

## Internal Revenue Service

### Program Summary by Appropriations Account and Budget Activity

Dollars in thousands

Appropriation	FY 2011 Enacted <sup>1</sup>	FY 2012 Enacted	FY 2013 Request	FY 2012 TO FY 2013 \$ Change % Change	
Taxpayer Services	\$2,293,272	\$2,239,703	\$2,253,133	\$13,430	0.60%
Pre-filing Taxpayer Assistance & Education	\$678,204	\$632,414	\$625,931	(\$6,483)	-1.03%
Filing & Account Services	\$1,615,068	\$1,607,289	\$1,627,202	\$19,913	1.24%
Enforcement	\$5,492,992	\$5,299,367	\$5,701,670	\$402,303	7.59%
Investigations	\$644,479	\$636,067	\$688,296	\$52,229	8.21%
Exam & Collections	\$4,689,220	\$4,510,245	\$4,846,749	\$336,504	7.46%
Regulatory	\$159,293	\$153,055	\$166,625	\$13,570	8.87%
Operations Support	\$4,056,716	\$3,947,416	\$4,476,200	\$528,784	13.40%
Infrastructure	\$926,190	\$940,765	\$987,730	\$46,965	4.99%
Shared Services & Support	\$1,291,568	\$1,242,470	\$1,348,363	\$105,893	8.52%
Information Services	\$1,838,958	\$1,764,181	\$2,140,107	\$375,926	21.31%
Business Systems Modernization	\$263,369	\$330,210	\$330,210	\$0	0.00%
Health Insurance Tax Credit Administration <sup>2</sup>	\$15,481	\$0	\$0	\$0	NA
<b>Subtotal, Internal Revenue Service</b>	<b>\$12,121,830</b>	<b>\$11,816,696</b>	<b>\$12,761,213</b>	<b>\$944,517</b>	<b>7.99%</b>
Offsetting Collections - Reimbursables <sup>3</sup>	\$141,078	\$135,218	\$135,218	\$0	0.00%
Mandatory Appropriations – User Fees <sup>3</sup>	\$285,805	\$210,860	\$218,450	\$7,590	3.60%
<b>Total Program Operating Level</b>	<b>\$12,548,713</b>	<b>\$12,162,774</b>	<b>\$13,114,881</b>	<b>\$952,107</b>	<b>7.83%</b>
Direct FTE	94,541	90,711	95,257	4,546	5.01%
Other Direct FTE <sup>4</sup>	582	863	7	(856)	-99.2%
Reimbursable FTE <sup>3</sup>	782	743	743	0	0.00%
User Fees FTE <sup>3</sup>	221	196	196	0	0.00%
<b>Total FTE</b>	<b>96,126</b>	<b>92,513</b>	<b>96,203</b>	<b>3,690</b>	<b>3.99%</b>

<sup>1</sup>FY 2011 Enacted represents the approved FY 2011 Operating Plan and inter-appropriation transfer.

<sup>2</sup>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).

<sup>3</sup>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.

<sup>4</sup>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).

### Summary

The Internal Revenue Service (IRS) collects the revenue that funds the government and administers the nation's tax laws. The IRS collected \$2.415 trillion in taxes (gross receipts before tax refunds) in FY 2011, 92 percent of federal government receipts. To

protect the flow of revenue to the government, the IRS delivers a robust service and enforcement agenda. The service agenda supports and protects the trillions 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.

Both service and enforcement are key to supporting the Treasury Priority Goal, Increase Voluntary Tax Compliance.

Total resources to support the IRS activities for FY 2013 are \$13,114,881,000, including \$12,761,213,000 from direct appropriations, an estimated \$135,218,000 from reimbursable programs, and an estimated \$218,450,000 from user fees. The direct appropriation is \$944,517,000 more than the FY 2012 enacted level of \$11,816,696,000, and \$639,383,000 more than the FY 2011 enacted level of \$12,121,830,000.

The *IRS Strategic Plan 2009-2013* guides program and budget decisions and supports the Department of the Treasury Strategic Plan and Priority Goals.

Helping taxpayers understand their obligations under the tax law is critical to improving compliance and addressing the tax gap, the difference between taxes owed and taxes paid on time. Therefore, the IRS remains committed to a balanced program of assisting taxpayers to understand the tax law and remit the proper amount of tax.

The IRS Strategic Plan goals and objectives are:

*Improve Service to Make Voluntary Compliance Easier*

*Enforce the Law to Ensure Everyone Meets Their Obligation to Pay Taxes*

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 obligations 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 appropriately allocate resources; and
- Ensure the privacy and security of data and the safety and security of IRS employees.

The IRS President's Budget request supports the following Department of the Treasury Strategic and Agency Priority Goals:

*Strategic Goal: Pursue Comprehensive Tax and Fiscal Reform*

*Priority Goal: Increase Voluntary Tax Compliance*

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

**Enforcement Program:** The FY 2013 request provides funding 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.

Increased resources for the IRS compliance programs yield direct, measurable results through high return on investment activities. 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.

The tax law is complex and even sophisticated taxpayers can make honest mistakes on their tax returns. Accordingly, helping taxpayers

understand their obligations under the tax law is critical to improving compliance. To this end, the IRS remains committed to a balanced program of assisting taxpayers to both understand the tax law and remit the proper amount of tax and compliance actions.

**Taxpayer Service Program:** The FY 2013 request continues to deliver services to taxpayers using a variety of in-person, telephone, and web-based methods to help taxpayers understand their tax obligations, correctly file their returns, and pay taxes due in a timely manner.

Providing quality taxpayer service is especially important to help taxpayers avoid making unintentional errors. Assisting taxpayers with their questions before they file their returns prevents inadvertent noncompliance and reduces burdensome post-filing notices and other correspondence from the IRS. The IRS is committed to supporting the Treasury effort to expand the use of electronic transactions to include increasing the e-File rate and increasing taxpayer service options available through the internet. Technology enhancements to IRS.gov and the continued investments in electronic filing under the Business Systems Modernization (BSM) program will allow more taxpayers to reach the IRS through the IRS website. In 2011, there were more than 319 million visits to *The IRS website*, and more than 77.9 million taxpayers checked their refund status by accessing *Where's My Refund?* in English or in Spanish on the IRS website. Taxpayers also can use automated features found at 1-800-829-1040.

**Business Systems Modernization:** 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 its efforts on the second phase of the Customer Account Data Engine 2 (CADE 2) initiative, which addresses risks associated with the continued legacy of antiquated technologies 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.

## IRS FY 2013 Budget Highlights

Dollars in thousands

Appropriation	Taxpayer Services \$000 FTE		Enforcement \$000 FTE		Operations Support \$000 FTE		Business Systems Modernization \$000 FTE		Total \$000 FTE	
<b>FY 2012 Enacted</b>	<b>\$2,239,703</b>	<b>30,535</b>	<b>\$5,299,367</b>	<b>47,586</b>	<b>\$3,947,416</b>	<b>11,985</b>	<b>\$330,210</b>	<b>605</b>	<b>\$11,816,696</b>	<b>90,711</b>
<b>Changes to Base</b>										
<b>Adjustment to Request</b>		-		-		-		(110)		(110)
<b>Maintaining Current Levels (MCL's)</b>	<b>\$17,282</b>	-	<b>\$38,156</b>	-	<b>\$52,698</b>	-	<b>\$287</b>	-	<b>\$108,423</b>	-
<b>Efficiency Savings</b>	<b>(\$31,544)</b>	<b>(395)</b>	<b>(\$31,489)</b>	<b>(219)</b>	<b>(\$7,530)</b>	-	<b>(\$287)</b>	-	<b>(\$70,850)</b>	<b>(614)</b>
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)
<b>Subtotal, Changes to Base</b>	<b>(\$14,262)</b>	<b>(395)</b>	<b>\$6,667</b>	<b>(219)</b>	<b>\$45,168</b>	-		<b>(110)</b>	<b>\$37,573</b>	<b>(724)</b>
<b>Total, FY 2013 Base</b>	<b>\$2,225,441</b>	<b>30,140</b>	<b>\$5,306,034</b>	<b>47,367</b>	<b>\$3,992,584</b>	<b>11,985</b>	<b>\$330,210</b>	<b>495</b>	<b>\$11,854,269</b>	<b>89,987</b>
<b>Program Changes</b>										
<b>Restoration of FT 2012 Reductions to Enforcement Programs</b>	<b>\$12,257</b>	<b>201</b>	<b>\$118,672</b>	<b>1,455</b>	<b>\$69,552</b>	<b>24</b>	<b>\$0</b>	-	<b>\$200,481</b>	<b>1,680</b>
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
<b>Program Increases</b>	<b>\$15,435</b>	<b>229</b>	<b>\$276,964</b>	<b>2,761</b>	<b>\$414,064</b>	<b>600</b>			<b>\$706,463</b>	<b>3,590</b>
<b>Enforcement Initiatives:</b>	<b>\$15,435</b>	<b>229</b>	<b>\$276,964</b>	<b>2,761</b>	<b>\$138,970</b>	<b>63</b>	<b>\$0</b>	-	<b>\$431,369</b>	<b>3,053</b>
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	-	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
<b>Infrastructure Initiatives:</b>	<b>\$0</b>	-	<b>\$0</b>	-	<b>\$275,094</b>	<b>537</b>	<b>\$0</b>	-	<b>\$275,094</b>	<b>537</b>
Implement IT and Operational Infrastructure to Deliver New Tax Credits	-	-	-	-	266,894	537	-	-	266,894	537
Implement IT Changes Needed for Individual Coverage Requirement	-	-	-	-	8,200	-	-	-	8,200	-
<b>Subtotal, Program Changes</b>	<b>\$27,692</b>	<b>430</b>	<b>\$395,636</b>	<b>4,216</b>	<b>\$483,616</b>	<b>624</b>	<b>\$0</b>	-	<b>\$906,944</b>	<b>5,270</b>
<b>Total, FY 2013 Request</b>	<b>\$2,253,133</b>	<b>30,570</b>	<b>\$5,701,670</b>	<b>51,583</b>	<b>\$4,476,200</b>	<b>12,609</b>	<b>\$330,210</b>	<b>495</b>	<b>\$12,761,213</b>	<b>95,257</b>

## **FY 2013 Budget Estimates**

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### **FY 2012 Enacted**

The FY 2012 Enacted Level for IRS is \$11,816,696,000, supporting and estimated 90,711 FTE.

### **Adjustment to Request**

*Technical Dollar and FTE Adjustments +\$0 / -110 FTE*

The 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.

### **Maintaining Current Levels (MCLs)**

*Maintaining Current Levels +\$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).

### **Efficiency Savings**

*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.

### **Restoration of FY 2012 Reductions to Enforcement Programs**

*Restore Audit Coverage to Address Individual Tax Compliance Issues +\$127,172,000 / +912 FTE*

This initiative 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 the 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.

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

This initiative 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 to address increased workload in the Automated Collection System (ACS) handling growing collection case inventories and incoming call volumes; Withholding Compliance Program (WHC) handling balance due correspondence and phone work; installment agreement calls; Offers in Compromise (OIC) Program which helps taxpayers, experiencing economic hardship, resolve their tax liabilities; and Accounts Management (AM) assisting taxpayers in resolving enforcement-related notices. It will restore additional annual enforcement revenue of \$486.9 million, an ROI of \$7.6-to-\$1.

### **Program Increases**

*Promote Offshore Compliance +\$110,739,000 / +700 FTE*

This initiative 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.

*Promote Offshore Compliance +\$110,739,000 / +700 FTE*

This initiative 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.

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

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. This initiative 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) (\$43.5 million and 535 FTE) 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) (\$85.4 million and 322 FTE) to address compliance issues and new responsibilities arising from the non-exchange related tax law changes included in the ACA.

These initiatives will produce additional annual enforcement revenue of \$424 million,

once the new hires reach full potential in FY 2015, an ROI of \$3.5-to-\$1.

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

The tax withholding program 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. This initiative supports 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.

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

This initiative improves 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 initiative will produce additional direct 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.

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

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.

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

This initiative will allow the IRS to increase its capacity to provide guidance and certainty on areas where there is 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.

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

This initiative will automate current Criminal Investigation (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.

*Implement IT and Operational Infrastructure to Deliver New Tax Credits +\$266,894,000 / +537 FTE*

The Affordable Care Act (ACA) provides a new premium assistance tax credit to help certain individuals afford health insurance starting in 2014. With requested funding, the IRS will continue the development of new information technology systems and

modification and enhancement of existing systems. System changes are required to support income verification for the premium assistance tax credit, and design systems to ensure accurate credit delivery, while detecting and addressing non-compliance.

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

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 establishes an individual coverage requirement.

Dollars in Millions						
FY 2013 Enforcement Investment	First Year (FY 2013)			Full Performance (FY 2015)		
	Cost	Revenue	ROI	Cost	Revenue	ROI
<b>All Enforcement Initiatives</b>	<b>\$631.9</b>	<b>\$1,214.1</b>	<b>1.9</b>	<b>\$540.5</b>	<b>\$2,628.6</b>	<b>4.9</b>
<b>Restoration of FY 2012 Reductions to Enforcement Programs</b>	<b>\$200.5</b>	<b>\$540.7</b>	<b>2.7</b>	<b>\$168.2</b>	<b>\$1,148.6</b>	<b>6.8</b>
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
<b>Immediate and Directly Measurable Revenue-Producing Initiatives</b>	<b>\$402.6</b>	<b>\$673.4</b>	<b>1.7</b>	<b>\$346.0</b>	<b>\$1,480.0</b>	<b>4.3</b>
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
<b>Strategic Revenue-Producing Initiatives (which do not have immediately measurable ROI, but clear long-term revenue effects)</b>	<b>\$28.8</b>	<b>\$0.0</b>	<b>0.0</b>	<b>\$26.3</b>	<b>\$0.0</b>	<b>0.0</b>
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

**Return on Investment for Enforcement Initiatives**

**Explanation of Budget Activities**

**Taxpayer Services**

The FY 2013 President's Budget request is \$2,253,133,000 in direct appropriations, an estimated \$24,050,000 from reimbursable programs, and an estimated \$142,742,000 from user fees, for a total operating level of \$2,419,925,000. This appropriation funds the following budget activities.

*Pre-filing Taxpayer Assistance & Education (\$625,931,000 from direct appropriations, \$1,151,000 from reimbursable resources)*

This budget activity funds services to assist with tax return preparation, including tax law interpretation, publication, production, and advocate services. In addition, funding for these programs continues to emphasize taxpayer education, outreach, increased volunteer support time and locations, and enhancing pre-filing taxpayer support through electronic media.



*Filing & Account Services (\$1,627,202,000 from direct appropriations, \$22,899,000 from reimbursable resources, 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.

### **Enforcement**

The FY 2013 President's Budget request is \$5,701,670,000 in direct appropriations and an estimated \$73,604,000 from reimbursable programs, and an estimated \$17,750,000 from user fees, for a total operating level of \$5,793,024,000. 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 account. This appropriation funds the following budget activities.

*Investigation (\$688,296,000 from direct appropriations, and an estimated \$61,633,000 from reimbursable resources)*

This budget activity funds the criminal investigations programs that uncover criminal violations of the internal revenue tax laws and other financial crimes, enforce criminal statutes relating to these violations, and recommend prosecution as warranted. These programs identify and document the movement of both legal and illegal sources of income to identify and document cases of

suspected intent to defraud. It provides resources for international investigations involving U.S. citizens residing abroad, non-resident aliens and expatriates and includes investigation and prosecution of tax and money-laundering violations associated with narcotics organizations.

*Exam & Collections (\$4,846,749,000 from direct appropriations, and an estimated \$11,307,000 from reimbursable resources)*

This budget activity funds programs that enforce the tax laws and increase compliance through examination and collection programs that ensure proper payment and tax reporting. It includes programs such as specialty program examinations (employment tax, excise tax and estate and gift exams), international collections and international examinations. The budget activity also supports appeals and litigation activities associated with exam and collection.

*Regulatory (\$166,625,000 from direct appropriations, an estimated \$664,000 from reimbursable resources, 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 the IRS on general non-tax legal issues such as procurement, personnel, and labor relations; enforcement of regulatory rules, laws, and approved business practices; and support of taxpayers in the areas of pre-filing agreements, determination letters, and advance pricing agreements. The Return Preparer Strategy initiative is funded within this activity in addition to the Office of Professional Responsibility who is responsible for identifying, communicating, and enforcing the Treasury Circular 230 standards of competence, integrity, and conduct of professionals representing taxpayers before the IRS.

## **Operations Support**

The FY 2013 President's Budget request is \$4,476,200,000 in direct appropriations, an estimated \$37,564,000 from reimbursable programs, and an estimated \$57,958,000 from user fees, for a total operating level of \$4,571,722,000. 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 account. This appropriation funds the following budget activities.

*Infrastructure (\$987,730,000 from direct appropriations, an estimated \$889,000 from reimbursable resources, 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.

*Shared Services & Support (\$1,348,363,000 from direct appropriations, an estimated \$20,207,000 from reimbursable resources, and an estimated \$11,700,000 from user fees)*

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

*Information Services (\$2,140,107,000 from direct appropriations, an estimated \$16,468,000 from reimbursable resources, 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 the mainframes, servers, personal computers, networks, and a variety of management information systems.

## **Business Systems Modernization**

The FY 2013 President's Budget request is \$330,210,000 in direct appropriations. This appropriation funds the following budget activity.

*Business Systems Modernization (\$330,210,000 from direct appropriations)*

This budget activity funds the planning and capital asset acquisition of information technology (IT) to continue the modernization of IT systems, including labor and related contractual costs. In FY 2013, the IRS will strategically invest in state-of-the-art capabilities, such as online taxpayer services and focus on the second phase of the core taxpayer account database, CADE 2, Transition State 2, to ensure the long-term viability of IRS tax processing systems.

## **Legislative Proposals**

The FY 2013 President's 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 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. 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.

## IRS Performance by Program

Program	Performance Measure	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Target	FY 2013 Target
Taxpayer Services	Customer Contacts Resolved Per Staff Year	12,918	10,744	12,419	13,300	14,400
Taxpayer Services	Customer Service Representative (CSR) Level of Service (%)	70.0	74.0	70.1	61.0	63.0
Taxpayer Services	Percent Individual Returns Processed Electronically (%)	65.9	69.3	76.9	79.0	80.0
Enforcement	Automated Collection System (ACS) Accuracy (%)	94.3	95.9	94.9	94.5	95.0
Enforcement	Automated Underreporter (AUR) Coverage (%)	2.6	3.0	3.3	3.2	3.2
Enforcement	Examination Efficiency - Individual (Form 1040)	138	140	139	134	134

### Description of Performance

In FY 2011, the IRS continued to provide quality service to taxpayers and enforced the laws in a balanced manner. The following is a summary of significant program performance improvements.

#### Enforcement Business System Modernization

IRS modernization efforts focus on building and deploying advanced information technology systems, processes, and tools to improve efficiency and productivity. The 2012 delivery follows up on a number of important accomplishments in FY 2011:

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.

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.

### **Taxpayer Service**

Providing taxpayers top-quality service and helping them understand and meet their tax responsibilities remain top priorities for the IRS.

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. Results of the 2011 filing season included:

- Processing more than 144.7 million individual returns and issuing more than 109.3 million refunds totaling \$345 billion compared to 109.5 million refunds totaling \$366 billion for the same period in 2010;
- Answering 42.3 million automated calls and 34.2 million assistor calls;
- Responding accurately to 93.4 percent of tax law questions and 96 percent of account questions; and
- Direct-depositing more than 79 million refunds compared to 74.6 million in 2010, an increase of almost 6 percent over 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;

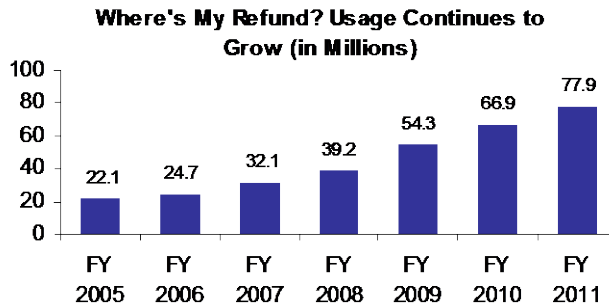
- Business returns filed electronically at a rate of 31.8 percent, up from 25.5 percent in 2010;
  - Home-computer filing increased to 39.6 million returns, 13.9 percent more than 2010;
  - Tax professional use of e-file increased 15 percent from the previous year, reaching 71.7 million returns; and
  - 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.
- Get answers. More than 241,962 taxpayers accessed the Interactive Tax Assistant in order to receive answers to tax law questions.

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

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 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 with 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).

### **Business System Modernization**

IRS modernization efforts focus on building and deploying advanced information technology systems, processes, and tools to

improve efficiency and productivity. 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 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 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.

- 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.

