle. The primary objective is to assess the performance and enable the effective management of all major IT investments within the IRS. If a project is late, over cost, or not being developed according to approved IMPS, projects may be modified or cancelled.

The *Evaluate Phase* includes two components, a Post Implementation Review (PIR) on implemented or cancelled investments, and an annual analysis of the performance of the IRS's portfolio management process. During post implementation reviews, data is collected, recorded, and analyzed to compare expected results against actual benefits and returns. Once investments are fully implemented or cancelled, actual versus expected results are evaluated to (1) assess the investment's impact on strategic performance, (2) identify modifications that may be needed, and (3) revise the investment management process based on lessons learned.

4C – Summary of FY 2011 Savings Realized

In FY 2011, the IRS President's Budget identified \$190,638,000 million and 472 FTE in reductions to the IRS base budget. Total actual savings realized in FY 2011 were \$277,178,100 and 960 FTE, \$86,540,300 and 488 FTE more in total savings. FY 2011 savings were realized as follows:

Savings not fully realized: -\$5,150,000 / 0 FTE. Actual savings: -\$2,653,700 / 0 FTE

Reduce Tuition Assistance Program (TAP) - \$5,150,000 / 0 FTE - Actual savings realized in the TAP program from FY 2010 to FY 2011 were \$2,653,700.

Savings fully realized: -\$42,680,000 / 0 FTE

Non-Recur Savings: -\$32,680,000 / 0 FTE - These savings resulted from non-recurring, one-time (e.g., ADP equipment and training) costs associated with the hiring of more than 2,000 enforcement employees funded by the FY 2010 enforcement initiatives.

Reduce Printing, Travel and Training: -\$10,000,000 / 0 FTE – These saving resulted from reduced agency-wide printing of selected internal manuals, selected training materials; and reduced non-case related travel and non-technical training.

Increased savings realized: -\$142,808,000 / -472 FTE.

Actual Savings: -\$231,844,400/ -960 FTE

Increase e-File Savings -\$22,808,000 / -472 FTE. Actual savings realized: -\$42,374, 400 / -960 FTE. - The IRS projected FY 2011 e-File savings based on anticipated fewer paper filed returns as well as increased electronically-filed returns with the enactment of the Worker, Homeownership, and Business Assistance Act of 2009 (Public Law 111-92). In FY 2011, the IRS received 13.4 million fewer (10.1 million individual and 3.3 million business) paper returns compared to FY 2010 and an increase of 15.7 million returns filed electronically resulting in total actual savings of \$42,374,400 and 960 FTE.

Information Technology (IT) Infrastructure and Process Improvements and Reduced Procurement/Contracting: -\$100,000,000 / 0 FTE. Actual savings: \$164,600,000 / 0 FTE - Actual savings realized in these two areas was \$164.6 million, resulting from renegotiating contracts for more favorable pricing and changing contract vehicles to firm fixed price type contracts; mostly in IT hardware, software licensing and maintenance, and telecommunication contracts.

Eliminated Selective Mailings of Forms and Publications: -\$20,000,000 / 0 FTE.
Actual savings: \$24,870,000 / 0 FTE - The IRS saved \$24,870,000 by eliminating selective mailings of forms and publications. These included:

Non-Mandated Notice Inserts - In FY 2011, the IRS eliminated non-mandatory inserts in taxpayer notices. By eliminating the non-mandatory inserts, the lower-weighted notices saved \$518,000 in postage costs.

Automated Mailing of Form 1040, U.S. Individual Tax Return, Tax Packages and Business Tax Products - In FY 2011, the IRS eliminated mailing tax packages to individual taxpayers and eliminated and/or reduced the direct mailing of a number of tax packages and publications to businesses. The eliminated products included individual income tax packages (Forms 1040, 1040A, 1040EZ), business tax packages (Forms 1120, 1120S, 1065), federal employment tax forms (Publication 393), Split-Interest Trust Information Return (Form 5227), Annual Return/Report of Employee Benefit Plan (Form 5500), and additional quarterly and other business tax products. The savings for these eliminations and other mailing and procurement efficiencies totaled \$24,352,000.

Reinvestment of FY 2011 Savings

The budget passed by Congress for FY 2011 was a full-year continuing appropriation at FY 2010 levels with a 0.2 percent rescission of \$24,293,000 for an enacted level for the IRS of \$12,121,830,000.

The \$24.3 million rescission resulted in net savings to the IRS of \$253,986,000 which were reinvested as follows:

Unfunded Mandatory Increases: \$99,986,000 - The FY 2011 budget included increases to maintain current levels, including pay annualization of the FY 2010 pay raise, non-pay inflation adjustments and additional costs from the increase of FERS agency contributions.

Unfunded IRS Priorities: \$93,000,000 - The FY 2011 budget requested program increases to address some of the IRS's most critical priorities. IRS reinvested savings of \$83 million to the most critical of these priorities:

Maintain telephone level of service - \$20,000,000 - IRS requested \$20.9 million to increase telephone level of service. At the FY 2011 enacted level, IRS would not have been able to maintain the current level of service, so savings of \$20 million were reinvested to maintain this level.

Improve IRS.gov/on-line services - \$21,000,000 - IRS requested \$25 million to begin the migration of IRS web content and applications to a new consolidated IRS web environment. Savings of \$21 million were reinvested to initiate this effort and improve on-line taxpayer service options.

Fund Operations and Maintenance of modernized systems: \$43,000,000
IRS requested \$45,463,000 to fund the Operations and Maintenance (O&M) costs of deployed modernization systems. Savings of \$43 million were reinvested to fund this on-going cost of operations.

Upgrade the Integrated Financial System (IFS): \$9,000,000 - The IRS FY 2012 budget request included \$27.5 million to update IFS to ensure IRS compliance with future federal accounting requirements and allow implementation of standard interfaces with other federal systems. In anticipation of not receiving this funding in FY 2012, \$9 million of savings were reinvested to upgrade this critical financial system.

Unobligated Balances: \$61,000,000 - The IRS ended FY 2011 with \$61 million of unobligated balances.

4.3 – IRS Performance Measure Table

Budget Level Performance Measurement 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.
Percent of Eligible Taxpayers Who File for EITC	The number of taxpayers who claim the Earned Income Tax Credit (EITC) compared to the number of taxpayers who appear to be eligible for the EITC.
Customer Accuracy – Tax Law Phones	The percentage of correct answers given by a live assistant on Toll-free tax law inquiries.
Customer Accuracy – Customer Accounts (Phones)	The percentage of correct answers given by a live assistant on Toll-free account inquiries.
Timeliness of Critical Individual Filing Season Tax Products to the Public	The percentage of critical individual filing season tax products (tax forms, schedules, instructions, publications, tax packages, and certain notices required by a large number of filers to prepare a complete and accurate tax return) available to the public in a timely fashion.
Timeliness of Critical TE/GE & Business Tax Products to the Public	Percentage of critical other tax products, paper and electronic, available to the public in a timely fashion.
Percent Individual Returns Processed Electronically	The percentage of electronically filed individual tax returns divided by the total individual returns filed.
Cost per Taxpayer Served (\$) (HCTC)	The costs associated with serving the taxpayers including program kit correspondence, registration and program participation.
Sign-Up Time (Days) – Customer Engagement (HCTC)	The length of time between the first Program Kit mailing and first payment received.
Percent Business Returns Processed Electronically	The percentage of electronically filed business tax returns divided by the total business returns filed.
Refund Timeliness – Individual (Paper)	The percentage of refunds resulting from processing Individual Master File paper returns issued within 40 days or less.
Taxpayer Self Assistance Rate	The percentage of taxpayer assistance requests resolved using self-assisted automated services.
Examination Coverage – Individual (1040)	The sum of all individual 1040 returns closed by Small Business/Self Employed (SB/SE), Wage & Investment (W&I), Tax Exempt and Government Entities (TE/GE), and Large Business and International (LB&I) (Field Exam and Correspondence Exam programs) divided by the total individual return filings for the prior calendar year.
Field Exam Nat'l Quality Review Score	The score awarded to a reviewed field examination case by a Quality Reviewer using the National Quality Review System (NQRS) quality attributes.
Office Exam Nat'l Quality Review Score	The score awarded to a reviewed office examination case by a Quality Reviewer using the NQRS quality attributes.
Examination Quality – Industry	Average of the scores of Industry Cases reviewed. Case scores are based on the percentage of elements passed within each auditing standard.
Examination Quality – Coordinated Industry	Average of the scores of Coordinated Industry Cases reviewed. Case scores are based on the percentage of elements passed within each auditing standard.
Examination Coverage – Business (Corps. >\$10M)	The number of LB&I returns (C and S Corporations with assets over \$10 million and all partnerships) examined and closed by LB&I during the current fiscal year divided by the number of filings for the preceding calendar year.
Examination Efficiency – Individual (1040)	The sum of all individual 1040 returns closed by SB/SE, W&I, TE/GE, and LB&I (Field Exam and Correspondence Exam programs) divided by the total Full-Time Equivalent (FTE) expended in relation to those individual returns.
Automated Underreporter (AUR) Efficiency	The total number of W&I and SB/SE contact closures (a closure resulting from a case where we made contact) divided by the total FTE, including overtime.
Automated Underreporter (AUR) Coverage	A percentage representing the total number of W&I and SB/SE contact closures (a closure resulting from a case where SBSE and W&I made contact) divided by the total return filings for the prior year.
Collection Coverage – Units	The volume of collection work disposed compared to the volume of collection work available.
Collection Efficiency – Units	The volume of collection work disposed divided by total collection FTE.
Field Collection Nat'l Quality Review Score	The score awarded to a reviewed collection cases by a Quality Reviewer using the NQRS quality attributes.
Automated Collection System (ACS) Accuracy	The percent of taxpayers who receive the correct answer to their ACS question.
Criminal Investigations Completed	The total number of subject criminal investigations completed during the fiscal year, including those that resulted in prosecution recommendations to the Department of Justice as well as those discontinued due to a lack of prosecution potential.
Number of Convictions	The number of criminal convictions.
Conviction Rate	The percent of adjudicated criminal cases that result in convictions.
Conviction Efficiency Rate (\$)	The cost of Criminal Investigation's (CI's) program divided by the number of convictions.
TE/GE Determination Case Closures	The number of cases closed in the Employee Plans or Exempt Organizations Determination programs, regardless of type of case or type of closing.
Percent of BSM Projects within +/- 10% Cost Variance	The percentage of BSM projects that are within the +/-10% threshold for cost. The cost variance is measured from the initial cost estimate versus current cost estimate.
Percent of BSM Projects within +/- 10% Schedule Variance	The percentage of BSM projects that are within the +/-10% threshold for schedule. The schedule variance is measured from the initial schedule estimate to the current schedule estimate.

Performance Measures	Type of Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Planned	FY 2013 Planned
Customer Service Representative Level of Service	Oe, L	82.0%	82.1%	52.8%	70.0%	74.0%	70.1%	61.0%	63.0%
Customer Contacts Resolved per Staff Year	E	7,414	7,648	12,634	12,918	10,744	12,419	13,300	14,400
Percent of Eligible Taxpayers Who File for EITC	Oe	*	*	*	*	*	*	75% - 80%	75% - 80%
Customer Accuracy - Tax Law (Phones)	Ot	90.9%	91.2%	91.2%	92.9%	92.7%	93.4%	92.7%	92.7%
Customer Accuracy - Accounts (Phones)	Ot	93.2%	93.4%	93.7%	94.9%	95.7%	96.0%	95.0%	95.0%
Timeliness of Critical Filing Season Tax Products to the Public	Ot	83.0%	83.5%	92.4%	96.8%	95.3%	96.3%	95.0%	95.0%
Timeliness of Critical TE/GE & Business Tax Products to the Public	Ot	61.2%	84.0%	89.5%	95.2%	97.7%	96.4%	93.0%	95.0%
Percent Individual Returns Processed Electronically	Oe, L	54.1%	57.1%	57.6%	65.9%	69.3%	76.9%	79.0%	80.0%
Cost per Taxpayer Served (\$) (HCTC)	E	\$13.71	\$14.90	\$16.94	\$13.79	\$9.52	\$12.36	\$13.00	\$13.00
Sign-Up Time (Days) - Customer Engagement (HCTC)	Ot	98.7	93.3	94.0	91.3	124.0	117.0	125.0	125.0
Percent of Business Returns Processed Electronically	Oe, L	16.6%	19.1%	19.4%	22.8%	25.5%	31.8%	32.0%	34.0%
Refund Timeliness - Individual (Paper)	Ot	99.3%	98.9%	99.1%	99.2%	96.1%	99.4%	98.0%	98.0%
Taxpayer Self-Assistance Rate	E, L	46.8%	49.5%	66.8%	69.3%	64.4%	70.1%	72.2%	74.4%
Examination Coverage - Individual	Oe, L	1.0%	1.0%	1.0%	1.0%	1.1%	1.1%	1.0%	1.0%
Field Exam Nat'l Quality Review Score	Oe, L	85.9%	85.9%	86.0%	85.1%	84.9%	85.8%	85.8%	86.4%
Office Exam Nat'l Quality Review Score	Oe, L	88.2%	89.4%	90.0%	92.1%	91.6%	90.4%	90.4%	90.4%
Examination Quality - Industry	Oe, L	85.0%	87.0%	88.0%	88.0%	87.0%	90.0%	90.0%	90.0%
Examination Quality - Coordinated Industry	Oe, L	96.0%	96.0%	97.0%	95.0%	95.0%	96.0%	97.0%	97.0%
Examination Coverage - Business (Assets > \$10 million)	Oe, L	7.3%	6.8%	6.1%	5.6%	5.7%	6.2%	5.6%	5.4%
Examination Efficiency - Individual	E, L	128	137	138	138	140	139	134	134
Automated Underreporter Efficiency	E, L	1,832	1,956	1,982	1,905	1,924	2,007	2,067	2,067
Automated Underreporter Coverage	E, L	2.4%	2.5%	2.6%	2.6%	3.0%	3.3%	3.2%	3.2%
Collection Coverage (Units)	Ot, L	54.0%	54.0%	55.2%	54.2%	50.1%	50.0%	47.8%	46.8%
Collection Efficiency (Units)	E, L	1,677	1,828	1,926	1,845	1,822	1,952	2,073	2,028
Field Collection Nat'l Quality Review Score	Ot, L	84.2%	84.0%	79.0%	80.5%	80.6%	80.3%	78.0%	79.0%
Automated Collection System Accuracy	Oe	91.0%	92.9%	95.3%	94.3%	95.9%	94.9%	94.5%	95.0%
Criminal Investigations Completed	Ot, L	4,157	4,269	4,044	3,848	4,325	4,697	4,000	4,000
Number of Convictions	Oe, L	2,019	2,155	2,144	2,105	2,184	2,350	2,175	2,175
Conviction Rate	Oe, L	91.5%	90.2%	92.3%	87.2%	90.2%	92.7%	92.0%	92.0%
Conviction Efficiency Rate (\$)	E, L	\$328,750	\$301,788	\$315,751	\$327,328	\$324,776	\$310,029	\$325,000	\$325,000
TE/GE Determination Case Closures	Ot	108,462	109,408	100,050	96,246	105,247	91,205	65,794	62,600
Percent of BSM Projects within +/- 10% Cost Variance	E	**	**	92.0%	60.0%	40.0%	71.4%	90.0%	90.0%
Percent of BSM Projects within +/- 10% Schedule Variance	E	**	**	92.0%	90.0%	100.0%	100.0%	90.0%	90.0%

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

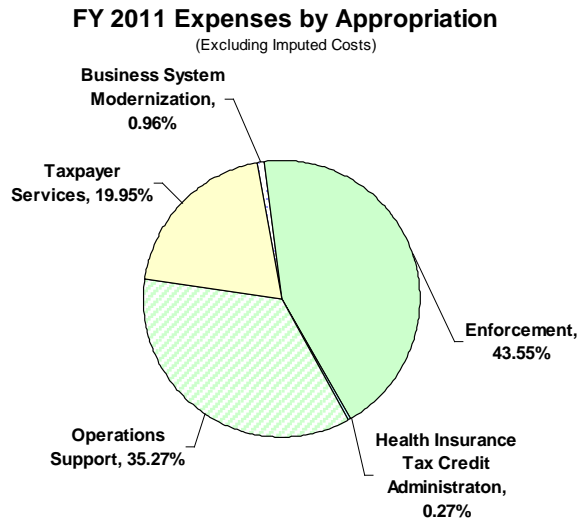
* The methodology for estimating the eligibility rate is being revised.

** In FY 2006 and 2007, Cost and Schedule Variance was reported separately for each project release/subrelease. In FY 2008, these measures were changed to reflect an overall percentage of all major BSM projects.

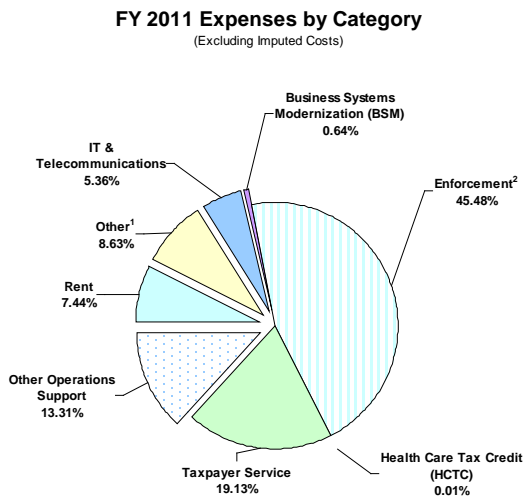
4.4 – Cost of IRS Operating Activities

FY 2011 Cost of IRS Operating Activities

The following charts provide the FY 2011 cost of IRS operating activities by appropriation and by major expense category. The charts include all expenditures, regardless of the fiscal year the funds were appropriated, that occurred in FY 2011 except for imputed costs (i.e., costs associated with services obtained by other agencies such as the Department of the Treasury and the Office of Personnel Management that are provided to the IRS, but are not reimbursed).



The second chart shows the FY 2011 actual costs by major expense category.



Notes:

¹**Other** includes Contractual Services, Supplies, Printing, Postage, Travel and Training

²**Enforcement** includes Non-Labor Enforcement Expenses of \$234M (2.0%)

Labor Costs represent 76.59% of total expenses and are included in Taxpayer Service, Enforcement, Operations Support, and HCTC

4.5 – Summary of IRS FY 2013 Implementation of P.L. 111-148 & 111-152

Dollars In Thousands									
FY 2013 Implementation of Public Laws 111-148 & 111-152	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT		TOTAL		
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	
Program Increases									
Implement Tax Legislative Changes			28,634	274	56,727	48	85,361	322	
Implement Information Technology and Operational Infrastructure to Deliver New Tax Credits					266,894	537	266,894	537	
Implement Information Technology Changes Needed for Individual Coverage Requirement					8,200		8,200		
Total, FY 2013 Initiatives			\$28,634	274	\$331,821	585	\$360,455	859	

4.6 – Summary of IRS FY 2013 Budget Request

	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT		BSM		TOTAL	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
Bureau: Internal Revenue Service										
Summary of Proposed FY 2013 Budget Request										
FY 2012 Enacted	\$2,239,703	30,535	\$5,299,367	47,586	\$3,947,416	11,985	\$330,210	605	\$11,816,696	90,711
Changes to Base										
Maintaining Current Levels (MCLs)	\$17,282		\$38,156		\$52,698		\$287		\$108,423	
Other Adjustments ¹								(110)		(110)
Efficiencies/Savings	(\$31,544)	(395)	(\$31,489)	(219)	(\$7,530)		(\$287)		(\$70,850)	(614)
Increase e-File Savings	(8,124)	(177)			(442)				(8,566)	(177)
Reduce Travel	(740)				(1,708)		(130)		(2,578)	
Targeted Program Reductions	(22,680)	(218)	(31,489)	(219)	(5,380)		(157)		(59,706)	(437)
Subtotal, FY 2013 Changes to Base	(\$14,262)	(395)	\$6,667	(219)	\$45,168			(110)	\$37,573	(724)
FY 2013 Current Services (Base)	\$2,225,441	30,140	\$5,306,034	47,367	\$3,992,584	11,985	\$330,210	495	\$11,854,269	89,987
Program Changes										
Restoration of FY 2012 Reductions to Enforcement Programs										
Restore Audit Coverage to Address Individual Tax Compliance Issues	388	6	83,265	882	43,519	24			127,172	912
Restore Collection Coverage	11,869	195	35,407	573	26,033				73,309	768
Subtotal, Restoration of FY 2012 Reductions to Enforcement Programs	\$12,257	201	\$118,672	1,455	\$69,552	24			\$200,481	1,680
Program Increases										
Enforcement Initiatives										
Promote Offshore Compliance			81,738	700	29,001				110,739	700
Improve International Compliance			33,033	223	5,851				38,884	223
Implement Tax Legislative Changes	8,366	189	51,694	619	68,806	49			128,866	857
Implement Revenue Protection Strategy	7,069	40	60,490	832	21,297	13			88,856	885
Build Out Tax Return Preparer Program			29,190	228	5,976				35,166	228
Address Appeals Workload			16,466	132	3,858				20,324	132
Implement Uncertain Tax Position Reporting Requirements			3,576	20	454				4,030	20
Leverage Digital Evidence for Criminal Investigation (CI)			777	7	3,727	1			4,504	8
Subtotal, Enforcement Initiatives	\$15,435	229	\$276,964	2,761	\$138,970	63			\$431,369	3,053
Infrastructure Initiative										
Implement Information Technology and Operational Infrastructure to Deliver New Tax Credits					266,894	537			266,894	537
Implement Information Technology Changes Needed for Individual Coverage Requirement					8,200				8,200	
Subtotal, Infrastructure Initiative					\$275,094	537			\$275,094	537
Subtotal, FY 2013 Program Changes	\$27,692	430	\$395,636	4,216	\$483,616	624			\$906,944	5,270
Total, FY 2013 Budget Request	\$2,253,133	30,570	\$5,701,670	51,583	\$4,476,200	12,609	\$330,210	495	\$12,761,213	95,257
¹ The FTE adjustment reflects the labor required to support the BSM program in FY 2013.										
Dollar/FTE Change	\$13,430	35	\$402,303	3,997	\$528,784	624			\$944,517	4,546
Percent Change	0.60%	0.11%	7.59%	8.40%	13.40%	5.21%			7.99%	5.01%
										-18.18%
Final OMB Passback Levels	\$2,239,703		\$5,715,100		\$4,476,200		\$330,210		\$12,761,213	
	(\$13,430)		\$13,430							