

# Internal Revenue Service

## Mission Statement

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

## Program Summary by Appropriations Account

Appropriation	FY 2006	FY 2007	FY 2007	FY 2008		
	Enacted	President's Budget*	CR-rate*	President's Budget*	\$ Change over CR-rate	% Change over CR-rate
Taxpayer Services	\$2,142,042	\$2,079,151	\$2,046,908	\$2,103,089	\$56,181	2.74%
Enforcement	4,708,441	4,797,126	4,660,572	4,925,498	\$264,926	5.68%
Operations Support	3,461,205	3,488,404	3,519,228	3,769,587	\$250,359	7.11%
Business Systems Modernization	242,010	212,310	196,810	282,090	\$85,280	43.33%
Health Insurance Tax Credit Administration	20,008	14,846	14,846	15,235	\$389	2.62%
<b>Total Appropriated Resources</b>	<b>\$10,573,706</b>	<b>\$10,591,837</b>	<b>\$10,438,364</b>	<b>\$11,095,499</b>	<b>\$657,135</b>	<b>6.30%</b>

NOTE: Throughout this document FY 2006 and prior years have been presented in the new budget structure for comparability across fiscal years. This differs from the President's Budget Appendix which presents FY 2006 as it was executed. The FY 2006 enacted level excludes rescission of unobligated balances (\$29 million from Taxpayer Services and \$9 million from HITCA). In addition, FY 2007 CR-rate includes proposed interappropriation transfers.

\*The FY 2007 budget is supplemented by \$242 million in users fees (includes \$135 million in new user fees) and the FY 2008 budget is supplemented by \$180 million in user fees.

## FY 2008 Priorities

In 2008 the IRS will focus its efforts on implementing Treasury's tax compliance improvement strategy (see <http://www.treasury.gov/press/releases/hp111.htm>). This includes the following priorities:

- Maintain balance between taxpayer service and enforcement
- Improving tax compliance by:
  - Increasing front-line enforcement resources to improve tax compliance
  - Increasing voluntary compliance through improved taxpayer service options and enhanced research
  - Implementing legislative and regulatory changes
- Invest in technology to reverse infrastructure deterioration, accelerate modernization, and improve the productivity of existing resources

<b>Section 1 – Purpose</b> .....	<b>4</b>
1A – Description of Bureau Vision and Priorities .....	4
Summary Budget Adjustment Table (Taxpayer Service/Enforcement) .....	8
1B – Program History and Future Outlook.....	10
<b>Section 2 – Budget Adjustments &amp; Appropriations Language</b> .....	<b>18</b>
Program Summary by Appropriations Account and Budget Activity .....	18
Appropriation Detail Table .....	19
Summary Budget Adjustment Table.....	20
2A – Budget Decreases and Increases Description (IRS).....	21
Increased e-File Savings .....	22
Increase Efficiency through Submission Processing Site Consolidations .....	23
Upgrade Critical IT Infrastructure .....	24
Enhance Computer Security Incident Response Center (CSIRC) and Network Infrastructure Security .....	25
Fund Business Systems Modernization .....	26
Improve Compliance Estimates, Measures, and Detection of Non-Compliance..	29
Improve Compliance Among Small Business and Self-Employed Taxpayers ....	29
Implement Legislative Proposals to Improve Compliance.....	32
Increase Compliance for Large Multinational Businesses.....	35
Establish New Document Matching – Kansas City .....	38
Increase Individual Filing Compliance .....	39
Increase Tax-Exempt Entity Compliance .....	40
Increase Criminal Tax Investigations .....	41
Research Effect of Service on Taxpayer Compliance .....	43
Expand Volunteer Income Tax Assistance .....	44
Implement Taxpayer Assistance Blueprint.....	45
Operating Levels Table.....	48
2B – Appropriations Language and Explanation of Changes.....	49
2C – Legislative Proposals.....	52
<b>Section 3 – Budget and Performance Plan</b> .....	<b>54</b>
<b>Taxpayer Services (TS)</b> .....	<b>54</b>
Appropriation Description .....	54
Appropriations Detail Table .....	54
Budget Adjustment Table .....	55
Operating Levels Table.....	56
TS Budget Activity: <i>Pre-Filing Taxpayer Assistance and Education</i> .....	57
3A - Description.....	57
3B – Budget and Performance Plan .....	58
TS Budget Activity: <i>Filing and Account Services</i> .....	60
3A – Description .....	60
3B – Budget and Performance Plan .....	61

<b>Enforcement (ENF)</b> .....	64
Appropriation Description .....	64
Appropriation Detail Table .....	64
Budget Adjustment Table .....	65
Operating Levels Table.....	66
ENF Budget Activity: <i>Investigations</i> .....	67
3A – Description .....	67
3B – Budget and Performance Plan .....	68
ENF Budget Activity: <i>Exam and Collections</i> .....	69
3A – Description .....	69
3B – Budget and Performance Plan .....	71
ENF Budget Activity: <i>Regulatory</i> .....	73
3A – Description .....	73
3B – Budget and Performance Plan .....	74
<b>Operations Support (OS)</b> .....	77
Appropriation Description .....	77
Appropriation Detail Table .....	77
Budget Adjustment Table .....	78
Operating Levels Table.....	79
OS Budget Activity: <i>Infrastructure</i> .....	80
3A - Description.....	80
3B – Budget and Performance Plan .....	80
OS Budget Activity: <i>Shared Services and Support</i> .....	81
3A – Description .....	81
3B – Budget and Performance Plan .....	83
OS Budget Activity: <i>Information Services</i> .....	85
3A – Description .....	85
3B – Budget and Performance Plan .....	87
<b>Business Systems Modernization (BSM)</b> .....	90
Appropriation Description .....	90
Appropriation Detail Table .....	90
Budget Adjustment Table .....	91
Operating Levels Table.....	92
BSM Budget Activity: <i>Business Systems Modernization</i> .....	93
3A – Description .....	93
<b>Health Insurance Tax Credit Administration (HITCA)</b> .....	98
Appropriation Description .....	98
Appropriation Detail Table .....	98
Budget Adjustment Table .....	99
Operating Levels Table.....	100
HITCA Budget Activity: <i>Health Insurance Tax Credit Administration</i> .....	101
3A - Description.....	101
3B – Budget and Performance Plan .....	102

<b>Section 4 – Supporting Materials .....</b>	<b>103</b>
4A – Human Capital Strategy Description .....	103
Human Resources Table .....	105
4B – Information Technology Strategy .....	106
Summary of IT Resources Table .....	110
Program Assessment Rating Tool (PART) Evaluation Table .....	112
IRS Performance Measures Summary Table and Data Dictionary Link .....	122

## Section 1 – Purpose

---

### 1A – Description of Bureau Vision and Priorities

The Internal Revenue Service (IRS) administers America's tax laws and collects revenue to fund most government operations and public services as well as implements Treasury's tax compliance improvement strategy. The IRS taxpayer service programs provide assistance to millions of taxpayers to help them understand and meet their tax obligations. The IRS enforcement programs are aimed at deterring taxpayers inclined to evade their responsibilities while vigorously pursuing those who violate tax laws.

The President's Budget request for FY 2008 supports the IRS' five-year strategic plan. This plan underscores the IRS commitment to provide quality service to taxpayers while enforcing America's tax laws in a balanced manner. The IRS strategic plan goals are:

- **Improve Taxpayer Service** – Help people understand their tax obligations and making it easier for them to participate in the tax system;
- **Enhance Enforcement of the Tax Law** – Ensure taxpayers meet their tax obligations, so that when Americans pay their taxes, they can be confident their neighbors and competitors are also doing the same; and
- **Modernize the IRS through its People, Processes and Technology** – Strategically manage resources, associated business processes and technology systems to effectively and efficiently meet service and enforcement strategic goals.

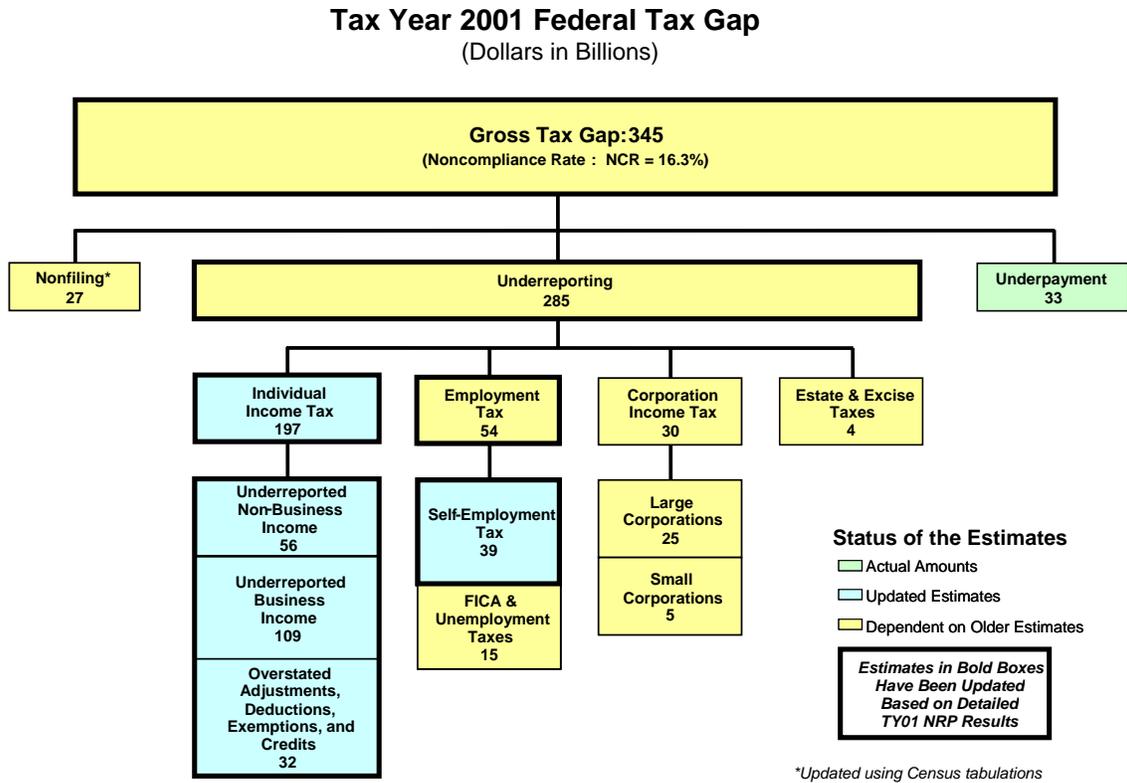
In support of these goals, the FY 2008 Budget priorities follow the guiding principle of *Service plus Enforcement equals Compliance* and sustain the IRS' objectives:

- Modernize information systems and business processes to maximize resources and improve service and enforcement;
- Enhance research to better allocate resources to IRS programs;
- Discourage and deter non-compliance with emphasis on corrosive activity by corporations, high-income taxpayers and abusive domestic and off-shore tax entities;
- Deter abuse within the tax-exempt community; and
- Simplify the tax process and improve service options for the taxpaying public.

### Reducing the Tax Gap

The IRS collects 95 percent of the revenues that fund the United States Government. The FY 2008 Budget request will accelerate deficit reduction by improving tax compliance to strengthen the Federal Government's ability to collect more of these legally-owed taxes.

The tax gap is the difference between the amount of tax imposed on taxpayers for a given year and the amount that is paid voluntarily and timely. The IRS' latest estimate shows that the overall gross tax gap for Tax Year 2001 was about \$345 billion.



This estimate, however, does not take into account taxes that were paid voluntarily but paid late, or recoveries from the IRS enforcement activities. Taking these factors into account, the “net tax gap” was an estimated \$290 billion.

The tax gap is comprised of three sources of taxpayer noncompliance:

- Underreporting (not reporting one’s full tax liability even when the return is filed on time), 82 percent of the tax gap;
- Underpayment (not paying by the due date the full amount of tax reported on a timely return), 10 percent of the tax gap; and
- Non-filing (not filing required returns or not filing on time), eight percent of the tax gap.

Increased resources for the IRS’ exam and collection programs yield direct measurable results. Once the new staff proposed in this request are trained and become more experienced, the enforcement revenue generated each year will be \$699 million. However, this estimate excludes the likely larger revenue impact from the deterrence value of these and other IRS enforcement programs (e.g., criminal investigations). It also excludes the impact of taxpayer services on voluntary compliance.

The IRS cannot currently measure either the impact of deterrence or service, but they are positive. The complexity of the nation's current tax system is a significant reason for the tax gap, and even sophisticated taxpayers make honest mistakes on their tax returns. Accordingly, helping taxpayers understand their obligations under the tax law is a critical part of improving voluntary compliance. To this end, the IRS remains committed to a balanced program assisting taxpayers in both understanding the tax law and remitting the proper amount of tax.

It is the need to improve tax compliance that drives much of what the IRS does. IRS enforcement activities, such as examination and collection, directly target tax gap elements, while IRS taxpayer services provide the information and tools taxpayers need to calculate and understand their tax obligations; collect, process, and store filed forms; and collect and process tax receipt and refunds owed timely. This budget request sets forth the funding, policy and tax law changes need to implement Treasury's tax compliance plan and make progress in improving tax compliance.

### **Taxpayer Service and Enforcement Programs**

The FY 2008 President's Budget request accelerates deficit reduction by strengthening the IRS' ability to administer taxpayer service and increase enforcement and collection of federal unpaid tax liabilities. IRS programs and supporting functions appropriated in the three operating accounts - taxpayer service, enforcement and operations support – are strategically aligned with either taxpayer service or tax law enforcement activities.

**Enforcement Program:** The IRS continues its emphasis on tax law enforcement, increasing collection of delinquent tax debt from \$34 billion in 2002 to \$49 billion in 2006, an increase of 44 percent. Since 2003, federal government receipts have also increase by over \$600 billion with revenue growth greatest in the areas of corporate taxes and high-income individual taxes. In FY 2008, the President's Budget increases funding for enforcement to \$7,228.2 million. This includes \$291.3 million for new enforcement initiatives and \$225.7 million in inflationary cost increases offset by efficiencies savings of \$82.2 million. As in 2006 and 2007, the Administration proposes to include these enforcement increases as a Budget Enforcement Act program integrity cap adjustment (see chapter 15, Budget Reform Proposals in the Analytical Perspectives volume of the 2008 Budget). IRS Enforcement resources are funded in the Enforcement and Operations Support appropriations accounts.

**Taxpayer Service Program:** Helping the public understand its tax reporting and payment obligations is a cornerstone of taxpayer compliance. In FY 2008, the President's Budget increases funding for taxpayer service to \$3,570.0 million. This includes \$56.1 million for new service initiatives and \$112.7 million in inflationary cost increases offset by efficiency savings of \$37.7 million. IRS Taxpayer Service resources are funded in the Taxpayer Service and Operations Support appropriation accounts.

**Taxpayer Service and Enforcement Programs**  
(Dollars in Millions)

<b>Programs</b>	<b>FY 2006 Enacted</b>	<b>FY 2007 CR-rate</b>	<b>FY 2008 President's Budget</b>	<b>% Change FY 2007 to FY 2008</b>
Taxpayer Services	<b>\$3,498.4</b>	<b>\$3,438.7</b>	<b>\$3,570.0</b>	<b>3.8%</b>
Direct Appropriation	\$2,142.0	\$2,046.9	\$2,103.1	
Operations Support	\$1,356.4	\$1,391.8	\$1,466.9	
Enforcement	<b>\$6,813.2</b>	<b>\$6,788.0</b>	<b>\$7,228.2</b>	<b>6.5%</b>
Direct Appropriation	\$4,708.4	\$4,660.6	\$4,925.5	
Operations Support	\$2,104.8	\$2,127.4	\$2,302.7	
<b>Total Taxpayer Services and Enforcement</b>	<b>\$10,311.6</b>	<b>\$10,226.7</b>	<b>\$10,798.2</b>	<b>5.6%</b>

**FY 2008 President's Budget Request**

The FY 2008 President's Budget request for the IRS is \$11,095.5 million, 6.3 percent above the FY 2007 Continuing Resolution (CR) level. The funding request for taxpayer service programs is \$3,570.0 million; for enforcement programs is \$7,228.2 million; for Business Systems Modernization (BSM) is \$282.1 million; and for Health Insurance Tax Credit Administration is \$15.2 million. The IRS total increase for FY 2008 of \$657.1 million, which includes \$27.6 million for a technical adjustment to the FY 2007 base due to the CR; \$340.0 million for maintaining current levels offset by \$120.0 million in efficiency savings; and a net program increase of \$409.5 million to enhance the IRS' infrastructure and modernization, enforcement, and taxpayer service programs that focus on reducing the tax gap. By 2010, these FY 2008 investments will increase annual enforcement revenue by \$699 million. In addition, it is estimated that the tax compliance improvement legislative proposals will generate approximately \$29 billion over the next ten years.

The IRS program initiatives focus on implementation of Treasury's tax compliance improvement strategy and the most significant needs for FY 2008:

- Improve IRS information technology infrastructure (\$81.0 million and \$62.1 million for the BSM program) to strengthen both taxpayer service and enforcement programs;
- Expand enforcement activities targeted at improving compliance (\$246.4 million); and
- Enhance taxpayer service (\$20 million) by continuing its efforts to increase and improve the delivery of services offered to taxpayers by expanding its research and implementing new technology (e.g., Spanish "Where's My Refund?" and an estimated calling wait time feature).

## Summary Budget Adjustment Table (Taxpayer Service/Enforcement)

### Taxpayer Service Program Summary Budget Adjustment Table (includes both direct costs in the Taxpayer Services appropriation and indirect costs in the Operations Support appropriation)

Table 2.1

#### FY 2008 Budget Highlights

Dollars in Thousands

Program: Taxpayer Service	FTE	Amount
<b>FY 2007 President's Budget</b>	35,931	\$3,456,333
CR-rate Adjustment	(330)	(39,711)
<b>FY 2007 CR-rate</b>	35,601	\$3,416,622
Interappropriation Transfer Corrections to Budget Restructure	43	22,136
<b>FY 2007 Operating Plan at CR-rate</b>	35,644	\$3,438,758
<b>Changes to Base:</b>		
Technical Adjustments to FY 2007 Base due to CR	0	\$193
Base Adjustment		193
Maintaining Current Levels (MCLs)		\$112,681
Pay Annualization		12,881
Pay Inflation Adjustment		74,475
Non-Pay Inflation Adjustment		25,325
Efficiency Savings	(541)	(\$37,727)
<b>Subtotal, Changes to Base</b>	(541)	\$75,147
<b>FY 2008 Base</b>	35,103	\$3,513,905
<b>Program Changes:</b>		
<b>Program Decreases/Savings:</b>	0	(\$6,479)
Increased e-File Savings		(6,479)
<b>Program Reinvestments:</b>	0	\$6,479
Increase Efficiency through Submission Processing Site Consolidations		6,479
<b>Program Increases:</b>		
<b>Infrastructure Initiatives</b>	0	\$30,948
Upgrade Critical IT Infrastructure		24,477
Enhance Computer Security Incident Response Center (CSIRC) and Network Infrastructure Security		6,471
<b>Enforcement Initiatives</b>	44	\$5,107
Improve Compliance Among Small Business and Self-Employed Taxpayers	31	3,309
Increase Compliance for Large Multinational Businesses	4	1,055
Expand Document Matching in Existing Sites	3	248
Increase Individual Filing Compliance	6	495
<b>Taxpayer Service Initiatives</b>	54	\$20,000
Research Effect of Service on Taxpayer Compliance	8	5,000
Expand Volunteer Income Tax Assistance	46	5,000
Implement Taxpayer Assistance Blueprint	0	10,000
<b>Subtotal, FY 2008 Program Changes</b>	98	\$56,055
<b>Total, FY 2008 President's Budget Request</b>	35,201	\$3,569,960

**Enforcement Program Summary Budget Adjustment Table  
(includes both direct costs in the Enforcement appropriation  
and indirect costs in the Operations Support appropriation)**

Table 2.1		
FY 2008 Budget Highlights		
Dollars in Thousands		
Program: Enforcement	FTE	Amount
<b>FY 2007 President's Budget</b>	56,771	\$6,908,348
CR-rate Adjustment	(988)	(98,262)
<b>FY 2007 CR-rate</b>	55,783	\$6,810,086
Interappropriation Transfer Corrections to Budget Restructure	(43)	(22,136)
<b>FY 2007 Operating Plan at CR-rate</b>	55,740	\$6,787,950
<b>Changes to Base:</b>		
<b>Technical Adjustments to FY 2007 Base due to CR</b>	0	\$5,494
Base Adjustment		5,494
<b>Maintaining Current Levels (MCLs)</b>		\$225,692
Pay Annualization		27,362
Pay Inflation Adjustment		157,054
Non-Pay Inflation Adjustment		41,276
<b>Efficiency Savings</b>	(643)	(\$82,254)
<b>Subtotal, Changes to Base</b>	(643)	\$148,932
<b>FY 2008 Base</b>	55,097	\$6,936,882
<b>Program Changes:</b>		
<b>Program Increases:</b>		
<b>Infrastructure Initiatives</b>	0	\$50,052
Upgrade Critical IT Infrastructure		35,523
Enhance Computer Security Incident Response Center (CSIRC) and Network Infrastructure		14,529
<b>Enforcement Initiatives</b>	1,486	\$241,280
Improve Compliance Estimates, Measures, and Detection of Non-Compliance	258	41,022
Improve Compliance Among Small Business and Self-Employed Taxpayers	454	69,856
Implement Legislative Proposals to Improve Compliance		23,045
Increase Compliance for Large Multinational Businesses	154	25,145
Expand Document Matching in Existing Sites	214	27,958
Establish New Document Matching - Kansas City	205	23,205
Increase Individual Filing Compliance	55	6,049
Increase Tax-Exempt Entity Compliance	109	15,000
Increase Criminal Tax Investigations	37	10,000
<b>Subtotal, FY 2008 Program Changes</b>	1,486	\$291,332
<b>Total, FY 2008 President's Budget Request</b>	56,583	\$7,228,214

## **1B – Program History and Future Outlook**

The IRS helps taxpayers understand and comply with federal income tax laws. Each year, IRS employees make millions of contacts with American taxpayers and businesses. These contacts encourage and facilitate self-sufficiency for taxpayers in meeting their tax obligations. The IRS also enforces the tax laws to ensure that non-compliant taxpayers pay their fair share. To improve voluntary tax compliance, the IRS must meet taxpayer expectations, respond quickly to technological and demographic changes and, provide the proper balance of service and enforcement.

### ***Strategic Goal I: Improve Taxpayer Service***

The IRS serves a constituency of more than 135 million individual tax filers. During the 2006 filing season, the IRS issued more than 100 million refunds totaling over \$277 billion. In addition, the IRS processed another 46.9 million returns for partnerships, corporations, employment taxes and exempt organizations. Providing quality taxpayer service, and continuing to improve that service, remains a strategic priority for the IRS. The IRS allocates its resources among its service, education and outreach programs to ensure taxpayers understand their obligations and voluntarily pay their taxes.

Assisting the public in meeting its tax obligations is the cornerstone of taxpayer compliance and is vital for maintaining public confidence in the tax system. Over the past several years, the IRS has made significant progress in improving customer service to the taxpayers:

- The overall American Customer Satisfaction Index (ACSI) score for all individual tax filers increased 27 percent, from 51 in 1999 to 65 in 2006. This is the largest increase of all federal agencies surveyed by the ACSI during this period. Program improvements contributing to an increase in customer satisfaction rates were implemented as a result of a Program Assessment Rating Tool (PART) assessment conducted for the Taxpayer Service program in FY 2004. Improvements included the launch of an improved, interactive telephone Probe and Response Guide for the 2005 filing season, and the implementation of a process using recorded call transcripts to create test call scenarios for training and certifying Customer Service Representatives.
- In FY 2006, the IRS level of service reached rates of 90.9 and 93.2 percent for tax law and account accuracy, respectively, and toll-free level of service was maintained at 82 percent.
- Nearly 14,000 large corporate taxpayers subject to the electronic filing mandate e-filed their returns successfully. The largest corporate taxpayers transmitted their returns without delay or backlog. The IRS processed this volume of very complex returns and accepted and acknowledged receipt within its 24-hour turnaround standard.

- IRS.gov is one of the most heavily visited sites on the internet. In FY 2006, the number of visits increased 9.8 percent and the number of pages viewed increased over three percent.
- The IRS delivered another successful filing season in 2006 with 134.7 million total individual returns received compared to 128.6 million in 2005. For the second year in a row, more than half (72.8 million) of all individual returns were filed electronically, representing a 6.6 percent increase over FY 2005. The most striking change is the 18.5 percent (22.2 million) increase in electronic filing from home computers.

The mix of taxpayer services demanded by the public appears to be changing. Toll-free calls and visits to Taxpayer Assistance Centers (TACs) have declined. In FY 2006, the IRS completed more than 24.3 million automated calls compared to 25.7 million in FY 2005, and answered 32.7 million assistor calls compared to 33.4 million in FY 2005. The IRS also achieved the FY 2006 82 percent level of service goal, with an accuracy rate of 91 percent for tax law questions. The accuracy of responses to tax law questions at the TACs increased to 83 percent, compared to 75 percent in FY 2005. Waiting time at the TACs was minimized with more than eight out of ten customers being served in 30 minutes or less.

The TACs experienced an eight percent reduction in walk-in contacts due to the overall decline in the number of customers seeking face-to-face assistance. The reduced demand for these services can be attributed, in part, to increased usage of the newly redesigned, award-winning web site. The redesigned website enhances taxpayers' ability to find desired content through improved search and navigation functions. In addition, the IRS offered a set of web-based business products for practitioners and other third parties. IRS e-Services such as the Internet-Employer Identification Number service and Transcript Delivery service experienced significant usage. Overall customer satisfaction with the award-winning IRS.gov website increased five percentage points based on the ACSI and use continued to grow. More than 1.3 billion web pages were viewed on IRS.gov and over 24 million taxpayers used the web application "Where's My Refund?" to check the status of their refunds.

In FY 2006, the IRS delivered the first phase of the Taxpayer Assistance Blueprint (TAB), a comprehensive study that reviewed current taxpayer service options and identified areas for improvements, including expanded taxpayer education and awareness, optimized use of partner services, increased self-service options, and expanded training and support tools for taxpayers. The Phase II report, which will be delivered in FY 2007, includes additional research and establishes the framework to develop short and long-term outcome goals and metrics for measuring the IRS' progress on service improvements for taxpayers.

In FY 2007 and FY 2008, the IRS will continue with its efforts to increase and improve the services offered to taxpayers, primarily focusing on those outside of the traditional telephone access. The IRS will increase self-service applications, continue to ensure web navigation is user-friendly, and also improve the quality and accuracy of its telephone responses. The IRS will expand its research and evaluate information regarding taxpayer

service needs, priorities, and preferences in order to improve delivery services. The IRS will also invest more in technology, process improvements, and training to achieve consistent and repeatable service with reduced costs.

### ***Strategic Goal II: Enhance Enforcement of the Tax Law***

A smoothly functioning tax administration system inspires confidence among taxpayers. Voluntary compliance with tax laws increases if all taxpayers believe that their neighbors are paying their fair share.

Over the past decade, the IRS has improved its enforcement programs' performance by streamlining and implementing centralized work processes. This resulted in improved workload selection techniques, increased managerial involvement in casework, and initiatives that reduce cycle time. As a result, in FY 2006, the IRS:

- Collected more than \$2.4 trillion dollars in tax revenue, including \$48.7 billion through IRS enforcement activities;
- Audited more than 1.2 million taxpayers, a seven percent increase from FY 2005, including an 18 percent increase in audits of high-income taxpayers (those earning \$100,000 or more);
- Increased small business audits (assets < \$10 million) by eight percent and automated underreporter closures by 10 percent;
- Closed 15 percent more collection cases and collected nine percent more from delinquent accounts in FY 2006 compared to FY 2005; and
- Increased the fraud referral acceptance rate (i.e., the ratio of internal referrals within the IRS received to the number of those cases that are accepted by CI) to 71.8 percent exceeding the five year high achieved in FY 2005 of 68.8 percent and the total number of referrals accepted (445) was also higher than in FY 2005.
- Increased the use of substitute for return authority by 66 percent (substitute for return authority allows the IRS to file a tax return for an individual or business when it does not file a required return). Examiners prepared and filed 665,000 returns for individuals and 182,000 returns for businesses classified as non-filers.

The IRS also exceeded prior-year levels for coverage, efficiency and examination quality annual performance targets. In FY 2006, collection coverage increased to 54 percent, individual examination coverage improved while business examination coverage remained above seven percent, and automated underreporter efficiency increased almost eight percent to 1,832 cases. In addition, examination quality for industry and coordinated industry cases increased to 85 percent and 96 percent, respectively. Improvements in inventory management, decreases in cycle time, and enhanced training all contributed to improved productivity. Improved quality controls measuring critical elements of the examination, a reinforced focus on case quality to drive improvement efforts, and the delivery of business results, led to improved performance for the third consecutive year.

In FY 2007 and FY 2008, the IRS will continue to reengineer its examination and collection procedures to reduce time, increase yield, and expand coverage. As part of its regular examination program, the IRS is expanding the use of cost-efficient audit techniques. By increasing its use of reliable third-party data to verify information reported by taxpayers, the IRS can better target its audit resources. The IRS is expanding its efforts to shift to agency-wide strategies, which maximize efficiency by better aligning problems (such as non-filers and other areas of noncompliance) and their solutions within the organization. The IRS is committed to improving the efficiency of its audit process, measured by audit change rates and other appropriate benchmarks.

However, efficiency gains in existing programs alone will not significantly reduce the tax gap. Some of the initiatives, including new legislative proposals, such as providing the IRS with access to more third-party data and simplifying the tax code, will also help make compliance activities more effective.

### ***Strategic Goal III: Modernize the IRS through its People, Processes and Technology***

Additional funding for information technology (IT) infrastructure and Business Systems Modernization (BSM) is the highest funding priority for FY 2008. The IRS cannot significantly improve compliance through its service and enforcement programs without a robust IT infrastructure. IT infrastructure investments support services to both taxpayers and other government agencies and enforcement by providing IRS frontline employees with the basic tools necessary to perform their jobs. A modernized and secure infrastructure will enhance the speed, security, and functionality necessary to keep pace with an automated economy. The IRS must keep pace with the growing demand and volume of electronic submission, payment, and refund transactions for tax remittances and offer taxpayers a variety of faster alternatives for satisfying their tax obligations. These efforts will continue to place greater demand on the IRS to provide a modernized and secure IT infrastructure.

Furthermore, a successful modernization program is critical to supporting long-term tax administration operations. Successful BSM program delivery during the past two years demonstrates that the IRS has established a foundation of disciplined program management processes and controls. The IRS managed BSM projects with a degree of sustained success not seen since program inception. This accomplishment is especially noteworthy because the program achieved this while transitioning from a contractor-led program to an IRS-led program.

The IRS also developed an IT Modernization Vision and Strategy (MV&S) for its IT systems for 2008 that align with and support the IRS Strategic Plan. Through the MV&S process, the IRS developed a plan showing how the IRS can effectively meet IT modernization goals in an incremental approach that provides near-term value. The plan focuses on delivery of four major tax administration systems - Customer Account Data Engine, Account Management Services, Modernized e-File, and Filing & Payment Compliance - addressing the IRS' strategic business priorities. The plan also capitalizes

on IT infrastructure initiatives and smaller IT project initiatives to support a unified approach in continued improvement to program operations.

Throughout FY 2006, IRS modernization efforts continued to focus on its four core tax administration systems designed to provide more sophisticated tools to taxpayers and the IRS employees. The following highlights the IRS' efforts in FY 2006 in advancing these core systems:

- Introduced new Customer Account Data Engine (CADE) capabilities for the 2006 filing season. CADE supports faster refunds to taxpayers, issuing direct deposit refunds between one and seven days faster, and paper refunds four to thirteen days faster than refunds generated by the legacy system. CADE posted over 7.3 million returns – more than a 400 percent increase over the previous year, and issued 7 million refunds totaling in excess of \$3.4 billion. CADE improved taxpayer service by allowing access to account information up to seven days sooner, increasing the likelihood of single telephone call resolution, faster issue detection, and more timely account settlement. CADE is expected to post between 25 and 30 million returns in 2007.
- Began the development of Account Management Services (AMS), a project that will enable real-time access to taxpayer account information, to support much faster resolution of taxpayer issues by IRS customer service representatives. AMS, in conjunction with CADE, will enable the IRS to break the weekly update system paradigm that has existed since the 1960s, enabling the IRS to begin to provide settlement of all account information by end-of-day, similar to what one expects from major private-sector financial institutions. The first release of AMS is due the summer of 2007 to support real-time address change capability in CADE and enable faster notice processing for a number of math-error notices.
- Implemented Release 3.2 of its Modernized e-File (MeF) project, which enabled the filing of both federal and state returns concurrently for corporations (Forms 1120 and 1120-S) and tax-exempt organizations (Form 990). In 2006, the MeF platform supported an e-filing mandate for certain large corporations and tax-exempt entities. Tax returns for large corporations typically include hundreds, or even thousands, of pages. Receiving the data electronically improves the accuracy of the tax return, reduces the volume of paper tax returns submitted to IRS Service Centers, and accelerates the examination process by having all tax return data available electronically. Electronic capture of return information enables the IRS to quickly deliver the data to analysts and agents for compliance risk assessment and action. In 2006, MeF accepted over 550,000 corporate returns. The IRS is expanding the MeF taxpayer base in 2007 to include Partnership Income tax returns (Form 1065), eventually enabling nearly 2.7 million small business and self-employed taxpayers to benefit from electronic filing. The IRS is in the planning stage to migrate the 1040 individual tax return to the Modernized e-File platform. The development and implementation of MeF 1040 capability will be complete in January of 2011 with initial planned deployment for January, 2009.

- Completed the first release of the Filing & Payment Compliance (F&PC) strategy. F&PC functionality analyzes tax collection cases and separates cases that require direct IRS involvement from those that can be handled by Private Collection Agencies (PCAs). The introduction of PCAs is expected to:
  - Assist the IRS by addressing the volume of delinquent taxpayers that exceeds the IRS' capacity to work, approximately 250,000 cases per year;
  - Help eliminate backlogs in the large number of outstanding tax liabilities, which have grown by 118 percent over the last 12 years, increasing tax revenue and reducing the tax gap; and,

Tax administration in the 21st century requires improved IRS information technology. For FY 2007 and FY 2008, the IRS is committed to continuing to make improvements in technology, including:

- Replacing antiquated core legacy account management systems and technology with the Customer Account Data Engine (CADE);
- Expanding and enhancing compliance activities through early detection, better case selection, and better case management;
- Delivering effective customer service, including expanded e-file systems and web services at reduced cost; and,
- Investing in infrastructure necessary to perform operations more efficiently, thus freeing up resources for enforcement and taxpayer service programs.

### **Supporting the President's Management Agenda**

The FY 2008 Budget request for the IRS reflects the Department of the Treasury's commitment to further the objectives of the President's Management Agenda (PMA). In June 2006, the IRS developed an implementation plan for Budget-Performance Integration (BPI) that identifies the actions necessary to formulate and execute fully-costed performance and the means to determine the marginal cost of performance, consistent with the BPI requirements of the PMA. As part of this process, the IRS will initiate its plan to improve budget and performance integration using cost accounting pilots that focus on the interrelationship between financial data contained in the Integrated Financial System (IFS) and performance information (e.g., submission processing volume data) stored in IRS legacy systems. The cost pilots will facilitate:

- Standardization of cost methodologies for determining and applying direct and indirect costs associated with performance measures;
- Identification of additional system interfaces needed to support managerial cost accounting;
- Development of a methodology for linking cost data and agency-level outcomes and outputs for the budget formulation and reporting process; and
- Development of an IRS cost accounting policy.

## FY 2008 Challenges

The IRS seeks efficiencies in delivering taxpayer service and bolstering its enforcement efforts to improve compliance with the tax laws and, ultimately, increase tax revenue. Using the internet as a means of providing taxpayers access to tax information and services is one approach to achieving greater efficiencies. The use of private collection agencies to collect uncontested tax debt is another. In FY 2007 and beyond, the IRS will continue to seek alternative, cost-effective ways of improving taxpayer service and enforcement. The following discussion identifies some of the most significant internal and external challenges for the IRS.

- **Business Systems Modernization (BSM):** The BSM program remains on the GAO high-risk list and also continues to be tracked as a declared "material weakness" because of the national significance of the program and the expectation that recent program improvements must be sustained over a longer period, given the extensive scope and time horizon of the program. During FY 2007, the IRS will continue to strengthen the management processes developed as part of its corrective action plan to address material weaknesses and will strive to sustain improvements relating to the efficient and effective delivery of the IRS' IT systems.
- **Information Technology Modernization Vision and Strategy (MV&S):** This governance and planning process for IRS IT leverages the IRS strategic plan and associated business plans to drive IT investment decisions, address the priorities around modernizing front-line tax administration, and enable technical capabilities provided by the infrastructure and security. The MV&S approach will leverage existing systems (where possible) and new development (where necessary) to optimize capacity, manage program costs, leverage common IT services across business domains, and deliver business value in smaller and more frequently fielded incremental releases. The MV&S will address the business priorities for the next five years, with particular emphasis on informing and guiding the definition of investment priorities for FY 2007 through FY 2009 across all investment tiers. Using the MV&S approach, the IRS enterprise IT solutions demonstrate alignment with the Treasury Enterprise Architecture.
- **Implement Treasury's Tax Compliance Improvement Plan:** Maximizing tax compliance is at the heart of the IRS emphasis on enforcement. The IRS will continue to improve enforcement by targeting its casework and enforcement activities to deliver results more effectively. The IRS will continue to analyze tax information and data from compliance research studies to better define and quantify the tax gap. The IRS will use the results of these efforts to improve its ability to counter the methods and means of those taxpayers who fail to report or pay what they owe. The IRS is focusing on discouraging and deterring non-compliance with an emphasis on corrosive activity by corporations, high-income individual taxpayers, and other contributors to the tax gap.
- **Abusive Tax Shelters:** Identifying and dismantling Abusive Tax Avoidance Transactions (ATAT) remain a challenge and a high enforcement priority for the IRS. These transactions are corrosive to the equity and the fairness of the tax law for all taxpayers. Vigorous enforcement of the criminal provisions of the tax code, coupled

with appropriate civil sanctions, materially contributes to maintaining voluntary compliance and public confidence in the fairness of the tax system. Tax shelter promoters continue to modify schemes, making it difficult to detect patterns and identify participants on a timely basis. Recent trends indicate that the tax shelter population will continue to expand to small to mid-size corporations where the issues will be more difficult to identify and examine. Large corporate taxpayers are increasingly engaging in structured transactions. These structured transactions involve highly complex fact patterns and large dollar issues. Promoters of tax shelters are migrating from the large accounting firms to other firms and businesses that specialize in tax shelters. These promoters are less compliant for registration and less stable in their business operations, making it more difficult to pursue them for information and for penalties.

- **Taxpayer Assistance Blueprint (TAB):** The IRS remains committed to taxpayer service and completed Phase I of the TAB in April 2006. Phase I describes the needs and preferences of taxpayers, including information on how taxpayers access the IRS services, what services they prefer, and whether the IRS meets their needs. The IRS expects to complete Phase II of the project in FY 2007, and will use the results to better focus its taxpayer services based on taxpayer needs, preferences, and demands. The research resulting from the TAB will enable the IRS to help taxpayers to better understand the tax law and, in return, remit the proper amount of tax.
- **The Complexity of the Tax Code:** The complexity of the tax code is the most significant problem facing taxpayers and the IRS alike. The tax code contains well over a million words, addressing taxpayer provisions such as the alternative minimum tax and the earned income tax credit. Business taxpayers must contend with a multitude of rules that cover the depreciation of equipment; numerous and overlapping filing requirements for employment taxes; and vague standards that govern the classification of workers as either employees or independent contractors. The IRS must explain the Code in a way that taxpayers can understand.
- **Achieving 80 Percent e-Filing:** For the 2006 filing season the IRS received 72.8 million electronically-filed returns, a 6.6 percent increase over the previous year. Report language accompanying the FY 2007 Transportation, Treasury, the Judiciary, Housing and Urban Development Appropriation acknowledges that most experts realize that the IRS will not meet the original goal of 80 percent e-filing by 2007. The Appropriators, therefore, direct the IRS to develop a detailed plan by June 2007 on how to reach the 80 percent e-filing goal.

## Section 2 – Budget Adjustments & Appropriations Language

The Internal Revenue Service (IRS) budget request for FY 2008 is \$11,095,499,000 in direct appropriations and 92,118 FTE. This is an increase of \$657,135,000 or 6.3 percent, and 400 FTE, over the FY 2007 Continuing Resolution (CR) rate of \$10,438,364,000 and 91,718 FTE. The CR rate includes proposed interappropriation transfer corrections to budget restructure from Taxpayer Service (\$12,243,000) and Enforcement (\$47,833,000) to Operations Support (\$60,076,000).

### Program Summary by Appropriations Account and Budget Activity Internal Revenue Service

Table 1.1

Dollars in Thousands

Appropriation	FY 2006	FY 2007	FY 2007	FY 2008		
	Enacted	President's Budget	CR-rate	President's Budget	\$ Change over CR-rate	% Change over CR-rate
Taxpayer Services	\$2,142,042	\$2,079,151	\$2,046,908	\$2,103,089	\$56,181	2.74%
Pre-filing Taxpayer Assistance and Education	577,425	575,694	556,693	578,078	21,385	3.84%
Filing and Account Services	1,564,617	1,503,457	1,490,215	1,525,011	34,796	2.33%
Enforcement	4,708,441	4,797,126	4,660,572	4,925,498	264,926	5.68%
Investigations	579,555	591,090	579,883	602,872	22,989	3.96%
Exam and Collections	3,919,275	4,054,760	3,932,599	4,165,233	232,634	5.92%
Regulatory	209,611	151,276	148,090	157,393	9,303	6.28%
Operations Support	3,461,205	3,488,404	3,519,228	3,769,587	250,359	7.11%
Infrastructure	864,403	873,146	873,146	908,095	34,949	4.00%
Shared Services and Support	1,176,202	1,129,617	1,163,846	1,223,351	59,505	5.11%
Information Services	1,420,600	1,485,641	1,482,236	1,638,141	155,905	10.52%
Business Systems Modernization	242,010	212,310	196,810	282,090	85,280	43.33%
Health Insurance Tax Credit Administration	20,008	14,846	14,846	15,235	389	2.62%
<b>Total Appropriated Resources</b>	<b>\$10,573,706</b>	<b>\$10,591,837</b>	<b>\$10,438,364</b>	<b>\$11,095,499</b>	<b>\$657,135</b>	<b>6.30%</b>

## Appropriation Detail Table Internal Revenue Service

Table 3.1

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR-rate		FY 2008 President's Budget		% Change over CR-rate	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>												
Taxpayer Services	32,050	\$2,142,042	31,386	\$2,127,458	30,891	\$2,079,151	30,597	\$2,046,908	30,160	\$2,103,089	-1.43%	2.74%
Enforcement	49,534	4,708,441	48,439	4,675,795	48,869	4,797,126	47,833	4,660,572	48,667	4,925,498	1.74%	5.68%
Operations Support	13,468	3,461,205	11,565	3,438,385	12,942	3,488,404	12,954	3,519,228	12,957	3,769,587	0.02%	7.11%
Business Systems Modernization	317	242,010	317	158,702	317	212,310	317	196,810	317	282,090	0.00%	43.33%
Health Insurance Tax Credit Administration	17	20,008	10	19,993	17	14,846	17	14,846	17	15,235	0.00%	2.62%
<b>Subtotal New Appropriated Resources</b>	<b>95,386</b>	<b>\$10,573,706</b>	<b>91,717</b>	<b>\$10,420,333</b>	<b>93,036</b>	<b>\$10,591,837</b>	<b>91,718</b>	<b>\$10,438,364</b>	<b>92,118</b>	<b>\$11,095,499</b>	<b>0.44%</b>	<b>6.30%</b>
<b>Other Resources:</b>												
Recoveries												
Offsetting Collections - Reimbursable	1,350	\$158,820	1,129	\$89,857	682	\$125,723	682	\$125,723	696	\$133,498	2.05%	6.18%
50% Carryover				23,418								
Mandatory Appropriations - User Fees		19,000		19,000		242,000		242,000		180,000		-25.62%
Available multi-year/no-year funds		169,006		143,057		143,282		143,282		149,135		4.08%
Transfers In/Out				37								
<b>Subtotal Other Resources</b>	<b>1,350</b>	<b>\$346,826</b>	<b>1,129</b>	<b>\$275,369</b>	<b>682</b>	<b>\$511,005</b>	<b>682</b>	<b>\$511,005</b>	<b>696</b>	<b>\$462,633</b>	<b>2.05%</b>	<b>-9.47%</b>
<b>Total Resources Available for Obligation</b>	<b>96,736</b>	<b>\$10,920,532</b>	<b>92,846</b>	<b>\$10,695,702</b>	<b>93,718</b>	<b>\$11,102,842</b>	<b>92,400</b>	<b>\$10,949,369</b>	<b>92,814</b>	<b>\$11,558,132</b>	<b>0.45%</b>	<b>5.56%</b>

## Summary Budget Adjustment Table Internal Revenue Service

Table 2.1

FY 2008 Budget Highlights		
Dollars in Thousands		
Appropriation: Internal Revenue Service	FTE	Amount
<b>FY 2007 President's Budget</b>	<b>93,036</b>	<b>\$10,591,837</b>
CR-rate Adjustment	(1,318)	(153,473)
<b>FY 2007 CR-rate</b>	<b>91,718</b>	<b>\$10,438,364</b>
Interappropriation Transfer Corrections to Budget Restructure	0	0
<b>FY 2007 Operating Plan at CR-rate</b>	<b>91,718</b>	<b>\$10,438,364</b>
<b>Changes to Base:</b>		
Technical Adjustments to FY 2007 Base due to CR	0	\$27,573
Base Adjustment		27,573
Maintaining Current Levels (MCLs)		\$340,007
Pay Annualization		40,484
Pay Inflation Adjustment		232,630
Non-Pay Inflation Adjustment		\$66,893
Efficiency Savings	(1,184)	(\$119,981)
<b>Subtotal, Changes to Base</b>	<b>(1,184)</b>	<b>\$247,599</b>
<b>FY 2008 Base</b>	<b>90,534</b>	<b>\$10,685,963</b>
<b>Program Changes:</b>		
<b>Program Decreases/Savings:</b>	<b>0</b>	<b>(\$6,479)</b>
Increased e-File Savings		(6,479)
<b>Program Reinvestments:</b>	<b>0</b>	<b>\$6,479</b>
Increase Efficiency through Submission Processing Site Consolidations		6,479
<b>Program Increases:</b>		
<b>Infrastructure Initiatives</b>	<b>0</b>	<b>\$143,149</b>
Upgrade Critical IT Infrastructure		60,000
Enhance Computer Security Incident Response Center (CSIRC) and Network Infrastr		21,000
Fund Business Systems Modernization		62,149
<b>Enforcement Initiatives</b>	<b>1,530</b>	<b>\$246,387</b>
Improve Compliance Estimates, Measures, and Detection of Non-Compliance	258	41,022
Improve Compliance Among Small Business and Self-Employed Taxpayers	485	73,165
Implement Legislative Proposals to Improve Compliance		23,045
Increase Compliance for Large Multinational Businesses	158	26,200
Expand Document Matching in Existing Sites	214	27,958
Establish New Document Matching - Kansas City	208	23,453
Increase Individual Filing Compliance	61	6,544
Increase Tax-Exempt Entity Compliance	109	15,000
Increase Criminal Tax Investigations	37	10,000
<b>Taxpayer Service Initiatives</b>	<b>54</b>	<b>\$20,000</b>
Research Effect of Service on Taxpayer Compliance	8	5,000
Expand Volunteer Income Tax Assistance	46	5,000
Implement Taxpayer Assistance Blueprint		10,000
<b>Subtotal, FY 2008 Program Changes</b>	<b>1,584</b>	<b>\$409,536</b>
<b>Total, FY 2008 President's Budget Request</b>	<b>92,118</b>	<b>\$11,095,499</b>

## **2A – Budget Decreases and Increases Description (IRS)**

**Total Changes to Base +247,599,000 / -1,184 FTE**

Technical Adjustments to FY 2007 Base Due to CR  
+\$27,573,000 / 0 FTE

An increase of \$27.6 million is included as a technical adjustment to the FY 2007 base. This adjustment restores \$21.9 million for BSM labor and projects and \$5.7 for Operations Support infrastructure.

Maintaining Current Levels (MCLs)  
+\$340,007,000 / 0 FTE

Funds are requested for the FY 2008 costs of the annualization of the FY 2007 federal pay raise in FY 2008; the proposed FY 2008 federal pay raise; and other labor-related benefits; and non-labor related items such as contracts, travel, supplies, equipment, postage, and GSA rent.

Efficiency Savings  
-\$119,981,000 / -1,184 FTE

The IRS has identified organizational changes designed to increase operating efficiencies and reduce costs for FY 2008.

In the enforcement programs, the IRS will realize a savings of \$82.3 million and 643 FTE as a result of efficiency improvements. Savings will be achieved through enhancement of technology and support structure improvements such as deployment of the Electronic Installment Agreements (e-IA) system and expansion of the auto-generated notice initiative; streamlining and centralizing work process such as consolidating the number of Criminal Investigation Lead Development Centers from five to two, and expanding and improving implementation of the Fast Track Settlement (FTS) process (resolution of disputes during the examination phase rather than waiting for the appeal phase); and implementation of new work tools such as improved audit selection formulas. In addition, the completion of initial training programs by both examination and collection FY 2006 enforcement hires will increase efficiency by transitioning them and their trainers to full-time front-line activities.

In the taxpayer service program, the IRS will realize a savings of \$37.7 million and 541 FTE. Increases in electronic filing will continue to have a significant impact on the Submission Processing Centers as individual paper return volumes decrease. The IRS will continue to achieve savings as the processing of paper returns is consolidated into fewer Submission Processing Centers. Additional savings will be gained through the implementation of technological improvements such as automating the issuance of Employer Identification Numbers and implementation of the Taxpayer Assistance Blueprint study recommendations.

**Total FY 2008 Program Changes +\$409,536,000 / +1,584 FTE**

**Program Decreases/Savings -\$6,479,000 / 0 FTE**

Increased e-File Savings

-\$6,479,000 / 0 FTE

This reduction is a result of savings from a projected decrease in FY 2008 of 4.2 million (3.7 million individual and 0.5 million business) paper returns filed. Starting in FY 2007 and continuing through FY 2008, the IRS will ramp down the Philadelphia Submission Processing Center, generating savings of \$6.5 million. The savings will be reinvested under the Increase Efficiency through Submission Processing Site Consolidations initiative to fund anticipated severance pay costs in FY 2008.

The following table shows the actual and projected percent of returns processed electronically for FY 2004 – FY 2010 for individual and business returns.

Measure	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Plan	FY 2008 Estimate	FY 2009 Estimate	FY 2010 Estimate
Percent of Individual Returns Processed Electronically	46.5	51.1	55.0	57.0	61.6	64.5	67.0
Percent of Business Returns Processed Electronically	17.4	17.8	17.8	19.5	21.2	23.6	25.2

The IRS continues to strive to meet the established goal of 80 percent of all tax returns to be filed electronically. While the IRS has implemented several technological advances, such as modernizing the 1040 e-File system, projections show that the 80 percent e-File goal will not be met in FY 2007. As the IRS moves toward its strategic goal to improve taxpayer service by expanding options for electronic filing, payments, and communications, additional improvements in technology will be used to increase e-File marketing strategies to meet this goal in the future. However, without additional mandates to file electronically, such as the one recently imposed for corporations, the IRS' ability to meet the electronic filing goal will remain a challenge. The Budget includes a proposal to expand the IRS' authority to require electronic filing by corporations (see the Receipts chapter on the Analytical Perspectives volume of the Budget for legislative proposals).

**Program Reinvestments +\$6,479,000/ 0 FTE**

*Increase Efficiency through Submission Processing Site Consolidations*  
*+\$6,479,000 / 0 FTE*

This initiative provides \$6.0 million to fund severance pay for employees separating as a result of ramp down of the Philadelphia Processing Center and \$0.5 million for shared support service related costs. However, the IRS will maintain a large staff of service and enforcement personnel in Philadelphia.

Increased electronic filing will continue to have a significant impact on Submission Processing Centers as individual paper return volumes decline. Individual paper returns are expected to decrease by 4.2 million in FY 2008. As a result, the IRS will continue its initiative to consolidate the processing of individual paper returns into fewer Submission Processing sites. The Philadelphia Submission Processing Center is undergoing a ramp down in FY 2007 and FY 2008. The total costs for severance pay associated with the Philadelphia ramp down totals \$8,174,774. However, the estimated severance pay amount needed in FY 2008 is \$5,967,585. This initiative is a direct reinvestment of the Increased e-File Savings initiative.

The total severance pay costs for the Philadelphia Processing Center ramp down are broken down by position type and projected on-rolls numbers in the following table:

Employee Category	Work Schedule	As of Oct. 2002	By Oct. 2006	Placed Internally	Remaining	Estimated Severance
Analysts	PERM	29	29	9	20	\$876,940
Cash Clerks	PERM	41	29	0	29	\$403,897
	SEAS	106	62	0	62	\$86,575
Clerks	PERM	203	108	60	48	\$482,775
	SEAS	702	315	120	195	\$264,892
Data Transcribers	PERM	43	22	2	20	\$272,104
	SEAS	1,198	402	0	402	\$501,007
Department Mgr.	PERM	14	14	0	14	\$691,957
	SEAS	1	1	0	1	\$0
Front-line Mgr.	PERM	64	51	14	37	\$998,004
	SEAS	22	14	0	14	\$129,993
Other	PERM	19	15	2	13	\$101,566
	SEAS	20	17	0	17	\$37,085
Secretaries	PERM	40	36	20	16	\$361,843
Senior Mgr.	PERM	10	10	0	10	\$1,172,422
Tax Examiners	PERM	263	212	164	48	\$1,070,281
	SEAS	944	677	205	472	\$723,433
<b>TOTAL</b>		<b>3,719</b>	<b>2,014</b>	<b>596</b>	<b>1,418</b>	<b>\$8,174,774</b>
Permanent Employees		726	526	271	255	\$6,431,789
Seasonal Employees		2,993	1,488	325	1,163	\$1,742,985
<b>TOTAL</b>		<b>3,719</b>	<b>2,014</b>	<b>596</b>	<b>1,418</b>	<b>\$8,174,774</b>

The remaining \$511,000 for FY 2008 is for Agency-Wide Shared Services (AWSS) costs in Philadelphia and Andover, as follows:

- Philadelphia - \$125,000 for redistribution and disbursement of existing furniture and equipment and \$285,000 for dismantling and removing double-deck shelving systems.
- Andover – \$101,000 for redistribution/disbursement of existing furniture and equipment.

This initiative supports the IRS’ operational priority to optimize and implement planned Submission Processing strategies, including the downsizing of paper operations to meet customer increases in electronic submissions and cost efficient opportunities in working the remaining paper workload. Returns processing efficiency will be improved. The workforce will be aligned to new priorities and technologies. The ramp down and consolidation of the Philadelphia Submission Processing sites will not impact taxpayers.

### **Program Increases +\$409,536,000 / +1,584 FTE**

#### **Infrastructure Initiatives**

##### Upgrade Critical IT Infrastructure +\$60,000,000 / 0 FTE

This initiative requests \$60 million to reduce the backlog of IRS information technology (IT) equipment that has exceeded its life cycle. This initiative will provide the resources needed to keep IRS IT and telecommunications equipment operable and to current business standards. Failure to replace the IRS’ IT infrastructure will lead to increased maintenance costs and will increase the risk of disrupting business operations. Currently, critical business systems are operating on aged and outdated hardware, with the backlog of aged infrastructure increasing every year. Without an effective infrastructure, the risk to tax administration is significant. The question facing the IRS is not “if mission-critical components of the infrastructure will break,” but “what will break, when, and how significant will the impact be on tax administration?”

The IRS faces a significant challenge with an aged and ineffective IT infrastructure. Two key challenges are: (1) a backlog of aged inventory, and (2) continued aging of the existing inventory.

To address the growth in aged inventory, the IRS has committed to reserve another \$135 million from its base budget for infrastructure replacement over the next three years. In FY 2006, the IRS identified efficiencies in the base IT budget that permitted the permanent reallocation of \$45 million into the infrastructure base. The IRS plans to augment this funding with additional reallocations of \$45 million in both FY 2007 and 2008. By FY 2008, the IRS plans to have established a base budget for infrastructure

replacement equal to \$180 million, which will mitigate the impact of rapid growth in aged inventory, but will not address the backlog of aged infrastructure.

Planned expenditures in FY 2008 include, but are not limited to, the following:

- Replacing Aged Computers – A significant component of this initiative includes aged infrastructure of employee workstations (e.g., desktop and laptop computers). The IRS estimates that over 50% of the laptop computers supporting Compliance employees are overage and need replacement. This overage equipment results in (1) increased down time; (2) reduced capability to communicate effectively; and (3) delays in retrieval of taxpayer data that is vital to daily compliance/enforcement activities.
- Automated Call Distributor (ACD) Hardware – ACD hardware routes incoming and outgoing telephone calls to taxpayer assistance agents, operating as the electronic heart of the IRS call centers. Failed hardware could result in incoming taxpayer calls being routed improperly or dropped.
- Prioritized Mission Critical Servers – Critical tax processing applications and solutions are currently operating on aged servers, with this problem worsening by 2008. Failed hardware has recently resulted in permanent loss of business data as well as work stoppage of fundamental business processes.
- WAN/LAN Routers and Switches – Routers and switches support not only IRS personal computer and laptops, but the data communication between systems. Failed WAN/LAN hardware can lead to poor application performance or communication shutdown, causing taxpayer information not being routed to the next step, or agents not being able to retrieve tax records in a timely manner.

Enhance Computer Security Incident Response Center (CSIRC) and Network Infrastructure Security  
+\$21,000,000 / 0 FTE

This initiative provides \$13.1 million to fund enhancements for the Computer Security Incident Response Center (CSIRC). This will enable the IRS to keep pace with the ever-changing security threat environment through increased detection and analysis capability, improved forensics, and the capacity to identify and respond to potential intrusions before they occur.

The number of vulnerabilities (software flaw or configuration weakness) are rapidly increasing each year. These security vulnerabilities expose enterprise systems and processes to unnecessary risk of potential intrusions or unauthorized access, compromise/disclosure of sensitive taxpayer data, and/or disruption of service and process availability. Potential impacts include:

- The disclosure of taxpayer data or disruption of electronic filing initiatives could have a crippling effect on the IRS mission and the taxpayers.

- Cyber-security breach could have a significant adverse impact on the IRS' enforcement activities. A major incident could result in a significant disruption to enforcement efforts, costing numerous days of recovery efforts and inability to detect and protect IRS systems from cyber worms, such as the Sasser worm outbreak in 2004, which resulted in a direct IRS business loss of more than \$50 million.

This initiative will mitigate these by employing additional security safeguards, using defense-in-depth, best-of-breed security technologies. This funding will establish a foundation to preemptively mitigate such risk in Modernization Project Support, Voice Over Internet Protocol, E-Filing, E-Commerce, adherence to the E-Gov initiative, the President's Management Agenda, Virtual Office, maintaining distinct network environments, TIGTA/OMB audits/recommendations, and support to FISMA compliance.

In addition, this initiative includes \$7.9 million to enhance network infrastructure security. These funds will provide the IRS capability to perform continuous monitoring of the security of operational systems, using security tools, tactics, techniques and procedures to perform network security compliance monitoring of all IT assets on the network. This will ensure all systems have the latest security patches and are in compliance with security configuration control requirements.

*Fund Business Systems Modernization*  
*+\$62,149,000 / 0 FTE*

This initiative requests an additional \$62.1 million to continue the development and deployment of the IRS modernization program in line with the Modernization Vision and Strategy (MV&S) recommendations. This increase will result in a total budget request for BSM of \$282.1 million in FY 2008, and will allow the IRS to make progress on the following modernization projects:

*Customer Account Data Engine (CADE)*

- The IRS requests \$58.5 million for CADE. CADE is IRS' lynchpin modernization project replacing the antiquated master file. These master files are based on flat files with weekly updates achieved by batch processing of a sequential file repository. As a result, it takes the IRS two weeks to update taxpayer tax accounts. This performance compares poorly to the real-time updates provided by all other financial institutions. The delay in updating data allows data inconsistencies to develop among the various applications in use across the IRS.

The master file system, based on 1960s architecture, uses programming language no longer taught or used elsewhere. That, coupled with the lack of system documentation, puts continued maintenance and updating of the master files at risk. Other downsides to the current master file system include high maintenance and operational costs, difficulty implementing policy or tax law changes, and



### *Modernized e-File*

- In FY 2008, the IRS is requesting \$55.802 million to fund the development of the 1040 on the Modernized e-File (MeF) platform. The development and implementation of the MeF 1040 will take two years. MeF is the future of electronic filing. It provides a single XML-based standard for filing electronic tax returns. Standardizing the formats/structures for all filings will allow transmitters to submit multiple return types (such as 1120 and 941s) in the same transmission, something that restrains e-file growth currently. Tax return data will be stored in XML format in a modernized Tax Return Database with web-based access, allowing all viewers of the data to use their internet browser to view the entire tax return online, and it will look just like the paper document.

### *Common Services Projects*

- The IRS is requesting \$16 million for the introduction of the Common Services Projects (CSP), providing funding for new portals, which are technology platforms that meet many IRS business needs through web-based front-ends and provide secure access to data, applications, and services.

The portals are mission-critical components of the enterprise infrastructure required to support key business processes and compliance initiatives. A new portal infrastructure must be acquired and fully operational, with all applications transitioned before November 2008. The contracts for the existing portals (registered user portal, employee user portal, and public user portal/IRS.gov) expired in May 2006 and sole-source extensions have been approved, with the provision that the current portals will be replaced by November 2008. The IRS portals support Underreporter initiatives in the Examination and Criminal Investigations programs; and Underpayment initiatives in Collection; Modernized E-file; and other E-Government, E-services, and user fee initiatives. The current portals, designed in the late 1990s and implemented in 2000 and 2001, are outdated; capacity is limited; and 90 percent of the hardware components and 70 percent of software products supporting the current portals have reached or exceeded their useful life.

Funds for CSP cover the costs of program/contract management; design and engineering for the new portal environment; planning and testing of new portal-related application projects and modification of existing projects (E-services, E-file, Integrated Financial System, Internet Refund/Fact of Filing, etc.) to run on the new portals; new portal security mechanisms for access control, intrusion detection, identity management, auditing; and acquisition of new portal development, test and production environments.

The benefits accruing from delivery and implementation of BSM projects provide value to taxpayers, the business community, and government. Many of these benefits contribute to operational improvements and efficiencies within the IRS.

The program combines best practices and expertise in business solutions and internal management from IRS, business, and technology sectors to develop a world-class tax administration system. The BSM program has made sustained progress in realizing substantial segments of the modernization vision.

The IRS will work to allocate BSM staffing costs for the FY 2009 President's Budget.

## **Enforcement Initiatives**

### *Improve Compliance Estimates, Measures, and Detection of Non-Compliance* *+\$41,022,000 / +258 FTE*

This initiative funds research studies of reporting compliance for new segments of taxpayers (such as partnerships, corporations, other business entities, exempt organizations, and government entities), and updates existing estimates of reporting compliance (individual taxpayers and S-corporations). This initiative establishes a base of operating division examiners for various reporting compliance studies, based on the needed expertise for the study. Unlike in the past, these examiners will conduct an annual study of compliance among 1040 filers based on a smaller sample size than the 2001 National Research Program study. This will provide some fresh compliance data each year, and by combining samples over several years will provide a regular update to the larger sample size needed to keep IRS' targeting systems and compliance estimates up to date.

The data captured during the studies will enable the IRS to develop strategies to combat specific areas of non-compliance and improve voluntary compliance. Efforts under this initiative will significantly help improve the allocation of resources by providing data that will allow the IRS to target audits toward taxpayers who are least compliant with the tax law. This initiative will increase enforcement revenue and also help improve voluntary compliance. Moreover, the initiative will enable IRS to undertake reporting compliance studies in the tax-exempt sector, which is responsible for about one-quarter of overall employment. This initiative benefits taxpayers by increasing the fairness of the tax system and significantly improving workload selection formulas that reduce the burden of unnecessary taxpayer contacts. Ultimately, these efforts will provide benchmarks against which the IRS can evaluate the effectiveness of programs designed to improve compliance and will allow the IRS to better leverage enforcement resources.

### *Improve Compliance Among Small Business and Self-Employed Taxpayers* *+\$73,165,000 / +485 FTE*

This initiative will improve compliance among Small Business and Self-Employed (SB/SE) taxpayers in the elements of reporting, filing, and payment compliance. This request will produce \$144 million in additional annual enforcement revenue, once the new hires reach full potential in FY 2010, by increasing

audits of high-risk tax returns, collecting unpaid taxes from filed and unfiled tax returns, and investigating, and where appropriate, prosecuting, persons who have evaded taxes.

For Tax Year 2001, the gross tax gap is estimated to be \$345 billion (net \$290 billion), 16 percent of the \$2.1 trillion in total tax liability. Of that amount, 75 percent, or \$259 billion, is attributable to SB/SE taxpayers. Underreporting accounts for 82 percent of the total tax gap, with the remainder almost evenly divided between non-filing (eight percent) and underpaying (ten percent).

High-risk areas of under-reporting include abusive tax schemes, flow-through income, and high-income individuals. Approximately 98 percent of all flow-through filings (S-corporations, partnerships, and trusts) are SB/SE taxpayers. All flow-through filings increased from 9.1 million in Tax Year 2000 to nearly 9.4 million in Tax Year 2003, and are expected to reach 10.4 million by Tax Year 2006 – a 14 percent increase since Tax Year 2000. The IRS projects them to increase by 20 percent by Tax Year 2012. Increasing examinations of and improving reporting for these filings is a critical component of addressing the tax gap.

Revenue Agents will continue to focus on Abusive Tax Avoidance Transactions (ATAT), structured transactions, and corporate and high-income examinations involving flow-through entities (i.e., trusts, partnerships, S-corporations). With this funding in FY 2008, 207 field examination staff will examine an additional 3,100 individual returns and 430 additional business returns, generating approximately \$26.4 million. The IRS anticipates that an additional 5,400 business returns and 36,500 individual returns will be examined through FY 2012.

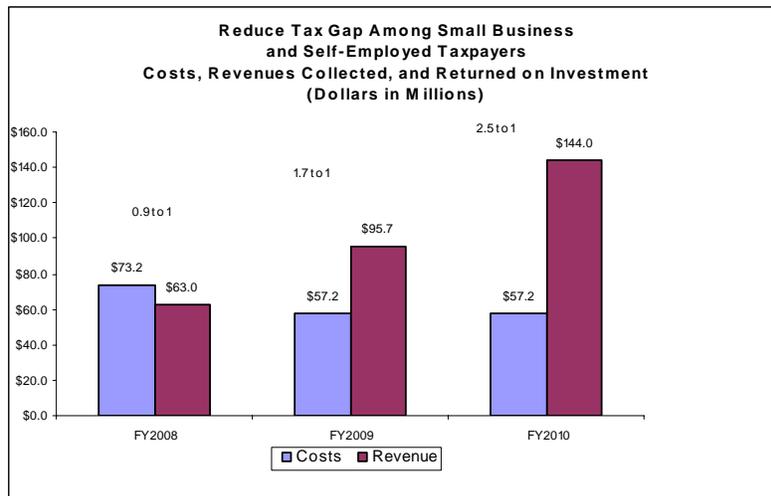
Collection activities will increase both the number of high-risk unpaid assessment accounts settled and their involvement in the collection of taxes due from abusive trusts. Field Collection staff (149 Revenue Officers) will produce an estimated 23,000 additional tax delinquent accounts (TDA) in FY 2008, and approximately 113,000 through FY 2012. For the non-filers, these Revenue Officers will produce an estimated 5,300 tax delinquency investigations (TDI) in FY 2008 and approximately 24,000 through FY 2012.

Detecting and investigating money laundering activity is an important part of tax compliance for the IRS. This initiative provides \$5.4 million to strengthen enforcement activities of the anti-money laundering provisions of Bank Secrecy Act (P.L. No. 92-508) (BSA) and the USA PATRIOT Act (P. L. No. 107-56). Frequently, money-laundering violations are the only possible means to detect tax evaders. Fraud/BSA resources (33 RAs), dedicated to the BSA program, will conduct approximately 390 additional Title 31 cases in FY 2008, with an additional 2,900 cases examined through FY 2012. Approximately 252 additional Section 8300 cases (i.e., examination of an entity's records to determine whether or not they have properly filed the Form 8300 for receipt of cash in excess of \$10,000 in one transaction), will be examined in FY 2008, with an additional 1200 cases examined through FY 2012.

This initiative also provides key resources needed to support the increased case workload generated from this initiative:

- Appeals (24 FTE and \$3.2 million) to process additional cases generated from increased examination program and collection program staffing.
- Taxpayer Advocate Service (31 FTE and \$2.4 million) to support both examination and collection functions to ensure that the IRS follows appropriate procedures without creating unnecessary burden or compromising taxpayer rights.
- Counsel (18 FTE and \$2.7 million) to provide legal advice and assistance in litigating the increased number of cases as well as support additional tax shelter litigation, published tax shelter guidance, and small businesses' need for tax reform related work.

The return-on-investment (ROI) for this initiative is expected to be 2.5 once the new hires reach full potential in FY 2010 (see chart below.)



NOTE: The initiative will improve voluntary compliance by providing a more effective deterrent. The chart depicts only direct enforcement revenue.

In addition, this initiative will yield:

- Greater coverage of high-risk, SB/SE examination and collection cases;
- Strengthened integrity of the tax system;
- Improved reporting, payment, and filing compliance from the small business community; and
- Mitigation of the adverse impact of employee attrition on achieving Strategic Human Capital Goals.

This initiative will also yield the following benefits to taxpayers:

- Enable taxpayer accounts to be resolved more efficiently and timely, reducing accumulated penalties and interest on unpaid assessments;
- Improve customer satisfaction by holding high-risk taxpayers accountable for tax law compliance and assuring Americans that more taxpayers are paying their fair share; and
- Improve voluntary compliance as taxpayers perceive increased fairness in the tax system. Taxpayers appreciate the value of enforcement. Some 86 percent of taxpayers surveyed by the Oversight Board answered that it was “not at all” acceptable to cheat on one’s taxes.

*Implement Legislative Proposals to Improve Compliance*  
*+\$23,045,000 / 0 FTE*

While the IRS continues to address compliance problems by improving customer service and using traditional methods of enforcement, the FY 2008 President’s Budget includes several legislative proposals that would yield \$29 billion over ten years from improved compliance. These proposals would expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties (see Receipts in the Analytical Perspectives volume of the 2008 President’s Budget). This enforcement initiative includes funding for purchasing software and making modifications to the IRS’ IT systems necessary to implement these legislative proposals. The Budget includes sixteen proposals but the explanation below focuses only on the proposals where implementation of funding is needed in FY 2008.

*Payment Card Reporting:*

Underreported business income among members of the SB/SE community accounts for a significant portion of the individual income tax gap. Businesses often receive payments for goods or services via a consumer’s payment card, but subsequently fail to report the income for transactions on the business’ federal income tax return. These underreported transactions add up to be significant contributors to the tax gap.

This proposal will address this portion of the tax gap by providing the IRS with an additional means of cross-referencing the income reported by businesses with their gross receipts. Under this proposal, the IRS would require payment card processors to annually report total reimbursements paid to businesses for goods and services. The reported amount would then be compared to gross receipts reported by taxpayers on their federal returns. A significant difference in the dollar values of the reimbursements by payment card companies and the gross receipts reported by businesses would be a red flag that income was possibly being underreported.

The IRS anticipates that this proposal will help reduce the tax gap in two ways. First, businesses that might otherwise be inclined to underreport their income might reconsider, knowing the IRS has a means to validate the gross income reported on their federal tax returns. Second, businesses that continue to abrogate their responsibilities as taxpayers would be more easily identified, so that appropriate enforcement action could be taken.

The IRS anticipates receiving approximately 125 million information return documents from credit and debit card processors per year, associated with approximately five million SB/SE taxpayers. Revenue Agents in the field could then follow up with delinquent taxpayers in the course of standard enforcement operations.

*Government Payment:*

One of the most high-profile components of the tax gap relates to the failure of some government vendors and contractors to meet their tax filing and payment obligations. Obviously, it is a major concern any time an entity does business with the government, receives payment from the government, and yet fails to pay taxes due to the government. Under present law, the federal government has broad authority to levy federal payments made to vendors of goods and services. The proposal would authorize the implementation of regulations requiring information reporting and backup withholding on all non-wage payments by federal, state, and local governments to procure property and services.

As part of the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA), enacted on May 17, 2006, Congress enacted a provision requiring three percent withholding on certain government vendor payments. This provision is broader than the Administration's proposal in that it requires information reporting and immediate withholding on government payments, rather than information reporting and backup withholding. The TIPRA provision applies only to payments made after December 31, 2010, whereas the Administration's proposal would be effective for payments made on or after January 1, 2008.

If the Administration's proposal, the IRS anticipates receiving an additional 89 to 177 million information returns as a result of the new reporting requirements. The costs associated with implementation of this program are for reprogramming affected information technology systems. Once these initial costs have been incurred, subsequent costs will decrease as processing, transcription, and matching activities will occur largely within existing workgroups.

*Information Reporting on Payments to Corporations:*

Underreporting of income where there is little or no information reporting contributes to approximately 53.9 percent of the underreporting portion of the tax gap. Under current law, businesses are not required to issue Forms 1099 for services provided by corporations. Although the reporting requirements for corporations could be expanded by changing the regulations, Treasury recommends it be changed legislatively.

Implementation of this proposal will increase the number of Forms 1099 filed. Voluntary compliance is expected to increase for corporate reporting of 1099 amounts. The IRS would require additional resources to implement matching programs to address the increased volume of Forms 1099.

*Basis Reporting on Security Sales:*

GAO estimates that 36 percent of individual taxpayers misreported their securities capital gains or losses in 2001. The estimated capital gains tax gap is \$11 billion dollars. This amount will be significantly reduced by requiring financial institutions to:

- report the adjusted cost basis of securities sold and the nature of the sale (short-term or long-term) to the IRS, and
- exchange information to enable other financial institutions to meet adjusted cost basis reporting requirements for clients that transfer securities to a successor financial institution.

In those instances where a broker does not have sufficient information to compute the adjusted cost basis, the taxpayer will be responsible for reporting the sale.

*Expanded Broker Information Reporting:*

Sales of property and collectibles done via auction brokers and consignment sellers represent a portion of the tax gap. A broker who is an auctioneer or operates a consignment business, whether electronic or at a physical retail location, would be required to make an information return showing customer name, address, and Taxpayer Identification Number, as well as gross proceeds from the sale of tangible personal property. The requirement would apply only with respect to a customer for whom the broker has handled 100 or more separate transactions generating at least \$5,000 in gross proceeds in a year. There would be an exception from the proposed requirement (and the sale would not be taken into account for the 100 transactions/\$5,000 gross proceeds test) if the sale is required to be reported by other information return requirements (such as payment card sales the gross proceeds of which would be reported through the payment card payment system).

*Increase Information Return Penalties:*

The IRS currently asserts a penalty for failure to file a correct information return. The current penalty amount of \$50 (or \$100 for intentional disregard) provides little incentive to increase compliance. This proposal, will enhance compliance in this area by increasing the penalty amount and eliminate the cap to increase the cost of doing business for perpetual offenders. The penalty will be increased to \$150/\$250 for each unfilled return.

During the 2005 Tax Year, 53,821 payers received a Proposed Penalty Notice for failure to timely and accurately provide Forms 1099. While penalties are not considered a revenue source since they are inversely related to compliance, placing a monetary price on non-compliance is expected to result in significant revenue, enhanced voluntary compliance and a diminishing penalty rate over time.

*Provide IRS with Access to NDNH Database*

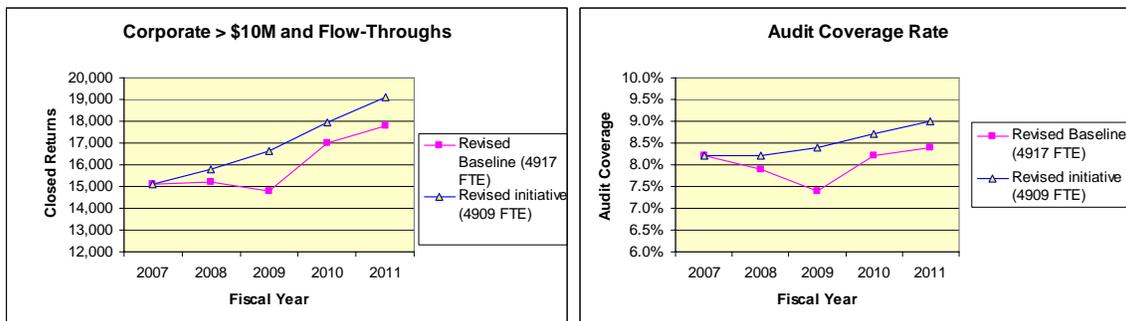
The Department of Health and Human Services maintains the National Directory of New Hires (NDNH) which contains newly hired employee data, quarterly wage data from state and federal employment security agencies, and unemployment benefit data. Currently, the IRS may obtain NDNH data *only* for administering the Earned Income Tax Credit and verifying employment reported on a return.

Employment data, used by the IRS to administer a wide range of tax provisions, is currently obtained on a state by state basis, which is both time consuming and costly. This legislative proposal would amend the Social Security Act to allow the IRS access to the NDNH for general tax administration, including data matching, verification of taxpayer claims, preparation of substitute returns for non-compliant taxpayers, and identification of levy sources. Expanded IRS access to NDNH data will increase productivity and enhance compliance.

*Increase Compliance for Large Multinational Businesses*  
*+\$26,200,000 / +158 FTE*

This initiative will increase examination coverage for large, complex business returns; foreign residents; and smaller corporations with significant international activity. The initiative addresses risks arising from the rapid increase in globalization, and the related increase in foreign business activity and multi-national transactions where the potential for non-compliance is significant in the reporting of transactions that occur across differing tax jurisdictions. Additionally, flow-through filings and the use of special purpose entities, for both non-tax and tax-related reasons, continue to increase. Additional compliance resources will increase coverage for these areas of risk and reduce corporate and individual underreporting. An increase in examination coverage and IRS presence has a positive impact on overall compliance levels. With this initiative, coverage for large corporate and flow-through returns will increase to 8.2 percent in FY 2008 from a level of 7.9 percent without the initiative.

**Impact of Enforcement Initiative and Partial Reinvestment of Efficiencies**



There are multiple issues, patterns, and indicators of risk for these complex flow-through enterprises and multi-national taxpayers:

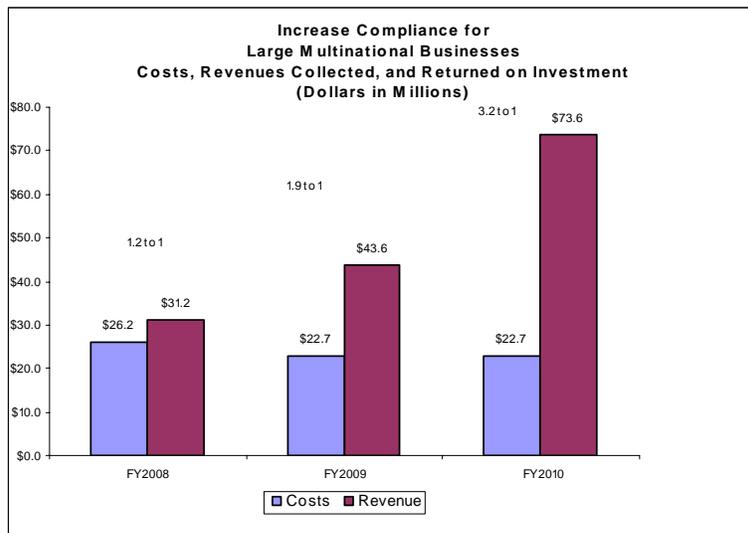
- Flow-through filings (Form 1120S, U.S. Income Tax Return for an S-corporation, and Form 1065, U.S. Return of Partnership Income) have increased 40 percent, from about 77,800 filings in 2000 to 109,300 in 2004.
- Flow-through returns now comprise approximately 63 percent of the Large and Midsize Business return population.
- Flow-through challenges for tax administration include savings in federal tax without economic substance to transactions; artificially-inflated bases to disguise real gains; basis shifting between related entities for tax advantages, contrary to valid accounting and tax practices; structured financial transactions within complex enterprises, including the use of Special Purpose Entities; transfer of high-value/low-basis assets in partnerships; aggressive interpretation of business purpose; and transfer pricing.
- Globalization is increasing.
- U.S. multi-national overseas profits are significantly higher than profits posted by U.S. companies at home.
- Sixty percent of world trade is transacted between different arms of multi-nationals.
- Low- and no-tax jurisdiction countries are home to 58 percent of the foreign profits of U.S. multi-nationals.
- From 1999 to 2004, the amount of Foreign Tax Credit (FTC) claimed increased 31 percent to \$45 billion. The largest returns account for over 93 percent of the total FTC claimed for the years 1999-2004.
- The number and value of cross-border mergers and acquisitions are growing. In 2005, 11,000 deals were set up with a value of \$1.2 billion.
- The tax issues arising from businesses operating world-wide include Transfer Pricing; Foreign Tax Credit; Worthless Stock Deduction; Avoidance of Subpart F Income; Valuation Issues; Transfer of Property (tangible and intangible) and income streams; Potential Tax Shelters; and Dual Consolidated Losses.

This initiative includes resources to establish a physical presence and focal point for tax treaty and U.S. tax administration in Asia. Outsourcing and growth of Asian businesses and markets have resulted in:

- Significant increases in U.S. corporate business activity and investment in China, which requires greater interaction with Chinese tax officials with the administration of the U.S.-China Income Tax Treaty.
- Increased activity on potential double-taxation matters, exchange of information activities, and tax treaty interpretation issues with China.
- Increased American expatriate population and U.S.-owned business/corporate entities in China, resulting in greater local demand for IRS taxpayer service and assistance.
- The Beijing post will serve as the Asia regional office for all IRS activities and will support treaty administration with other significant economic partners, e.g., Japan and Korea. With the closure of the Tokyo and Singapore posts, Beijing will be the only IRS office in Asia.

- A Chinese presence will help deter non-compliance among this growing expatriate population and address the concern by GAO of a high non-filing rate by U.S. citizens living abroad.
- Chinese multinational businesses and Chinese outsourcing are both growing. The post will also provide tax guidance for Chinese citizens that work temporarily in the U.S. (Non-resident Alien Taxpayers).

In addition to the 4 FTE and related funds to establish a Beijing post, this initiative includes 50 FTE to close 330 additional smaller corporate returns with international activity and 1,571 additional individual returns as well as 14 FTE for the IRS Counsel attorneys to advise revenue agents on complicated issues of tax law and accounting principles in the context of flow-through enterprises. The initiative also addresses GAO and Treasury Inspector General for Tax Administration (TIGTA) concerns about unacceptably high non-compliance by partnerships and S-corporations.



NOTE: The initiative will improve voluntary compliance by providing a more effective deterrent. The chart depicts only direct enforcement revenue.

*Expand Document Matching in Existing Sites*

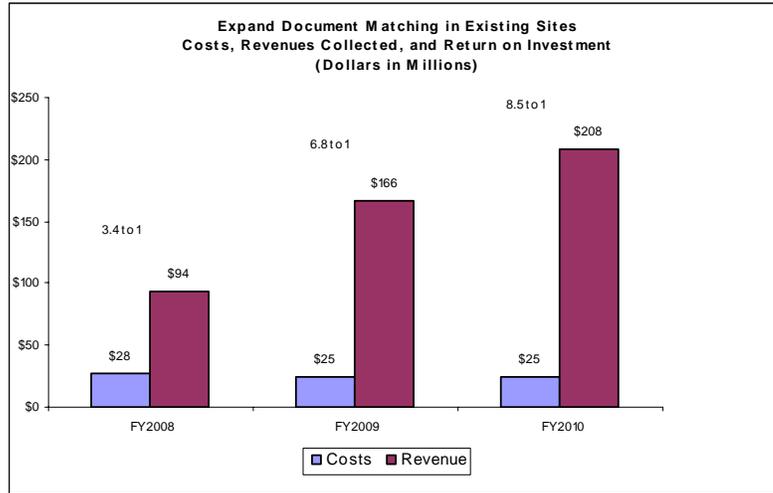
+\$27,958,000 / +214 FTE

This initiative increases coverage within the IRS Automated Underreporter (AUR) program to address the tax gap by minimizing revenue loss through increased document matching of individual taxpayer account information. These resources will increase enforcement revenue collected by approximately \$208 million annually, once the new hires reach full potential in FY 2010.

About 6.9 million Small Business Self-Employed (SB/SE) taxpayers may currently misreport their income based on third party information returns. Of those, the SB/SE AUR program processes approximately 2.1 million taxpayer cases, leaving an unaddressed gap of 4.8 million taxpayers. The objective of the AUR program is to minimize revenue loss through document matching of small business and self-employed taxpayer account information. The IRS commitment to maintaining a robust AUR

program is demonstrated by a commitment to increasing enforcement results and is reflected in targets for the long-term goals and corresponding performance targets.

The additional resources will increase the number of AUR closures from 2.05 million in FY 2007 to 2.64 million in FY 2010. The AUR program has one of the highest returns on investment ratios of all compliance programs. By 2010, the return on investment, as shown below, is expected to reach 8.5:1.



NOTE: The initiative will improve voluntary compliance by providing a more effective deterrent. The chart depicts only direct enforcement revenue.

This funding for this initiative will maximize coverage in the three existing sites (Brookhaven, Philadelphia, and Ogden) and establish a new, centralized small business and self-employed AUR toll-free operation, using available space at an existing AUR site. Establishment of an operation designed exclusively to handle the SB/SE AUR toll-free traffic will enable significant coverage expansion in the three existing sites and, ultimately, generate productivity savings in the designated call site. Current technology allows for the routing of calls to a single site. In addition, start-up costs are reduced because equipment currently available at the three existing sites will be used to establish a new toll-free operation.

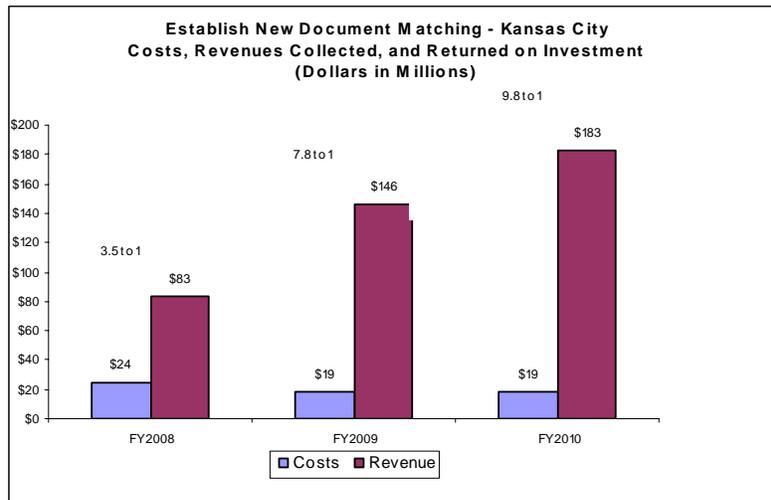
This initiative links the IRS compliance resources to clearly defined, measurable, results-oriented annual performance outcomes. It further addresses widespread concerns regarding the erosion of the IRS’ enforcement presence and the continued growth in non-compliance expressed by TIGTA, GAO, Congress, and the media. By decreasing the AUR tax gap, this initiative will serve to improve the long-term Voluntary Compliance Rate metric and increase the programmatic long-term goal of AUR Coverage.

Establish New Document Matching – Kansas City  
+\$23,453,000 / +208 FTE

This funding for this initiative will establish a new Automated Underreporter (AUR) site in existing IRS space in Kansas City. The AUR program minimizes revenue loss through

document matching of individual taxpayer account information. The AUR program has one of the highest return on investment ratios of all compliance programs. The number of individual taxpayers who may annually misreport their income is about 5.1 million based on third party information returns. The AUR program currently processes about 2.3 million taxpayer cases.

One-time start up costs include designing space alterations, new work stations, furniture, infrastructure changes, computer equipment, initial training and travel costs, and relocation expenses. The on-going operational costs to process daily and weekly AUR computer runs and support weekly maintenance of the AUR system also are included.



NOTE: The initiative will improve voluntary compliance by providing a more effective deterrent. The chart depicts only direct enforcement revenue.

The establishment of this new AUR site will result in \$183 million in additional enforcement revenue annually, once the new hires reach full potential in FY 2010.

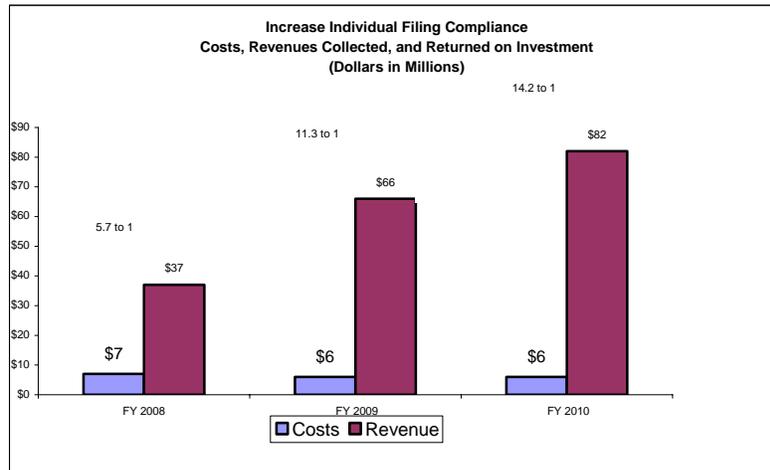
This initiative links IRS compliance resources to clearly defined, measurable, results-oriented annual performance outcomes. It addresses the erosion of the IRS' enforcement presence and the continued growth in non-compliance expressed by TIGTA, GAO, Congress, and the media. The initiative will also help decrease the tax gap, increase voluntary compliance, and reduce the number of taxpayers who underreport income in future tax years.

*Increase Individual Filing Compliance*  
*+\$6,544,000 / +61 FTE*

This initiative will help address voluntary compliance. The Automated Substitute for Return Refund Hold Program (ASFR Refund Hold) minimizes revenue loss by holding the current-year refunds of taxpayers who are delinquent in filing individual income tax returns and are expected to owe additional taxes and addresses both payment and filing compliance for the IRS. This program will enable the IRS to review any unfiled returns during the previous five years. The current-year held refund is applied or released once

delinquent returns are filed or assessed. This initiative will expand the program to include delinquent-year refunds.

Approximately 42 million individual prior-year returns were delinquent for tax years 2000 to 2004. In FY 2006, the ASFR Refund Hold program is projected to work approximately 242,000 current-year Refund Holds. ASFR Refund Hold is a key enforcement tool to address filing compliance.



NOTE: The initiative will improve voluntary compliance by providing a more effective deterrent. The chart depicts only direct enforcement revenue.

This initiative will result in securing 90,000 delinquent returns in FY 2008 and produce \$82 million of additional enforcement revenue annually, once new hires reach full potential in FY 2010.

*Increase Tax-Exempt Entity Compliance*  
*+\$15,000,000 / +109 FTE*

The legitimate tax expenditure related to the tax-exempt provisions of the Internal Revenue Code is estimated at \$238 billion in 2008. Because of the special benefits afforded tax-exempt organizations, employee pension plans, and other entities with special tax status, these provisions may attract fraud and abuse. Thus, it is critical to ensure that tax-exempt entities are legitimate when they are established, maintain compliance throughout their operation, and are not misused by third parties for tax avoidance or other unintended purposes.

This initiative will promote compliance with applicable tax laws and regulations in the tax-exempt and governmental arena through a comprehensive program of up-front compliance activities and enhanced downstream enforcement. The determination process, through which tax-exempt organizations and employee retirement plans first seek recognition of their exempt or qualified status from IRS, may be the only formal compliance interaction many entities have with the IRS. As such, it provides IRS a valuable opportunity to ensure that the applicant's proposed design and operations are consistent with the applicable tax law. It further provides an opportunity to detect and

address emerging abusive behaviors before they can spread within the sector. Additional resources will strengthen this critical program to address the growing number of requests for determination.

Downstream, this initiative will provide resources to expand enforcement programs aimed at tax exempt and government entities and make them more effective. Increasing enforcement staffing will restore coverage of the tax-exempt community, which has declined due to unprecedented growth in the sector and the emergence of complex abusive tax issues. From FY 1995 to FY 2005, the number of exempt organizations grew 40 percent. At the same time, concerns about credit counseling agencies, excess executive compensation and other compliance issues related to exempt organizations are coming to the fore. This initiative will expand the IRS' examination capacity to pursue critical compliance initiatives such as these, while also using innovative approaches to reverse the decline in enforcement presence in the exempt sector. An expanded Exempt Organizations Compliance Unit will broaden coverage, using efficient techniques to address limited compliance issues among tax-exempt organizations. Meanwhile, additional IRS staffing will meet the growing demand for self-correction in the pension community, resolving, through self-audits, many defects that might not otherwise have been identified and at a lower cost than traditional examination.

Together, these steps will further the IRS strategic objective to deter abuse within tax-exempt and governmental entities and misuse of such entities by third parties for tax avoidance or other unintended purposes. This initiative will increase tax exempt and government entity compliance contacts by 1,700 (6 percent) and employee plan/exempt organization (EP/EO) determinations closures by over 9,000 (8 percent) by FY 2010. In addition, this investment will increase performance by improving the timeliness of Determination and Voluntary Compliance programs.

This initiative directly supports IRS' Strategic Goal to enhance enforcement of the tax law, with the objective to deter abuse within tax-exempt and governmental entities, and misuse of such by third parties for tax avoidance. Additional staffing for Determination and Voluntary Compliance requests will also improve taxpayer service.

*Increase Criminal Tax Investigations*

*+\$10,000,000 / +37 FTE*

This initiative will provide funding to aggressively attack abusive tax schemes, corporate fraud, non-filers, employment tax fraud, as well as tax and other financial crimes identified through Bank Secrecy Act (BSA)-related examinations and case development efforts, which includes an emphasis on the fraud referral program. During the past decade, criminals capitalizing on advancements in technology and the globalization of the economy have contrived some of the most sophisticated tax evasion schemes in history. The continued threat non-compliance poses to the integrity of the American tax system is evidenced by the latest net tax gap estimate of \$290 billion. Criminal Investigations (CI) robust pursuit of tax violators and the resulting publicity, foster deterrence, enhance voluntary compliance and reduce the tax gap.

CI is working closely with the SB/SE and LMSB operating divisions to combat abusive schemes through the use of parallel proceedings. This approach is particularly useful when dealing with tax shelters sold by financial service corporations to high net-worth individuals and corporations. Only a comprehensive approach can successfully defeat these schemes, which sometimes involve thousands of clients and billions in revenue.

CI pursuit of tax violators over the past five years resulted in an increase in the length of prison sentences imposed in tax related investigations (averaging 19 to 22 months) and the substantial media coverage of these cases, evidenced by CI's high publicity rates (the percentage of sentenced cases that have received media coverage: 67.9 percent in FY 2002 to 82.5 percent in FY 2006).

Abusive tax avoidance transactions present formidable compliance challenges. The complex layering of schemes, the use of tax haven jurisdictions, off-shore based financial activities, and the increased sophistication of promoters have required CI to devote more investigative resources to this program area. Further, the increase in Internet-based tax schemes poses new challenges.

The overall success of CI's abusive scheme work is reflected in the stiff prison sentences imposed during the past five years averaging 28 to 47 months and the high publicity rate 90.9 percent in FY 2006. Compared to the average over the past five years, CI forwarded 4.9 percent more prosecution recommendations in FY 2006 (103 vs. 98) and had 16.7 percent more convictions on abusive tax scheme cases (67 vs. 57).

A report by the U.S. Senate Permanent Subcommittee on Investigations released in February 2005, entitled The Role of Professional Firms in the U.S. Tax Shelter Industry, recommended that Congress appropriate additional funds to enable the IRS to hire more enforcement personnel to stop the promotion of potentially abusive and illegal tax shelters by lawyers, accountants, and other financial professionals.

Following the collapse of some of the nation's largest publicly held corporations due to the widespread fraud and executive malfeasance, President Bush authorized the formation of a Department of Justice corporate fraud task force. CI has a particularly important role in this program area. Some of the most crucial corporate fraud related convictions obtained to date were for tax offenses. In FY 2006, the importance of CI's role can be measured by the substantial prison sentences imposed (49 months) and the 97.2 percent publicity rate.

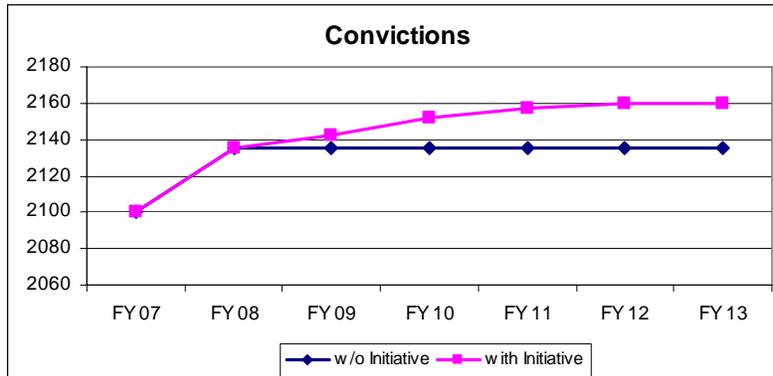
CI's effort to combat non-filers remains at an all-time high. In partnership with the operating divisions, CI pursues high income, non-filers across a broad spectrum of professions. The results of CI's work have been impressive, with sentences in non-filer cases among the most severe imposed for tax offenses. In FY 2006, non-filer initiations and indictments rose 9.5 percent and 12.3 percent, respectively, compared to the averages over the past five years. During the past five years, average prison sentences associated

with non-filer cases ranged from 34 to 49 months; and more than 80 percent of sentenced investigations received publicity. These cases will clearly remain a high investigative priority.

CI remains committed to the fraud referral program, which continues to result in quality criminal investigations. Since FY 2004, CI has received 13.7 percent more fraud referrals (603 vs. 530) and the acceptance rate rose from 58 percent to 71.8 percent. In FY 2006, approximately 10.1 percent of the fraud referrals received involved an abusive scheme, 5.0 percent of the referrals involved employment taxes and 1.3 percent involved corporate fraud.

Since Financial Crimes Enforcement Network (FinCEN) published regulations requiring non-bank, money services businesses (MSB) to comply with the same BSA record keeping and reporting requirements as financial institutions, more than 90,000 MSBs were identified. SB/SE, which has regulatory authority over MSBs, is placing greater attention on examining these entities. Their BSA examinations will result in increased criminal referrals.

The chart below shows the impact of implementing the initiative on criminal investigations convictions for all CI activities. Research suggests that tax convictions have a significant positive impact on voluntary compliance.



## Taxpayer Services Initiatives

### Research Effect of Service on Taxpayer Compliance +\$5,000,000 / +8 FTE

This initiative provides funding to enhance understanding of the role of taxpayer service on compliance by undertaking new research on the service needs of taxpayers. The effect of service on taxpayer compliance will be examined by focusing on four areas:

1. Meeting Taxpayer Needs by Providing the Right Channel of Communication – Classifying the types of services taxpayers seek from various options (internet, walk-in sites, toll-free hotline), preferences among these options, and the costs of providing

the services. The goal is to determine the most productive communication channels for the IRS and taxpayer.

2. Better Understanding Taxpayer Burden – Update the taxpayer burden survey to provide revised estimates of the compliance burden incurred by individual income taxpayers. Continue the development of a post-filing model to allow for the evaluation of proposals designed to reduce taxpayer burden, improve taxpayer service, and further the understanding of the relationship between service and compliance.
3. Understanding Taxpayer Needs through the Errors They Make – Improve taxpayer service and increase voluntary compliance by identifying why taxpayers make errors and the relationships between errors and unclear notices and publications. Further research will assess the effect of proposed changes to remedy the errors. This will channel resources more efficiently to areas with the greatest need and reduce IRS burden by increasing the accuracy of returns by taxpayers who strive to be compliant.
4. Research on the Impact of Service on Overall Levels of Voluntary Compliance – Develop models of how taxpayer services affect voluntary compliance levels and measure the impact of IRS activities relating to taxpayer service on the level of voluntary compliance. This research will attempt to quantify the relationship between services provided and overall compliance. In addition to providing enhanced service to taxpayers, the results of the study will be instrumental in reducing the tax gap by increasing voluntary compliance.

Expand Volunteer Income Tax Assistance  
+\$5,000,000 / +46 FTE

This initiative supports the IRS goal of improving taxpayer service. It funds additional resources to expand IRS volunteer return preparation, outreach and education, and provide financial literacy training. These services are offered to low-income, elderly, Limited English Proficient (LEP), and disabled taxpayers. The IRS currently partners with more than 60 national organizations representing financial institutions, educational institutions, tribal governments, community, and volunteer organizations to provide these services. At the local level, the IRS has formed over 290 coalitions representing thousands of partners supporting the Volunteer Income Tax Assistance (VITA)/Tax Counseling for the Elderly (TCE) effort. The additional FTE will support the IRS' growing number of partners and growing taxpayer demand for these services. This initiative also will enable the IRS to increase its presence and training support opportunities for its volunteer partners.

The Volunteer Return Preparation Program – Quality Improvement Process (VRPP-QIP) will continue to be a focal point in implementing this initiative. The IRS has implemented several enhanced processes and is working toward continued improvement of the accuracy of tax returns at the volunteer preparation sites. This IRS investment provides partners with tax law and software training, marketing materials, educational

products, research data for optimal site placement and effectiveness, supplies, technology support (software, computers and printers); and the necessary products, procedures and technical expertise for effective site operations.

These resources will also enhance and expand the following specific initiatives to improve taxpayer service coverage to IRS customers:

- Rural Strategy – The IRS has a multi-year proposal currently under development to expand services to rural populations in seven states that have some of the largest numbers of low-income taxpayers. These resources will enable the IRS to accelerate this rural strategy and form a coalition of foundations with a rural emphasis to further enable IRS to expand services to these underserved rural areas.
- Disability Initiative – The IRS is expanding its partnering efforts with organizations that serve people with disabilities to ensure that this segment of the population is educated on the Earned Income Tax Credit (EITC), Child Tax Credit (CTC), and other unique benefits in the tax code. This includes increasing access to and utilization of free tax preparation services for persons with disabilities.
- Native American Initiative – The IRS is continuing its partnering efforts to provide additional services to low-income Native, rural communities. These resources will assist the IRS in expanding the VITA program to Indian reservations.

This initiative will enable the IRS to expand its outreach and education programs and improve the quality of the Volunteer Return Preparation Program (VRPP). This initiative provides the resources needed to achieve its 60 percent quality rate for VRPP in FY 2008. This funding will provide the additional training presence and on site support most requested by IRS partners and needed to improve the quality of return preparation at VITA sites.

Such investment is consistent with the priorities identified in both the IRS Strategic Plan and the Taxpayer Assistance Blueprint. It supports increased taxpayer value (significantly improved awareness, access) and business value (cost efficiency) gained through partner-based service delivery. The IRS has already realized many of these benefits; however, improving the quality of the assistance is critical to sustaining the viability of this powerful business model.

*Implement Taxpayer Assistance Blueprint*  
*+\$10,000,000 / 0 FTE*

In response to a Congressional directive, the IRS conducted a comprehensive review of its current portfolio of taxpayer service to create a Taxpayer Assistance Blueprint (TAB). The TAB outlines a five-year strategic plan to implement specific, research-based service initiatives. Based on the findings of the TAB study, the funding for this initiative will implement telephone service and Web site electronic interaction enhancements.

Continued investments in automated services and processes offer significant opportunities for the IRS to improve the efficiency and effectiveness of its service provided to taxpayers. The following information details the benefits of investing in this initiative.

*Telephone Service Enhancements:*

Contact Analytics (\$3.5M) – Contact Analytics (CA) provides Commercial-off-the-Shelf (COTS) tools for evaluating contact center recordings for the purpose of identifying improvements. This initiative will expand the IRS’ capability to record, store, and analyze information received during a taxpayer telephone contact. Large segments of recorded messages can be selected as a group, reviewed and compared using user-specified search criteria. The analytic tools will provide the capability to drill down to individual recordings to hear selected conversations.

CA will provide the broad and accurate data required to perform business process reengineering, as well as information needed to gain better insight into service preferences. CA improves the ability to measure call accuracy, timeliness, and professionalism--leading to process improvements and cost savings. It also will improve the ability to identify and respond to problems--leading to more accurate, clearer responses to taxpayers. Employee satisfaction will increase through improved work processes that allow assistors to handle more complex calls with fewer transfers. Such advancements will support the IRS in capturing more and better data around the service experience, which will result in improved understanding of service levels and potential enhancements.

Estimated Wait Time (\$375K) –According to the Customer Contact Council, recent research shows that customers rate estimated wait time as one of the top five most important technologies when rating Contact Centers; customers who had been exposed to estimated wait technology were virtually all satisfied with its features. The estimated wait time (EWT) enhancement will reduce taxpayer burden and increase customer satisfaction by informing taxpayers about their expected wait time in queue.

*Web site Interaction Enhancements:*

Expanded Portfolio of Tax Law Decision Support Tools (\$5.699M) – Website enhancements are designed to maximize the value of IRS.gov to taxpayers and other external stakeholders, making the Website the first choice for obtaining the information and services required to comply with tax obligations. This enhancement will enable users to conduct key word and natural language queries and to get answers to tax law questions through the Frequently Asked Questions (FAQs) database accessed on IRS.gov. Users will be able to access standard reports, searches, and “Top Ten” FAQ lists. An analytics console will allow in-depth analysis of reports.

Spanish “Where’s My Refund?” (\$426K) – This enhancement adds the refund status feature to the Spanish web page on IRS.gov, enabling the Spanish-speaking community to receive the same level of customer service on the web as available on the English web page.

# Operating Levels Table Internal Revenue Service

Table 2.2

Dollars in Thousands

Appropriation Title: Internal Revenue Service	FY 2006 Enacted	FY 2007 President's Budget	CR-rate Adjustment	FY 2007 CR-rate	Proposed Reprogram- mings	FY 2007 Proposed Operating Plan at CR-rate	FY 2008 President's Budget
<b>FTE</b>	<b>95,386</b>	<b>93,036</b>	<b>(1,318)</b>	<b>91,718</b>	<b>0</b>	<b>91,718</b>	<b>92,118</b>
<b>Object Classification:</b>							
11.1 Full-Time Permanent Positions.....	\$5,310,233	\$5,380,296	(\$65,454)	\$5,314,842	(\$4,193)	\$5,310,649	\$5,574,665
11.3 Other than Full-Time Permanent Positions.....	433,414	427,129	(11,840)	415,289	103	415,392	412,796
11.5 Other Personnel Compensation.....	246,491	248,226	(3,129)	245,097	288	245,385	259,835
11.8 Special Personal Services Payments.....	16,753	16,863	0	16,863	0	16,863	17,499
<b>11.9 Personnel Compensation (Total).....</b>	<b>\$6,006,891</b>	<b>\$6,072,514</b>	<b>(\$80,423)</b>	<b>\$5,992,091</b>	<b>(\$3,802)</b>	<b>\$5,988,289</b>	<b>\$6,264,795</b>
12.0 Personnel Benefits.....	1,620,275	1,653,086	(11,154)	1,641,932	(113)	1,641,819	1,712,785
13.0 Benefits to Former Personnel.....	67,401	62,001	(7,953)	54,048	131	54,179	61,623
21.0 Travel.....	210,113	214,075	(13,859)	200,216	781	200,997	226,387
22.0 Transportation of Things.....	26,371	27,309	0	27,309	1	27,310	28,481
23.1 Rental Payments to GSA.....	680,865	640,193	0	640,193	0	640,193	665,737
23.2 Rent Payments to Others.....	351	375	0	375	0	375	388
23.3 Communications, Utilities, & Misc.....	367,907	366,213	(7,551)	358,662	1	358,663	380,022
24.0 Printing and Reproduction.....	67,187	65,926	0	65,926	128	66,054	67,549
25.1 Advisory & Assistance Services.....	141,597	61,049	(4,260)	56,789	1,529	58,318	60,143
25.2 Other Services.....	641,014	620,120	(11,626)	608,494	(1,398)	607,096	707,829
25.3 Purchase of Goods/Serv. from Govt. Accls.....	83,494	84,247	(1,259)	82,988	2,141	85,129	87,374
25.4 Operation & Maintenance of Facilities.....	188,951	179,710	(551)	179,159	0	179,159	182,810
25.5 Research & Development Contracts.....	7,469	7,272	0	7,272	0	7,272	8,177
25.6 Medical Care.....	10,005	10,005	0	10,005	0	10,005	10,245
25.7 Operation & Maintenance of Equipment.....	100,296	88,543	(10,389)	78,154	(151)	78,003	78,912
25.8 Subsistence & Support of Persons.....	5,090	4,732	0	4,732	143	4,875	5,130
26.0 Supplies and Materials.....	64,415	56,873	(249)	56,624	(1,990)	54,634	59,168
31.0 Equipment.....	266,981	302,541	(4,199)	298,342	2,598	300,940	410,961
32.0 Lands and Structures.....	0	58,056	0	58,056	0	58,056	59,449
33.0 Investments & Loans.....	0	0	0	0	0	0	0
41.0 Grants, Subsidies.....	11,944	12,195	0	12,195	0	12,195	12,569
42.0 Insurance Claims & Indemn.....	1,275	988	0	988	1	989	1,033
43.0 Interest and Dividends.....	0	0	0	0	0	0	0
44.0 Refunds.....	0	0	0	0	0	0	0
91.0 Unvouchered.....	3,814	3,814	0	3,814	0	3,814	3,932
<b>Total Budget Authority.....</b>	<b>\$10,573,706</b>	<b>\$10,591,837</b>	<b>(\$153,473)</b>	<b>\$10,438,364</b>	<b>\$0</b>	<b>\$10,438,364</b>	<b>\$11,095,499</b>
<b>Budget Activities:</b>							
Pre-Filing Taxpayer Assistance and Education.....	\$2,142,042	\$2,079,151	(\$20,000)	\$2,059,151	(\$12,243)	\$2,046,908	\$2,103,089
Enforcement.....	4,708,441	4,797,126	(88,721)	4,708,405	(47,833)	4,660,572	4,925,498
Operations Support.....	3,461,205	3,488,404	(29,252)	3,459,152	60,076	3,519,228	3,769,587
Business Systems Modernization.....	242,010	212,310	(15,500)	196,810	0	196,810	282,090
Health Insurance Tax Credit Administration.....	20,008	14,846	0	14,846	0	14,846	15,235
<b>Total Budget Authority.....</b>	<b>\$10,573,706</b>	<b>\$10,591,837</b>	<b>(\$153,473)</b>	<b>\$10,438,364</b>	<b>\$0</b>	<b>\$10,438,364</b>	<b>\$11,095,499</b>

## **2B – Appropriations Language and Explanation of Changes**

### **TITLE II – DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE**

#### **Taxpayer Services**

*For necessary expenses of the Internal Revenue Service to provide taxpayer services, including pre-filing taxpayer assistance and education, filing and account services, taxpayer advocacy services, and services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, \$2,103,089,000, of which up to \$4,100,000 shall be for the Tax Counseling for the Elderly Program, and of which \$8,000,000 shall be for low-income taxpayer clinic grants.*

#### **Enforcement (including Transfer of Funds)**

*For necessary expenses 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 of passenger motor vehicles (31 U.S.C. 1343(b)), and services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, \$4,925,498,000, of which not less than \$57,252,000 shall be for the Interagency Crime and Drug Enforcement program: Provided, That up to \$10,000,000 may be transferred as necessary from this account to Internal Revenue Service, "Operations Support" solely for the purposes of the Interagency Crime and Drug Enforcement program: Provided further, That this transfer authority shall be in addition to any other transfer authority provided in this Act.*

## **Health Insurance Tax Credit Administration**

*For expenses necessary to implement the health insurance tax credit included in the Trade Act of 2002 (Public Law 107-210), \$15,235,000.*

### **Operations Support**

*For necessary expenses of the Internal Revenue Service to support taxpayer services and enforcement programs, including rent payments; facilities services; printing; postage; physical security; headquarters and other IRS-wide administration activities; research and statistics of income; telecommunications; information technology development, enhancement, operations, maintenance, and security; the hire of passenger motor vehicles (31 U.S.C. 1343(b)); and services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner; \$3,769,587,000 of which \$75,000,000 shall remain available until September 30, 2009, for information technology support; of which not to exceed \$1,000,000 shall remain available until September 30, 2010, for research; of which not to exceed \$1,600,000 shall be for the Internal Revenue Service Oversight Board; and of which not to exceed \$25,000 shall be for official reception and representation.*

### **Business Systems Modernization**

*For necessary expenses of the Internal Revenue Service's business systems modernization program, \$282,090,000, to remain available until September 30, 2010, for the capital asset acquisition of information technology systems, including management and related contractual costs of said acquisitions, including related Internal Revenue Service labor costs, and contractual costs associated with operations authorized by 5 U.S.C. 3109: Provided, That, with the exception of labor costs, none of these funds may be obligated until the Internal Revenue Service submits to the Committees on Appropriations, a plan for expenditure that: (1) meets the capital planning and investment control review requirements established by the Office of Management and Budget, including Circular A-11; (2) complies with the Internal Revenue Service's enterprise architecture, including the modernization blueprint; (3) conforms with the Internal Revenue Service's enterprise life cycle methodology; (4) is approved by the Internal Revenue Service, the Department of the Treasury, and the Office of Management and Budget; (5) has been reviewed by the Government Accountability Office; and (6) complies with the acquisition rules, requirements, guidelines, and systems acquisition management practices of the Federal Government.*

**ADMINISTRATIVE PROVISIONS—INTERNAL REVENUE SERVICE  
(INCLUDING TRANSFERS OF FUND)**

*Sec. 201. 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 notification of the Committees on Appropriations.*

*Sec. 202. 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.*

*Sec. 203. The Internal Revenue Service shall institute and enforce policies and procedures that will safeguard the confidentiality of taxpayer information.*

*Sec. 204. Of the funds made available by this Act to the Internal Revenue Service, not less than \$6,787,950,000 shall be available only for tax enforcement and related support activities funded in Internal Revenue Service, "Enforcement" and "Operations Support." In addition, of the funds made available by this Act to the Internal Revenue Service, and subject to the same terms and conditions, an additional \$440,264,000 shall be available for tax enforcement and related support activities.*

*Sec. 205. Section 9503(a) of title 5, United States Code, is amended by striking the clause "for a period of 10 years after the date of enactment of this section" and replacing it with "before July 23, 2013".*

*Sec. 206. Sections 9504(a) and (b), and 9505(a) of title 5, United States Code, are amended by striking the clause "For a period of 10 years after the date of enactment" each place it occurs, and replacing it with "Before July 23, 2013".*

*Sec. 207. Section 9502(a) of title 5, United States Code, is further amended by striking "Office of Management and Budget" and replacing it with "Office of Personnel Management".*

## 2C – Legislative Proposals

The IRS needs to find ways to fairly and effectively administer the tax law while minimizing burden on taxpayers. Tax laws are changed each year and the changes are aimed at simplifying the tax code, improving compliance and reducing the cost of administering the tax laws. The IRS works extensively with stakeholders to move closer to meeting the demands of the customers and eliminating barriers that prevent taxpayers from meeting their tax obligations. The President’s Budget includes the main categories of legislative proposals below. When implemented, it is estimated that these proposals will generate approximately \$29 billion over the next ten years:

- *Expanding Information Reporting*  
Compliance with the tax laws is highest when payments are subject to information reporting to the IRS. Specific information reporting proposals would:
  1. Require information reporting on payments to corporations;
  2. Require basis reporting on security sales;
  3. Expand broker information reporting;
  4. Require information reporting on merchant payment card reimbursements;
  5. Require a certified taxpayer identification number (TIN) from non-employee service providers;
  6. Require increased information reporting for certain government payments for property and services; and
  7. Increase information return penalties.
  
- *Improve Compliance by Businesses*  
Improving compliance by businesses of all sizes is important. Specific proposals to improve compliance by businesses would:
  1. Require electronic filing by certain large businesses;
  2. Implement standards clarifying when employee leasing companies can be held liable for their clients’ Federal employment taxes; and
  3. Amend collection due process procedures applicable to employment tax liabilities.
  
- *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:
  1. Expand IRS access to information in the National Directory of New Hires database;
  2. Permit the IRS to disclose to prison officials return information about tax violations; and
  3. Make repeated failure to file a tax return a felony.

- *Expand Penalties*

Penalties play an important role in discouraging intentional non-compliance. Specific proposals to expand penalties would:

  1. Expand preparer penalties;
  2. Impose a penalty on failure to comply with electronic filing requirements; and
  3. Create an erroneous refund claim penalty.
  
- *Other Miscellaneous Proposals*

The Administration has four proposals relating to IRS administrative reforms.

  1. Modify employee infractions subject to mandatory termination and permit a broader range of available penalties. This will strengthen taxpayer privacy while reducing employee anxiety resulting from unduly harsh discipline or unfounded allegations.
  2. Allow the IRS to terminate installment agreements when taxpayers fail to make timely tax deposits and file tax returns on current liabilities.
  3. Eliminate the requirement that the IRS Chief Counsel provide an opinion for any accepted offer-in-compromise of unpaid tax (including interest and penalties) equal to or exceeding \$50,000. This proposal requires that the Secretary of the Treasury establish standards to determine when an opinion is appropriate.
  4. Modify the way that Financial Management Services (FMS) recovers its transaction fees for processing the IRS' levies by permitting FMS to add the fee to the liability being recovered, thereby shifting the cost of collection to the delinquent taxpayer. The offset amount would be included as part of the 15-percent limit on continuous levies against income.

# **Taxpayer Services**

## Section 3 – Budget and Performance Plan

### Taxpayer Services (TS)

#### Appropriation Description

The Taxpayer Services appropriation provides funding for taxpayer service activities and programs, including forms and publications; processing tax returns and related documents; filing and account services; taxpayer advocacy services; and assisting taxpayers to understand their tax obligations, correctly file their returns, and pay taxes due timely.

The Taxpayer Services budget request for FY 2008 is \$2,103,089,000 in direct appropriations and 30,160 FTE. This is an increase of \$56,181,000 or 2.7 percent, and a decrease of 437 FTE, over the FY 2007 Continuing Resolution (CR) Rate of \$2,046,908,000 and 30,597 FTE.

#### Appropriations Detail Table Taxpayer Services

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR-rate		FY 2008 President's Budget		% Change over CR-rate	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>												
Pre-Filing Taxpayer Assistance and Education	6,206	\$577,425	5,461	\$559,249	6,047	\$575,694	5,990	\$556,693	6,031	\$578,078	0.68%	3.84%
Filing and Account Services	25,844	1,564,617	25,925	1,568,209	24,844	1,503,457	24,607	1,490,215	24,129	1,525,011	-1.94%	2.33%
<b>Subtotal New Appropriated Resources</b>	<b>32,050</b>	<b>\$2,142,042</b>	<b>31,386</b>	<b>\$2,127,458</b>	<b>30,891</b>	<b>\$2,079,151</b>	<b>30,597</b>	<b>\$2,046,908</b>	<b>30,160</b>	<b>\$2,103,089</b>	<b>-1.43%</b>	<b>2.74%</b>
<b>Other Resources:</b>												
Recoveries												
Offsetting Collections - Reimbursable	767	\$51,069	997	\$41,474	331	\$26,824	331	\$26,824	339	\$27,414	2.42%	2.20%
50% Carryover				10,655								
Mandatory Appropriations - User Fees						168,000		168,000		108,000		-35.71%
Available multi-year/no-year funds		13,236		3,429		15,866		15,866		6,866		-56.73%
Transfers In/Out												
<b>Subtotal Other Resources</b>	<b>767</b>	<b>\$64,305</b>	<b>997</b>	<b>\$55,558</b>	<b>331</b>	<b>\$210,690</b>	<b>331</b>	<b>\$210,690</b>	<b>339</b>	<b>\$142,280</b>	<b>2.42%</b>	<b>-32.47%</b>
<b>Total Resources Available for Obligation</b>	<b>32,817</b>	<b>\$2,206,347</b>	<b>32,383</b>	<b>\$2,183,016</b>	<b>31,222</b>	<b>\$2,289,841</b>	<b>30,928</b>	<b>\$2,257,598</b>	<b>30,499</b>	<b>\$2,245,369</b>	<b>-1.39%</b>	<b>-0.54%</b>

## Budget Adjustment Table Taxpayer Services

Table 2.1

### FY 2008 Budget Highlights

Dollars in Thousands

Appropriation: Taxpayer Services	FTE	Amount
<b>FY 2007 President's Budget</b>	<b>30,891</b>	<b>\$2,079,151</b>
CR-rate Adjustment	(330)	(20,000)
<b>FY 2007 CR-rate</b>	<b>30,561</b>	<b>\$2,059,151</b>
Interappropriation Transfer Corrections to Budget Restructure	36	(12,243)
<b>FY 2007 Operating Plan at CR-rate</b>	<b>30,597</b>	<b>\$2,046,908</b>
<b>Changes to Base:</b>		
<b>Technical Adjustments to FY 2007 Base due to CR</b>	<b>0</b>	<b>\$0</b>
Base Adjustment		
<b>Maintaining Current Levels (MCLs)</b>		<b>\$71,500</b>
Pay Annualization		10,190
Pay Inflation Adjustment		58,424
Non-Pay Inflation Adjustment		2,886
<b>Efficiency Savings</b>	<b>(527)</b>	<b>(\$23,407)</b>
<b>Subtotal, Changes to Base</b>	<b>(527)</b>	<b>\$48,093</b>
<b>FY 2008 Base</b>	<b>30,070</b>	<b>\$2,095,001</b>
<b>Program Changes:</b>		
<b>Program Decreases/Savings:</b>	<b>0</b>	<b>(\$5,968)</b>
Increased e-File Savings		(5,968)
<b>Program Reinvestments:</b>	<b>0</b>	<b>\$5,968</b>
Increase Efficiency Through Submission Processing Site Consolidations		5,968
<b>Program Increases:</b>		
<b>Enforcement Initiatives</b>	<b>44</b>	<b>\$4,235</b>
Improve Compliance Among Small Business and Self-Employed Taxpayers	31	2,437
Increase Compliance for Large Multinational Businesses	4	1,055
Establish New Document Matching - Kansas City	3	248
Increase Individual Filing Compliance	6	495
<b>Taxpayer Service Initiative</b>	<b>46</b>	<b>\$3,853</b>
Expand Volunteer Income Tax Assistance	46	3,853
<b>Subtotal, FY 2008 Program Changes</b>	<b>90</b>	<b>\$8,088</b>
<b>Total, FY 2008 President's Budget Request</b>	<b>30,160</b>	<b>\$2,103,089</b>

# Operating Levels Table

## Taxpayer Services

Table 2.2

Dollars in Thousands

Appropriation Title: Taxpayer Services	FY 2006	FY 2007	CR-rate Adjustment	FY 2007	Proposed Reprogram- mings	FY 2007	FY 2008
	Enacted	President's Budget		CR-rate		Operating Plan at CR-rate	President's Budget
<b>FTE</b>	<b>32,050</b>	<b>30,891</b>	<b>(330)</b>	<b>30,561</b>	<b>36</b>	<b>30,597</b>	<b>30,160</b>
<b>Object Classification:</b>							
11.1 Full-Time Permanent Positions.....	\$1,117,586	\$1,112,080	(\$2,143)	\$1,109,937	\$1,626	\$1,111,563	\$1,152,553
11.3 Other than Full-Time Permanent Positions.....	316,349	321,755	(11,647)	310,108	(1)	310,107	303,897
11.5 Other Personnel Compensation.....	76,951	76,480	0	76,480	(111)	76,369	78,525
11.8 Special Personal Services Payments.....	0	0	0	0	0	0	0
<b>11.9 Personnel Compensation (Total).....</b>	<b>\$1,510,886</b>	<b>\$1,510,315</b>	<b>(\$13,790)</b>	<b>\$1,496,525</b>	<b>\$1,514</b>	<b>\$1,498,039</b>	<b>\$1,534,975</b>
12.0 Personnel Benefits.....	431,056	431,083	(3,971)	427,112	(981)	426,131	435,843
13.0 Benefits to Former Personnel.....	839	3,046	0	3,046	131	3,177	9,119
21.0 Travel.....	27,611	27,573	(15)	27,558	2	27,560	28,720
22.0 Transportation of Things.....	4,403	4,294	0	4,294	0	4,294	4,445
23.1 Rental Payments to GSA.....	0	0	0	0	0	0	0
23.2 Rent Payments to Others.....	0	0	0	0	0	0	0
23.3 Communications, Utilities, & Misc.....	3,817	4,862	0	4,862	0	4,862	4,982
24.0 Printing and Reproduction.....	7,773	7,898	0	7,898	35	7,933	8,124
25.1 Advisory & Assistance Services.....	7,778	3,298	0	3,298	(866)	2,432	2,490
25.2 Other Services.....	96,568	39,532	(2,524)	37,008	(1,385)	35,623	36,470
25.3 Purchase of Goods/Serv. from Govt. Accts.....	10,931	10,931	0	10,931	(329)	10,602	11,029
25.4 Operation & Maintenance of Facilities.....	91	91	0	91	0	91	93
25.5 Research & Development Contracts.....	0	0	0	0	0	0	0
25.6 Medical Care.....	0	0	0	0	0	0	0
25.7 Operation & Maintenance of Equipment.....	8,945	8,945	0	8,945	(8,293)	652	667
25.8 Subsistence & Support of Persons.....	1,467	1,418	0	1,418	9	1,427	1,475
26.0 Supplies and Materials.....	15,361	11,813	(249)	11,564	(2,160)	9,404	11,827
31.0 Equipment.....	2,556	2,158	549	2,707	80	2,787	567
32.0 Lands and Structures.....	0	0	0	0	0	0	0
33.0 Investments & Loans.....	0	0	0	0	0	0	0
41.0 Grants, Subsidies.....	11,939	11,866	0	11,866	0	11,866	12,232
42.0 Insurance Claims & Indemn.....	21	28	0	28	0	28	31
43.0 Interest and Dividends.....	0	0	0	0	0	0	0
44.0 Refunds.....	0	0	0	0	0	0	0
91.0 Unvouchered.....	0	0	0	0	0	0	0
<b>Total Budget Authority.....</b>	<b>\$2,142,042</b>	<b>\$2,079,151</b>	<b>(\$20,000)</b>	<b>\$2,059,151</b>	<b>(\$12,243)</b>	<b>\$2,046,908</b>	<b>\$2,103,089</b>
<b>Budget Activities:</b>							
Pre-filing Taxpayer Assistance & Education.....	\$577,425	\$575,694	(\$4,222)	\$571,472	(\$14,779)	\$556,693	\$578,078
Filing & Account Services.....	1,564,617	1,503,457	(15,778)	1,487,679	2,536	1,490,215	1,525,011
<b>Total Budget Authority.....</b>	<b>\$2,142,042</b>	<b>\$2,079,151</b>	<b>(\$20,000)</b>	<b>\$2,059,151</b>	<b>(\$12,243)</b>	<b>\$2,046,908</b>	<b>\$2,103,089</b>

## **TS Budget Activity: *Pre-Filing Taxpayer Assistance and Education***

### **3A - Description**

**Pre-Filing Taxpayer Assistance and Education** (*\$578,078,000 in direct appropriation, \$1,059,000 from reimbursable programs, and \$76,000,000 from user fees*)

This budget activity funds services to assist with tax return filing, including interpretation of the tax laws, media, and publications. This includes the following program activities:

- Filing Services Management administers pre-filing, taxpayer assistance, and education programs;
- 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, web sites, broadcasting, and advertising;
- Media and Publications develops understandable notices, produces forms and publications for printed and electronic tax materials, and supplies media production services to taxpayers;
- Taxpayer Advocacy provides advocate services to taxpayers for the purpose of preventing future problems by identifying the underlying causes of taxpayer problems and participating in the development of systematic and/or procedural remedies;
- Account Management & 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 ensures that taxpayers have an advocate to present their interests within the IRS to resolve taxpayers' problems through prompt identification, referral, and settlement; and
- National Distribution Center receives and processes orders for IRS forms and publications received from individual taxpayers, tax practitioners, and IRS tax return preparation partners.

### 3B – Budget and Performance Plan

#### Budget and Performance by Budget Activities

Table 3.2.1

Dollars in Thousands

Pre-Filing Taxpayer Assistance and Education				Strategic Objective F4A FY 2008	
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	President's Budget	
Financial Resources					
Appropriated Resources	\$565,841	\$577,425	\$556,693	\$578,078	
Offsetting Collections - Reimbursable	1,170	1,573	1,037	1,059	
Mandatory Appropriations - User Fees	0	0	76,000	76,000	
<b>Total Operating Level</b>	<b>\$567,011</b>	<b>\$578,998</b>	<b>\$557,730</b>	<b>\$579,137</b>	
Human Resources					
Appropriated FTE	6,586	6,206	5,990	6,031	
Other FTE	14	23	10	11	
<b>Total FTE (direct and reimbursable)</b>	<b>6,600</b>	<b>6,229</b>	<b>6,000</b>	<b>6,042</b>	

Measure		FY 2004	FY 2005	Includes Strategic Objective F4A		
				FY 2006	FY 2007 Target <sup>1</sup>	FY 2008
Timeliness of Critical Filing Season Tax Products to the Public (Ot)	Target	75.0%	80.0%	92.0%	85.2%	92.0%
	Actual	76.0%	91.4%	83.0%		
	Met	Y	Y	N		
Timeliness of Critical Other Tax Products to the Public (Ot)	Target	N/A	80.0%	85.0%	79.6%	86.0%
	Actual	76.0%	80.0%	61.2%		
	Met		Y	N		
Taxpayer Self Assistance Rate (Oe) (L)	Target	N/A	Baseline	45.7%	48.6%	51.4%
	Actual	46.4%	42.5%	46.8%		
	Met			Y		
Percent of Eligible Taxpayers Who File for EITC (Oe)	Target	Baseline	80.0%	80.0%	75%-85%	75%-85%
	Actual	80.0%	80.0%	*		
	Met	Y	Y			

<sup>1</sup> Changes to the FY 2007 performance targets are attributed to funding adjustments under the Continuing Resolution, the implementation of the new tax legislation, and improvements resulting from program efficiencies.

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

\*Data to estimate eligibility rate is not available at this time.

## **Description of Performance**

Improved service options for taxpayers and simplifying the tax process are key objectives under the IRS strategic goal to improve taxpayer service. Helping the public to understand its tax reporting and payment obligations remains a vital part of maintaining public confidence in administering the tax laws. The IRS continues to expand its outreach by relying on partner organizations such as state taxing authorities and a cadre of volunteer groups, such as Volunteer Income Tax Assistance (VITA), to serve taxpayer needs. In FY 2006, the 69,000 volunteers filed approximately 2.3 million returns, a seven percent increase over FY 2005.

In FY 2006, the IRS delivered the first phase of the Taxpayer Assistance Blueprint (TAB), a comprehensive study that reviewed the IRS' current taxpayer service options provided to taxpayers and identified areas for improvements, including expanded taxpayer education and awareness, optimized use of partner services, increased self-service options, and expanded training and support tools for taxpayers. Phase II includes additional research and establishes the framework to develop short and long-term outcome goals and metrics for measuring the IRS' progress on service improvements for taxpayers.

The IRS also played a significant role in outreach and telephone assistance efforts to support disaster response due to the hurricanes that occurred along the gulf coast in August and September of 2005. The IRS assisted the Federal Emergency Management Agency (FEMA) by manning telephone sites to answer 948,814 disaster related questions. Also, a substantial number of taxpayers were contacted by the IRS and educated in tax related matters such as claiming property and personal losses, applying for filing extensions, and requesting extensions of time to pay on existing tax liabilities due to financial hardship. In addition, emergency tax relief bills were enacted that required over 230 changes to 78 tax products. Despite passage late in the tax year, 83 percent of the critical filing season tax products and over 61.2 percent of other tax products were delivered to the public on time.

The IRS continues efforts to simplify its tax forms and publications making them more user-friendly with the ultimate goal of providing all of its published products in electronic format. The FY 2006 taxpayer self-assistance rate was 46.8 percent, which exceeded the target of 45.7 percent. This success can be attributed primarily to the high increase in use of the "Where's My Refund?" website feature, which was up 11.8 percent for the 2006 filing season, and the addition of the Earned Income Tax Computation (EITC) tool to the website.

In FY 2007 and FY 2008, the IRS will continue to simplify tax forms and publications to make them more user friendly for use on computer-based systems with the eventual goal of providing all published products in an electronic format, which should ensure that all critical filing season and other critical tax products are available by established deadlines. In addition, efforts to increase electronic filing will continue, with new forms and schedules added to the business electronic portfolio, leveraging partner organizations

such as state taxing authorities, and increasing use of volunteers to better serve taxpayer needs.

**TS Budget Activity: *Filing and Account Services***

**3A – Description**

*Filing and Account Services* (\$1,525,011,000 in direct appropriation, \$26,355,000 from reimbursable programs, and \$32,000,000 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. This includes the following program activities:

- 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 revenues, and issues refunds and tax notices;
- Account Management and Assistance – Electronic Correspondence Assistance provides education and compliance services to taxpayers through telephone, correspondence, and electronic means and to resolve account and notice inquiries, either electronically or by telephone;
- Electronic Tax Administration markets and administers electronic tax administration products and services; and
- Files Most Efficient Organization stores the administrative files and the most recent tax returns in-process that are most likely to be requested for research by various IRS organizations until they are forwarded to the federal records centers.

### 3B – Budget and Performance Plan

#### Budget and Performance by Budget Activities

Table 3.2.2

Dollars in Thousands

Filing and Account Services		Strategic Objective F4A FY 2008			
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	President's Budget	
Financial Resources					
Appropriated Resources	\$1,579,145	\$1,564,617	\$1,490,215	\$1,525,011	
Offsetting Collections - Reimbursable	36,813	49,496	25,787	26,355	
Mandatory Appropriations - User Fees	0	0	92,000	32,000	
<b>Total Operating Level</b>	<b>\$1,615,958</b>	<b>\$1,614,113</b>	<b>\$1,516,002</b>	<b>\$1,551,366</b>	
Human Resources					
Appropriated FTE	26,892	25,844	24,607	24,129	
Other FTE	453	744	321	328	
<b>Total FTE (direct and reimbursable)</b>	<b>27,345</b>	<b>26,588</b>	<b>24,928</b>	<b>24,457</b>	

Measure		FY 2004	FY 2005	FY 2006	Includes Strategic Objective F4A	
					FY 2007 Target <sup>1</sup>	FY 2008
Percent Individual Returns Processed Electronically (Oe) (L)	Target	45.0%	51.0%	55.0%	57.0%	61.6%
	Actual	46.5%	51.1%	54.1%		
	Met	Y	Y	N		
Percent of Business Returns Processed Electronically (Oe) (L)	Target	19.6%	17.0%	18.6%	19.5%	21.2%
	Actual	17.4%	17.8%	16.6%		
	Met	N	Y	N		
Customer Accuracy - Tax Law Phones (Oe)	Target	85.0%	82.0%	90.0%	91.0%	91.2%
	Actual	80.0%	89.0%	90.9%		
	Met	N	Y	Y		
Customer Accuracy - Accounts (Phones) (Oe)	Target	89.0%	89.8%	92.0%	93.3%	93.4%
	Actual	89.0%	91.5%	93.2%		
	Met	Y	Y	Y		
Customer Contacts Resolved per Staff year (E)	Target	N/A	7,261	7,477	7,702	7,880
	Actual	8,015	7,585	7,414		
	Met		Y	N		
Customer Service Representative (CSR) Level of Service (Oe)	Target	83.0%	82.0%	82.0%	78.0%	81.0%
	Actual	87.3%	82.6%	82.0%		
	Met	Y	Y	Y		
Refund Timeliness - Individual (paper)	Target	98.4%	98.4%	99.2%	99.2%	99.2%
	Actual	98.3%	99.2%	99.3%		
	Met	N	Y	Y		

<sup>1</sup> Changes to the FY 2007 performance targets are attributed to funding adjustments under the Continuing Resolution, the implementation of the new tax legislation, and improvements resulting from program efficiencies.

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

## **Description of Performance**

The IRS delivered a successful 2006 filing season in the midst of a very challenging year. Despite natural disasters that affected a large number of taxpayers and required an unprecedented response, the IRS processed more than 134.7 million total individual returns compared to 128.6 million last year, and issued more than 100 million refunds totaling \$277 billion compared to 97.1 million refunds totaling \$205.1 billion. For the second consecutive year, more than half, 72.8 million individual returns, were filed electronically, a 6.6 percent increase from FY 2005. The most significant increase in electronic filing came from home computer filing, which increased by 18.5 percent to more than 20.2 million returns. The IRS processed more than 7.7 million business returns electronically, a seven percent increase from last year. With an increase in both individual and business return filings, the IRS remains on track to have more than half of all returns filed electronically.

A key objective of the IRS' Taxpayer Service strategic is to increase electronic services and improve the ease of taxpayer access. Benefits of improved electronic services were demonstrated during the 2006 filing season. The IRS received five percent fewer automated calls and eight percent fewer walk-in contacts. The decline in the number of customers seeking face-to-face assistance in the Taxpayer Assistance Centers reflects taxpayers' preference to pursue self-assisted options for receiving service.

Studies initiated by the IRS Oversight Board and others have demonstrated taxpayer satisfaction with electronic access to IRS for filing tax and information returns, securing forms, instructions and answers including the most frequently asked question, "Where's My Refund?". Research conducted during Phase II of the TAB will identify the key drivers of taxpayer preference for self-assisted versus assisted customer service.

The IRS continues to emphasize direct service to taxpayers. The Customer Service Representative Level of Service was 82 percent. Refund timeliness was at 99.3 percent, also ahead of target and prior year performance.

The IRS and its customers place a high value on accuracy. Accuracy is one of the reasons cited by taxpayers who prefer electronic filing. The importance the IRS places on accuracy is demonstrated by its performance in Customer Accuracy – Tax Law Phones at 90.9 percent and Customer Accuracy – Accounts (Phones) at 93.2 percent, both above the FY 2005 levels.

The IRS developed processes and procedures for administering telecommunications excise tax refunds (TETR) to more than 150 million taxpayers in FY 2007. To do this, the IRS modified all individual and business tax return forms to include TETR information; created a new form to be used by individuals who want to request a refund but who have no other tax filing requirement; and drafted a new form to be used by taxpayers who choose to request refunds based on their actual payments rather than use a standard amount set by the IRS. The IRS also launched an outreach campaign to external stakeholder groups, programmed IRS systems to accept form changes, developed TETR-

related internal procedures, and trained employees who will interact with taxpayers on the phone and at Taxpayer Assistance Centers. In addition, the IRS developed a methodology that can be used by businesses and non-profits to estimate their TETR claims.

In FY 2007 and FY 2008, the IRS will continue to research and evaluate information regarding taxpayer service needs, priorities, and preferences in order to improve delivery services that support taxpayer preferable approaches for obtaining information or services. The IRS will seek opportunities to invest in technology, process improvement, and training to achieve consistent repeatable quality service with reduced costs.

# **Enforcement**

## Enforcement (ENF)

### Appropriation Description

The Enforcement appropriation funds 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 under reporting of tax obligations; and the securing of unfiled tax returns and collecting unpaid accounts.

The enforcement budget request for FY 2008 is \$4,925,498,000 in direct appropriations and 48,667 FTE. This is an increase of \$264,926,000 or 5.7 percent, and 834 FTE or 1.7 percent, over the FY 2007 Continuing Resolution (CR) rate of \$4,660,572,000 and 47,833 FTE.

### Appropriation Detail Table Enforcement

Table 3.1

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR-rate		FY 2008 President's Budget		% Change over CR-rate	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>												
Investigations	4,510	\$579,555	4,500	\$599,841	4,328	\$591,090	4,348	\$579,883	4,347	\$602,872	-0.02%	3.96%
Exam and Collections	43,045	3,919,275	42,637	3,925,839	43,258	4,054,760	42,264	3,932,599	43,060	4,165,233	1.88%	5.92%
Regulatory	1,979	209,611	1,302	150,115	1,283	151,276	1,221	148,090	1,260	157,393	3.19%	6.28%
<b>Subtotal New Appropriated Resources</b>	<b>49,534</b>	<b>\$4,708,441</b>	<b>48,439</b>	<b>\$4,675,795</b>	<b>48,869</b>	<b>\$4,797,126</b>	<b>47,833</b>	<b>\$4,660,572</b>	<b>48,667</b>	<b>\$4,925,498</b>	<b>1.74%</b>	<b>5.68%</b>
<b>Other Resources:</b>												
Recoveries												
Offsetting Collections - Reimbursable	376	\$86,041	122	\$44,106	191	\$48,291	191	\$48,291	194	\$49,353	1.57%	2.20%
50% Carryover				10,054								
Mandatory Appropriations - User Fees				0								
Available multi-year/no-year funds		2,289		1,119		2,286		2,286		1,146		-49.87%
Transfers In/Out				37								
<b>Subtotal Other Resources</b>	<b>376</b>	<b>\$88,330</b>	<b>122</b>	<b>\$55,316</b>	<b>191</b>	<b>\$50,577</b>	<b>191</b>	<b>\$50,577</b>	<b>194</b>	<b>\$50,499</b>	<b>1.57%</b>	<b>-0.15%</b>
<b>Total Resources Available for Obligation</b>	<b>49,910</b>	<b>\$4,796,771</b>	<b>48,561</b>	<b>\$4,731,111</b>	<b>49,060</b>	<b>\$4,847,703</b>	<b>48,024</b>	<b>\$4,711,149</b>	<b>48,861</b>	<b>\$4,975,997</b>	<b>1.74%</b>	<b>5.62%</b>

## Budget Adjustment Table Enforcement

Table 2.1

### FY 2008 Budget Highlights

Dollars in Thousands

Appropriation: Enforcement	FTE	Amount
<b>FY 2007 President's Budget</b>	<b>48,869</b>	<b>\$4,797,126</b>
CR-rate Adjustment	(988)	(88,721)
<b>FY 2007 CR-rate</b>	<b>47,881</b>	<b>\$4,708,405</b>
Interappropriation Transfer Corrections to Budget Restructure	(48)	(47,833)
<b>FY 2007 Operating Plan at CR-rate</b>	<b>47,833</b>	<b>\$4,660,572</b>
<b>Changes to Base:</b>		
<b>Technical Adjustments to FY 2007 Base due to CR</b>	<b>0</b>	<b>\$0</b>
Base Adjustment		
<b>Maintaining Current Levels (MCLs)</b>		<b>\$162,373</b>
Pay Annualization		23,083
Pay Inflation Adjustment		131,573
Non-Pay Inflation Adjustment		7,717
<b>Efficiency Savings</b>	<b>(620)</b>	<b>(\$60,166)</b>
<b>Subtotal, Changes to Base</b>	<b>(620)</b>	<b>\$102,207</b>
<b>FY 2008 Base</b>	<b>47,213</b>	<b>\$4,762,779</b>
<b>Program Changes:</b>		
<b>Program Increases:</b>		
<b>Enforcement Initiatives</b>	<b>1,454</b>	<b>\$162,719</b>
Improve Compliance Estimates, Measures, and Detection of Non-Compliance	237	29,054
Improve Compliance Among Small Business and Self-Employed Taxpayers	454	55,480
Increase Compliance for Large Multinational Businesses	151	19,916
Expand Document Matching in Existing Sites	208	18,536
Establish New Document Matching - Kansas City	203	15,669
Increase Individual Filing Compliance	55	3,806
Increase Tax-Exempt Entity Compliance	109	11,794
Increase Criminal Tax Investigations	37	8,464
<b>Subtotal, FY 2008 Program Changes</b>	<b>1,454</b>	<b>\$162,719</b>
<b>Total, FY 2008 President's Budget Request</b>	<b>48,667</b>	<b>\$4,925,498</b>

# Operating Levels Table Enforcement

Table 2.2

Dollars in Thousands

Appropriation Title: Enforcement	FY 2007			FY 2007 CR-rate	Proposed Reprogram- mings	FY 2007	
	FY 2006 Enacted	President's Budget	CR-rate Adjustment			Proposed Operating Plan at CR-rate	FY 2008 President's Budget
<b>FTE</b>	<b>49,534</b>	<b>48,869</b>	<b>(988)</b>	<b>47,881</b>	<b>(48)</b>	<b>47,833</b>	<b>48,667</b>
<b>Object Classification:</b>							
11.1 Full-Time Permanent Positions.....	\$3,201,250	\$3,265,184	(\$50,373)	\$3,214,811	(\$7,246)	\$3,207,565	\$3,382,441
11.3 Other than Full-Time Permanent Positions.....	106,545	94,051	(193)	93,858	96	93,954	97,309
11.5 Other Personnel Compensation.....	139,605	140,302	(3,112)	137,190	399	137,589	145,646
11.8 Special Personal Services Payments.....	16,753	16,863	0	16,863	0	16,863	17,499
<b>11.9 Personnel Compensation (Total).....</b>	<b>\$3,464,153</b>	<b>\$3,516,400</b>	<b>(\$53,678)</b>	<b>\$3,462,722</b>	<b>(\$6,751)</b>	<b>\$3,455,971</b>	<b>\$3,642,895</b>
12.0 Personnel Benefits.....	874,868	910,198	(4,134)	906,064	539	906,603	952,840
13.0 Benefits to Former Personnel.....	4,525	0	0	0	0	0	0
21.0 Travel.....	151,456	153,124	(13,837)	139,287	620	139,907	163,019
22.0 Transportation of Things.....	4,042	4,002	0	4,002	1	4,003	4,566
23.1 Rental Payments to GSA.....	0	0	0	0	0	0	0
23.2 Rent Payments to Others.....	342	370	0	370	0	370	383
23.3 Communications, Utilities, & Misc.....	44,687	44,858	0	44,858	(38,921)	5,937	6,642
24.0 Printing and Reproduction.....	6,559	5,297	0	5,297	93	5,390	5,442
25.1 Advisory & Assistance Services.....	21,680	28,137	(4,260)	23,877	(3,000)	20,877	21,394
25.2 Other Services.....	74,577	73,750	(5,553)	68,197	(2,803)	65,394	66,944
25.3 Purchase of Goods/Serv. from Govt. Accts.....	14,949	12,963	(1,259)	11,704	2,470	14,174	14,537
25.4 Operation & Maintenance of Facilities.....	507	145	0	145	0	145	1,045
25.5 Research & Development Contracts.....	2,847	2,908	0	2,908	0	2,908	2,908
25.6 Medical Care.....	0	0	0	0	0	0	0
25.7 Operation & Maintenance of Equipment.....	6,755	6,766	(2,800)	3,966	(151)	3,815	3,947
25.8 Subsistence & Support of Persons.....	3,043	3,043	0	3,043	134	3,177	3,376
26.0 Supplies and Materials.....	22,172	23,801	0	23,801	(70)	23,731	24,611
31.0 Equipment.....	6,790	6,848	(3,200)	3,648	5	3,653	6,279
32.0 Lands and Structures.....	0	0	0	0	0	0	0
33.0 Investments & Loans.....	0	0	0	0	0	0	0
41.0 Grants, Subsidies.....	5	329	0	329	0	329	337
42.0 Insurance Claims & Indemn.....	670	373	0	373	1	374	401
43.0 Interest and Dividends.....	0	0	0	0	0	0	0
44.0 Refunds.....	0	0	0	0	0	0	0
91.0 Unvouchered.....	3,814	3,814	0	3,814	0	3,814	3,932
<b>Total Budget Authority.....</b>	<b>\$4,708,441</b>	<b>\$4,797,126</b>	<b>(\$88,721)</b>	<b>\$4,708,405</b>	<b>(\$47,833)</b>	<b>\$4,660,572</b>	<b>\$4,925,498</b>
<b>Budget Activities:</b>							
Investigations.....	\$579,555	\$591,090	(\$11,110)	\$579,980	(\$97)	\$579,883	\$602,872
Exam and Collections.....	3,919,275	4,054,760	(76,468)	3,978,292	(45,693)	3,932,599	4,165,233
Regulatory.....	209,611	151,276	(1,143)	150,133	(2,043)	148,090	157,393
<b>Total Budget Authority.....</b>	<b>\$4,708,441</b>	<b>\$4,797,126</b>	<b>(\$88,721)</b>	<b>\$4,708,405</b>	<b>(\$47,833)</b>	<b>\$4,660,572</b>	<b>\$4,925,498</b>

## **ENF Budget Activity: *Investigations***

### **3A – Description**

*Investigations* (\$602,872,000 in direct appropriation and \$37,716,000 reimbursable programs)

This budget activity funds the Criminal Investigations programs that explore potential criminal violations of the internal revenue tax laws, enforce criminal statutes relating to these violations, and recommend prosecution as warranted. This includes the following program activities:

- Criminal Investigations supports the enforcement of criminal statutes relating to violations of internal revenue laws and other financial crimes. It investigates cases of suspected intent to defraud involving both legal and illegal sources of income and recommends prosecution as warranted. This activity also includes the investigation and prosecution of tax and money laundering violations associated with narcotics organizations; and
- General Management and Administration supports the unit headquarters management activities of strategic planning, communications, finance, human resources for criminal Investigations activities.

### 3B – Budget and Performance Plan

#### Budget and Performance by Budget Activities

Table 3.2.3

Dollars in Thousands

Investigations Resource Level	Strategic Objective F4A & F3A FY 2008			
	FY 2005 Enacted	FY 2006 Enacted	FY 2007 CR-rate	President's Budget
Financial Resources				
Appropriated Resources	\$504,075	\$579,555	\$579,883	\$602,872
Offsetting Collections - Reimbursable	90,834	74,842	36,905	37,716
<b>Total Operating Level</b>	<b>\$594,909</b>	<b>\$654,397</b>	<b>\$616,788</b>	<b>\$640,588</b>
Human Resources				
Appropriated FTE	4,190	4,510	4,348	4,347
Other FTE	383	325	86	87
<b>Total FTE (direct and reimbursable)</b>	<b>4,573</b>	<b>4,835</b>	<b>4,434</b>	<b>4,434</b>

Measure		FY 2004	FY 2005	FY 2006	Includes Strategic Objective F4A FY 2007 FY 2008	
					Target <sup>1</sup>	Target <sup>1</sup>
Criminal Investigations Completed (Ot) (L)	Target	3,400	3,895	3,945	4,000	4,025
	Actual	4,387	4,104	4,157		
	Met	Y	Y	Y		
Number of Convictions (Ot) (L)	Target	N/A	2,048	2,260	2,069	2,135
	Actual	2,008	2,151	2,019		
	Met		Y	N		
Conviction Rate (E) (L)	Target	N/A	92.0%	92.0%	92.0%	92.0%
	Actual	91.2%	91.2%	91.5%		
	Met		N	N		
Conviction Efficiency Rate (\$) (E) (L)	Target	N/A	332,194	339,565	314,008	314,560
	Actual	362,849	295,316	328,750		
	Met		Y	Y		

<sup>1</sup> Changes to the FY 2007 performance targets are attributed to funding adjustments under the Continuing Resolution, the implementation of the new tax legislation, and improvements resulting from program efficiencies.

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

## **Description of Performance**

Enforcement of criminal statutes is an integral component of the IRS' efforts to enhance voluntary compliance and enforce the tax laws. In FY 2006, abusive tax schemes and shelters remained a high investigative priority due to their egregious activities in areas of corporate fraud and tax avoidance of high-income individuals. Among the most effective tools available to combat abusive tax schemes was the use of parallel proceedings that enabled the IRS to enjoin promoters of abusive schemes from further activity while the criminal investigation proceeds. These initiatives focused on the thousands of individuals known to maintain offshore bank accounts while operating domestic businesses. Investigative priorities focused on Corporate Fraud, Abusive Tax Schemes, Refund Crimes, Non-Filers, Employment Tax, and Terrorist Financing. Performance levels remained high in FY 2006:

- The referral acceptance rate (i.e., the ratio of internal referrals within the IRS received to the number of those cases that are accepted by CI) of 71.8 percent exceeded the five year high achieved in FY 2005 and total number of referrals accepted (445) was higher than last year;
- Number of convictions was 2,019, falling short of the 2,260 target;
- Conviction rate was 91.5 percent, higher than FY 2005 and within 99 percent of FY 2006 target; and
- Cost of a conviction (Conviction Efficiency rate) was \$328,750, almost \$11,000 less than the FY 2006 target.

In FY 2007 and continuing in FY 2008, the IRS will focus its investigative resources on legal source tax investigations by partnering with other law enforcement agencies to develop significant tax and other financial investigations. The IRS will also pursue investigations involving illegal source tax and other financial crimes, including money laundering, that adversely affect tax administration and combat fraudulent and financial crime schemes identified through improved case development efforts and bank secrecy investigations.

### **ENF Budget Activity: *Exam and Collections***

#### **3A – Description**

*Exam and Collections* (\$4,165,233,000 in direct appropriation and \$11,637,000 from reimbursable programs)

This budget activity funds programs that enforce the tax laws and compliance through examination and collection programs that ensure proper payment and tax reporting. The

budget activity also supports appeals and litigation activities associated with exam and collection. This includes the following program activities:

- Compliance Services Management supports management associated with compliance program activities;
- Payment Compliance – Correspondence Collection supports the IRS’ centralized collection activities via correspondence in the Compliance Services Collection Operation. It initiates contact and collects delinquent taxpayer liabilities through written notices and other means;
- Automated Collections and Support supports the IRS’ centralized Automated Collection System (ACS). This program initiates contact and collects delinquent taxpayer liabilities through automated means;
- 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 government’s interest in delinquent tax liability situations;
- Tax Reporting Compliance – Document Matching executes 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 operates the service centers’ examination function, which initiates correspondence with taxpayers related to tax issues arising from claims on tax returns;
- Tax Reporting Compliance – Field Exam determines taxpayers’ correct income levels and corresponding tax liabilities. This activity also applies the tax law to specific taxpayers in the form of determination letters, advance pricing agreements, and other determinations;
- Appeals oversees an administrative review process that provides a channel for impartial case settlement before a case is docketed in a court of law;
- Litigation represents the IRS in litigation and provides all other legal support for the IRS, including interpretation of the tax law;
- Specialty Programs examines federal tax returns of businesses and individuals responsible for the filing and payment of employment, excise, estate and gift taxes. International exam programs involving U.S. citizens residing abroad, non-resident aliens, expatriates and other examinations involving other international issues (e.g., Foreign Tax Credit, Foreign Earned Income Exclusion) also are centrally managed in this functional area;
- Specialty Programs – 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, Foreign Earned Income Exclusion); and
- Communications & Liaison coordinates local government and liaison relationships; handle congressional, state, and national stakeholder relationships and issues; coordinate crosscutting issues including managing audits and legislative implementation; handle national media contacts and local media relationships; and ensure Servicewide compliance with Disclosure and Privacy laws.

### 3B – Budget and Performance Plan

#### Budget and Performance by Budget Activities

Table 3.2.4						
Dollars in Thousands						
Exam and Collections			Strategic Objective F4A & F3A			
Resource Level		FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	FY 2008 President's Budget	
Financial Resources						
Appropriated Resources		\$3,721,495	\$3,919,275	\$3,932,599	\$4,165,233	
Offsetting Collections - Reimbursable		13,287	10,948	11,386	11,637	
Mandatory Appropriations - User Fees		6,000	0	0	0	
<b>Total Operating Level</b>		<b>\$3,734,782</b>	<b>\$3,930,223</b>	<b>\$3,943,985</b>	<b>\$4,176,870</b>	
Human Resources						
Appropriated FTE		43,160	43,045	42,264	43,060	
Other FTE		56	47	105	107	
<b>Total FTE (direct and reimbursable)</b>		<b>43,216</b>	<b>43,092</b>	<b>42,369</b>	<b>43,167</b>	

Measure		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
					Target <sup>1</sup>	
Examination Coverage - Individual (Oe) (L)	Target	N/A	0.9%	0.9%	1.0%	1.0%
	Actual	0.8%	0.9%	1.0%		
	Met		Y	Y		
Field Exam Embedded Quality (Oe) (L)	Target	N/A	N/A	Baseline	87.0%	87.0%
	Actual			85.9%		
	Met					
Office Exam Embedded Quality (Oe) (L)	Target	N/A	N/A	Baseline	89.0%	89.0%
	Actual			88.2%		
	Met					
Examination Quality (LMSB) - Industry (Oe) (L)	Target	80.0%	78.0%	80.0%	88.0%	90.0%
	Actual	74.0%	77.0%	85.0%		
	Met	N	N	Y		
Examination Quality (LMSB) - Coordinated Industry (Oe) (L)	Target	N/A	N/A	92.0%	97.0%	97.0%
	Actual	87.0%	89.0%	96.0%		
	Met			Y		
Examination Coverage - Business (Corps. > \$10M) (Oe) (L)	Target		7.1%	7.5%	8.2%	8.2%
	Actual	7.5%	7.8%	7.3%		
	Met		Y	N		
AUR Efficiency (E) (L)	Target	N/A	N/A	1,759	1,932	1,808
	Actual	1,514	1,701	1,832		
	Met			Y		
AUR Coverage (Oe) (L)	Target	N/A	2.5%	2.3%	2.5%	2.7%
	Actual	1.9%	2.2%	2.4%		
	Met		N	Y		
Examination Efficiency - Individual (E) (L)	Target	N/A	N/A	121	136	136
	Actual	N/A	121	128		
	Met			Y		

Table 3.2.4 (Continued)

Exam and Collections Measure		FY 2004	FY 2005	Includes Strategic Objective F4A		
				FY 2006	FY 2007 Target <sup>1</sup>	FY 2008
Collection Coverage - Units (Oe) (L)	Target	N/A	57.0%	52.0%	54.0%	54.0%
	Actual		53.0%	54.0%		
	Met		N	Y		
Collection Efficiency - Units (E) (L)	Target	N/A	N/A	1,650	1,723	1,751
	Actual		1,514	1,677		
	Met			Y		
Field Collection Embedded Quality (Oe) (L)	Target	N/A	N/A	Baseline	86.0%	86.0%
	Actual			84.2%		
	Met					
Automated Collection System (ACS) Accuracy	Target	Baseline	88.0%	88.0%	91.0%	92.0%
	Actual	87.8%	88.5%	91.0%		
	Met	Y	Y	Y		

<sup>1</sup> Changes to the FY 2007 performance targets are attributed to funding adjustments under the Continuing Resolution, the implementation of the new tax legislation, and improvements resulting from program efficiencies.

Key: Oe - Outcome Measure and E - Efficiency Measure and L - Long Term Goal

## Description of Performance

The IRS' examination and collection programs are the primary contributors to the IRS' strategic objective aimed at discouraging and deterring non-compliance by key contributors to the tax gap, particularly corporations, high-income individuals, and domestic and off-shore tax entities.

The IRS continues to enforce the law across all sectors, but is focusing on corrosive activities of corporations, high income taxpayers, and other major violators of the tax code. These efforts are having a positive impact on collecting additional tax revenue. Enforcement revenue from all sources reached a record level of \$48.7 billion in FY 2006. Targeting high-risk taxpayers improves IRS efficiency, reduces the burden on compliant taxpayers, and concentrates enforcement presence where it is most needed.

For FY 2006, the IRS met or exceeded 83 percent of its enforcement performance targets. Focusing more on limited scope examinations and productivity enhancements including improved analytics, workload identification, and selection systems that targeted high-risk cases resulted in:

- 7 percent increase in individual audits;
- 18 percent increase in high income audits;
- 8 percent increase in small-business audits;
- 10 percent increase in automated underreporter closures;
- 15 percent increase in collection case closures; and,
- 9 percent increase in revenue received from collection activities.

The IRS continued its efforts in streamlining and improving its examination process, resulting in shortened cycle time for large corporate audits. The time from assigning a large corporate return to a revenue agent until the final closing decreased more than 18 percent. The improvements to the examination process ultimately increased inventory turnover and closures.

The IRS also met its examination coverage - individual, efficiency and embedded quality annual targets. Improvements in inventory management, decreases in cycle time, and focused issue training all contributed to improved productivity. Improved quality controls measuring critical elements of the examination, a reinforced focus on case quality to drive improvement efforts, and the delivery of business results for the third consecutive year all led to improved performance in FY 2006. The IRS will continue to reengineer its examination and collection procedures to reduce time, increase yield, and expand coverage. The IRS plans to build on its FY 2006 enforcement initiatives with emphasis on early identification of tax liabilities through increased audits and focused collection activities.

In FY 2008, the IRS will focus its resources on targeting compliance of reporting, filing, payment, and other major contributors to the tax gap. Resources will be used to:

- Increase the overall percentage of high-risk tax returns examined, such as multinational corporations, and collect a greater amount of unpaid taxes from filed and un-filed tax returns timely;
- Expand the Automated Underreporter (AUR) program to target the estimated 5.1 million taxpayers who may annually appear to misreport income based on third party information reporting. A new AUR site combined with expanded toll-free telephone service will improve the capability to reach more non-compliant taxpayers; and
- Enhance the analysis of tax information and results of compliance research studies to better define and quantify the tax gap. Targeting high-risk taxpayers will improve IRS efficiency and reduce the burden on compliant taxpayers. It will also increase and focus the enforcement presence where it is most needed.

### **ENF Budget Activity: *Regulatory***

#### **3A – Description**

*Regulatory* (\$157,393,000 in direct appropriations)

This budget activity funds the development and print of published guidance materials; interpretation of and guidance on tax laws; general legal services, rules and agreements, enforcement of regulatory rules, laws and approved business practices; supporting taxpayers in the areas of pre-filing agreements, determination letters, and advance pricing agreements and the Office of Professional responsibility. This includes the following program activities:

- Tax Law Interpretation and 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;
- Fraud/Bank Secrecy Act enforces the anti-money laundering provisions of the Bank Secrecy Act (BSA) of 1970, and the USA PATRIOT Act of 2001. It examines non-bank financial institutions for compliance with these laws, annually receives and processes more than 15 million financial reports, and manages a centralized database of that information for the Financial Crimes Enforcement Network (FinCEN). 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; and
- 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, such as attorneys, certified public accountants (CPAs), enrolled agents, enrolled actuaries and appraisers, and other professionals.

### 3B – Budget and Performance Plan

#### Budget and Performance by Budget Activities

Table 3.2.5

Dollars in Thousands

Regulatory	Resource Level	Strategic Objective F4A			
		FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	FY 2008 President's Budget
Financial Resources					
	Appropriated Resources	\$172,022	\$209,611	\$148,090	\$157,393
	Offsetting Collections - Reimbursable	187	251	0	0
	<b>Total Operating Level</b>	<b>\$172,209</b>	<b>\$209,862</b>	<b>\$148,090</b>	<b>\$157,393</b>
Human Resources					
	Appropriated FTE	1,605	1,979	1,221	1,260
	Other FTE	2	4	0	0
	<b>Total FTE (direct and reimbursable)</b>	<b>1,607</b>	<b>1,983</b>	<b>1,221</b>	<b>1,260</b>

Measure		FY 2004	FY 2005	FY 2006	Includes Strategic Objective F4A	
					FY 2007 Target <sup>1</sup>	FY 2008
TEGE Determination Case Closures (Ot)	Target	141,000	131,700	112,400	118,200	109,500
	Actual	143,877	126,481	108,462		
	Met	Y	N	N		

<sup>1</sup> Changes to the FY 2007 performance targets are attributed to funding adjustments under the Continuing Resolution, the implementation of the new tax legislation, and improvements resulting from program efficiencies.

Key: Ot - Output/Workload Measure

## **Description of Performance**

Due to major changes in certain filing processes, the IRS did not meet its FY 2006 plan for Tax Exempt and Government Entities (TE/GE) Determination Cases Closed. The implementation of a staggered amendment filing process for employee plans significantly changed the inventory mix. Over 40 percent of the 25,000 receipts were prototype plans that required more extensive review. These cases will not close until FY 2007, resulting in the closure of 3,600 fewer cases than originally planned. Additionally, recent increases in user fees for employee plan determinations resulted in a slight decrease in determination applications and ultimately 1,500 fewer projected closures.

To stabilize the flow of determination receipts and mitigate the significant swings in workload experienced prior to FY 2006, the IRS will continue its roll-out of the staggered amendment process. The IRS also plans to test and pilot (with external partners) a new interactive software application for preparing determination applications designed to improve the quality of determination requests and establish the foundation for future electronic filing of these applications.

Implementation and on-going use of alternative enforcement strategies through “Issue Management Teams” and Settlement Initiatives have rapidly identified abusive promoters and participants. Special attention to develop preparer penalty cases over the past several years continues in FY 2006, using Program Action Cases, Electronic Return Originator and EITC Due Diligence Visits, criminal investigations, and injunctions. To date, the IRS has more than 500 open return preparer investigations, a substantial increase over the same period last year.

The IRS faces a wide variety of non-tax legal issues. In support of the IRS’ regulatory activities, proposed changes to Treasury Circular 230 (Regulations Governing Practice Before the Internal Revenue Service) were published in FY 2006. The changes were designed to address weaknesses in the current regulatory scheme to ensure that tax professionals are adhering to standards and following the law, a key objective to success in enforcing the tax laws. Highlights of the proposed changes include rules implementing new authority to impose a monetary penalties, opening the IRS enforcement proceedings to public scrutiny, limiting contingent fees in the federal tax arena, allowing expedited proceedings for egregious tax non-compliance, and eliminating un-enrolled return preparers to “limited practice” before the agency.

In FY 2006, the IRS also developed a strategy to enhance its coordination and effectiveness of return preparer enforcement efforts and maximize resources and coverage of non-compliant preparers. The strategy includes an annual cross-functional meeting to discuss and evaluate the coming year’s preparer inventory with focus on identifying cases warranting attention from the prior year’s due diligence visits.

In FY 2006, General Legal Services (GLS) litigated cases involving practitioner questionable tax transactions, successfully defended an award protest for private debt collection services, negotiated a Memorandum of Understanding offering online tax return preparation and filing services, and drafted informant agreements concerning the recovery of taxes due.

In FY 2007 and beyond, the IRS will continue to promote compliance with tax laws and regulations in the tax-exempt and government arena. The IRS' FY 2007 initiative to bolster critical activities, such as determinations and voluntary compliance agreements, will continue in FY 2008. This initiative will maintain the integrity of the tax base and ensure charitable and retirement contributions serve the public purposes for which exemptions were created. In addition, the IRS will focus on the Office of Professional Responsibility disciplinary matters and continued activity to revamp automated systems to modernize and enhance compliance activities.

# **Operations Support**

## Operations Support (OS)

### 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 also funds headquarters' policy and management activities such as corporate support for strategic planning, communications and liaison, finance, human resources, Equal Employment Opportunity (EEO) and diversity; research and statistics of income; and necessary expenses for information systems and telecommunication support, including development, security and maintenance of IRS' information systems.

The Operations Support budget request for FY 2008 is \$3,769,587,000 in direct appropriations and 12,957 FTE. This is an increase of \$250,359,000 or 7.1 percent, and 3 FTE, over the FY 2007 Continuing Resolution (CR) Rate of \$3,519,228,000 and 12,954 FTE.

### Appropriation Detail Table Operations Support

Dollars in Thousands												
Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR-rate		FY 2008 President's Budget		% Change over CR-rate	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>												
Infrastructure	0	\$864,403	0	\$837,320	0	\$873,146	0	\$873,146	0	\$908,095	0.00%	4.00%
Shared Services and Support	7,047	1,176,202	5,605	1,154,616	6,693	1,129,617	6,705	1,163,846	6,693	1,223,351	-0.18%	5.11%
Information Services	6,421	1,420,600	5,960	1,446,449	6,249	1,485,641	6,249	1,482,236	6,264	1,638,141	0.24%	10.52%
<b>Subtotal New Appropriated Resources</b>	<b>13,468</b>	<b>\$3,461,205</b>	<b>11,565</b>	<b>\$3,438,385</b>	<b>12,942</b>	<b>\$3,488,404</b>	<b>12,954</b>	<b>\$3,519,228</b>	<b>12,957</b>	<b>\$3,769,587</b>	<b>0.02%</b>	<b>7.11%</b>
<b>Other Resources:</b>												
Recoveries												
Offsetting Collections - Reimbursable	207	\$21,710	10	\$4,277	160	\$50,608	160	\$50,608	163	\$56,731	1.88%	12.10%
50% Carryover				2,709								
Mandatory Appropriations - User Fees		19,000		19,000		74,000		74,000		72,000		-2.70%
Available multi-year/no-year funds		37,704		37,076		28,018		28,018		4,333		
Transfers In/Out												
<b>Subtotal Other Resources</b>	<b>207</b>	<b>\$78,414</b>	<b>10</b>	<b>\$63,062</b>	<b>160</b>	<b>\$152,626</b>	<b>160</b>	<b>\$152,626</b>	<b>163</b>	<b>\$133,064</b>	<b>1.88%</b>	<b>-12.82%</b>
<b>Total Resources Available for Obligation</b>	<b>13,675</b>	<b>\$3,539,619</b>	<b>11,575</b>	<b>\$3,501,447</b>	<b>13,102</b>	<b>\$3,641,030</b>	<b>13,114</b>	<b>\$3,671,854</b>	<b>13,120</b>	<b>\$3,902,651</b>	<b>0.05%</b>	<b>6.29%</b>

## Budget Adjustment Table Operations Support

Table 2.1

### FY 2008 Budget Highlights

Dollars in Thousands

Appropriation: Operations Support	FTE	Amount
<b>FY 2007 President's Budget</b>	12,942	\$3,488,404
CR-rate Adjustment		(29,252)
<b>FY 2007 CR-rate</b>	12,942	\$3,459,152
Interappropriation Transfer Corrections to Budget Restructure	12	60,076
<b>FY 2007 Operating Plan at CR-rate</b>	12,954	\$3,519,228
<b>Changes to Base:</b>		
<b>Technical Adjustments to FY 2007 Base due to CR</b>	0	\$5,687
Base Adjustment		5,687
<b>Maintaining Current Levels (MCLs)</b>		\$104,500
Pay Annualization		6,970
Pay Inflation Adjustment		41,532
Non-Pay Inflation Adjustment		55,998
<b>Efficiency Savings</b>	(37)	(\$36,408)
<b>Subtotal, Changes to Base</b>	(37)	\$73,779
<b>FY 2008 Base</b>	12,917	\$3,593,007
<b>Program Changes:</b>		
<b>Program Decreases/Savings:</b>	0	(\$511)
Increased e-File Savings		(511)
<b>Program Reinvestments:</b>	0	\$511
Increase Efficiency Through Submission Processing Site Consolidations		511
<b>Program Increases:</b>		
<b>Infrastructure Initiatives</b>	0	\$81,000
Upgrade Critical IT Infrastructure		60,000
Enhance Computer Security Incident Response Center (CSIRC) and Network Infrastr		21,000
<b>Enforcement Initiatives</b>	32	\$79,433
Improve Compliance Estimates, Measures, and Detection of Non-Compliance	21	11,968
Improve Compliance Among Small Business and Self-Employed Taxpayers		15,248
Implement Legislative Proposals to Improve Compliance		23,045
Increase Compliance for Large Multinational Businesses	3	5,229
Expand Document Matching in Existing Sites	6	9,422
Establish New Document Matching - Kansas City	2	7,536
Increase Individual Filing Compliance		2,243
Increase Tax-Exempt Entity Compliance		3,206
Increase Criminal Tax Investigations		1,536
<b>Taxpayer Service Initiatives</b>	8	\$16,147
Research Effect of Service on Taxpayer Compliance	8	5,000
Expand Volunteer Income Tax Assistance		1,147
Implement Taxpayer Assistance Blueprint		10,000
<b>Subtotal, FY 2008 Program Changes</b>	40	\$176,580
<b>Total, FY 2008 President's Budget Request</b>	12,957	\$3,769,587

# Operating Levels Table Operations Support

Table 2.2

Dollars in Thousands

Appropriation Title: Operations Support	FY 2007			FY 2007 CR-rate	Proposed Reprogram- mings	FY 2007	
	FY 2006 Enacted	President's Budget	CR-rate Adjustment			Proposed Operating Plan at CR-rate	FY 2008 President's Budget
<b>FTE</b>	<b>13,468</b>	<b>12,942</b>	<b>0</b>	<b>12,942</b>	<b>12</b>	<b>12,954</b>	<b>12,957</b>
<b>Object Classification:</b>							
11.1 Full-Time Permanent Positions.....	\$955,187	\$966,762	(\$65)	\$966,697	\$1,427	\$968,124	\$1,002,389
11.3 Other than Full-Time Permanent Positions.....	10,074	10,876	0	10,876	8	10,884	11,120
11.5 Other Personnel Compensation.....	29,287	30,796	(17)	30,779	0	30,779	34,983
11.8 Special Personal Services Payments.....	0	0	0	0	0	0	0
<b>11.9 Personnel Compensation (Total).....</b>	<b>\$994,548</b>	<b>\$1,008,434</b>	<b>(\$82)</b>	<b>\$1,008,352</b>	<b>\$1,435</b>	<b>\$1,009,787</b>	<b>\$1,048,492</b>
12.0 Personnel Benefits.....	304,231	301,675	(422)	301,253	329	301,582	313,697
13.0 Benefits to Former Personnel.....	62,037	58,955	(7,953)	51,002	0	51,002	52,504
21.0 Travel.....	30,717	33,047	(7)	33,040	159	33,199	34,313
22.0 Transportation of Things.....	17,926	19,013	0	19,013	0	19,013	19,470
23.1 Rental Payments to GSA.....	680,674	640,000	0	640,000	0	640,000	665,539
23.2 Rent Payments to Others.....	9	5	0	5	0	5	5
23.3 Communications, Utilities, & Misc.....	319,403	316,493	(7,551)	308,942	38,922	347,864	368,398
24.0 Printing and Reproduction.....	52,855	52,731	0	52,731	0	52,731	53,983
25.1 Advisory & Assistance Services.....	112,139	29,614	0	29,614	5,395	35,009	36,259
25.2 Other Services.....	305,314	377,220	(3,549)	373,671	2,790	376,461	420,211
25.3 Purchase of Goods/Serv. from Govt. Accts.....	57,614	60,353	0	60,353	0	60,353	61,808
25.4 Operation & Maintenance of Facilities.....	188,353	179,474	(551)	178,923	0	178,923	181,672
25.5 Research & Development Contracts.....	4,622	4,364	0	4,364	0	4,364	5,269
25.6 Medical Care.....	10,005	10,005	0	10,005	0	10,005	10,245
25.7 Operation & Maintenance of Equipment.....	78,896	67,132	(7,589)	59,543	8,293	67,836	67,203
25.8 Subsistence & Support of Persons.....	580	271	0	271	0	271	279
26.0 Supplies and Materials.....	26,875	21,252	0	21,252	240	21,492	22,723
31.0 Equipment.....	213,823	249,723	(1,548)	248,175	2,513	250,688	347,467
32.0 Lands and Structures.....	0	58,056	0	58,056	0	58,056	59,449
33.0 Investments & Loans.....	0	0	0	0	0	0	0
41.0 Grants, Subsidies.....	0	0	0	0	0	0	0
42.0 Insurance Claims & Indemn.....	584	587	0	587	0	587	601
43.0 Interest and Dividends.....	0	0	0	0	0	0	0
44.0 Refunds.....	0	0	0	0	0	0	0
91.0 Unvouchered.....	0	0	0	0	0	0	0
<b>Total Budget Authority.....</b>	<b>\$3,461,205</b>	<b>\$3,488,404</b>	<b>(\$29,252)</b>	<b>\$3,459,152</b>	<b>\$60,076</b>	<b>\$3,519,228</b>	<b>\$3,769,587</b>
<b>Budget Activities:</b>							
Infrastructure.....	\$864,403	\$873,146	\$0	\$873,146	\$0	\$873,146	\$908,095
Shared Services & Support.....	1,176,202	1,129,617	(\$8,996)	1,120,621	43,225	1,163,846	1,223,351
Information Services.....	1,420,600	1,485,641	(\$20,256)	1,465,385	16,851	1,482,236	1,638,141
<b>Total Budget Authority.....</b>	<b>\$3,461,205</b>	<b>\$3,488,404</b>	<b>(\$29,252)</b>	<b>\$3,459,152</b>	<b>\$60,076</b>	<b>\$3,519,228</b>	<b>\$3,769,587</b>

**OS Budget Activity: *Infrastructure***

**3A - Description**

*Infrastructure* (\$908,095,000 in direct appropriation)

This budget activity funds administrative services related to space and housing, rent and space alterations, building services, maintenance, guard services, and non-automated data processing equipment. This includes the following program activities:

- Building Delegation oversees and manages the IRS's GSA-delegated buildings, including cleaning, maintenance, utilities, protections, administrative, recurring and one-time repair costs;
- Rent provides resources for all of the IRS' rent needs; and
- Space and Housing / Non-ADP Equipment provides management of all IRS building services, maintenance, space alterations, guard services, custodial overtime, utility services needs, and Non-ADP equipment.

**3B – Budget and Performance Plan**

**Budget and Performance by Budget Activities**

Table 3.2.6

Dollars in Thousands

Infrastructure	Strategic Objective F4A FY 2008			
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	President's Budget
Financial Resources				
Appropriated Resources	\$757,908	\$864,403	\$873,146	\$908,095
Offsetting Collections - Reimbursable	287	385	0	0
<b>Total Operating Level</b>	<b>\$758,195</b>	<b>\$864,788</b>	<b>\$873,146</b>	<b>\$908,095</b>
Human Resources				
Appropriated FTE	0	0	0	0
Other FTE	4	6	0	0
<b>Total FTE (direct and reimbursable)</b>	<b>4</b>	<b>6</b>	<b>0</b>	<b>0</b>

Measure		FY 2005	FY 2006	FY 2007	FY 2008
There are no externally reported performance measures associated with this activity	Target Actual Met				

## **Description of Performance**

The IRS continued to emphasize identification and implementation of cost savings within its infrastructure, in particular, rent costs. The IRS decreased rent costs in FY 2006 by over 2 percent from FY 2005 to \$608 million. This was accomplished by identifying and completing 110 space reduction projects releasing a cumulative total of 878,000 square feet. These projects have annualized savings of \$19.6 million. As a result of the flooding at the IRS Headquarter building, three projects (57,000 square feet) were maintained to house displaced employees.

In FY 2007 and beyond, the IRS will continue to work to identify and implement rent reduction initiatives and leasing plans to minimize costs. These savings are critical for covering unfunded costs such as new mandates, budget rescissions, and pay raises.

### **OS Budget Activity: *Shared Services and Support***

#### **3A – Description**

*Shared Services and Support* (\$1,223,351,000 in direct appropriation, \$50,990,000 from reimbursable programs, and \$10,000,000 from user fees)

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

- National Headquarters Management & Administration directs the management activities of strategic planning, communications and liaison, finance, human resources, EEO and diversity, and business systems planning and embedded training. This activity sets policies and goals, provides leadership and direction for the Internal Revenue Service, and builds partner relationships with key stakeholders (e.g., Congress, OMB, etc.). It provides policy guidance for conducting IRS planning and budgeting strategies, conducting analysis of programs and investments to support strategic decision-making, and developing and managing the human resources. Also, it includes official reception and representation expenses;
- Facilities Services provides services and supplies required to manage IRS facilities;
- Procurement supports the procurement function of the IRS;
- EEO Field Operations plans and manages the IRS EEO and Diversity Program;
- Customer Support plans and manages financial services, including relocation, travel, imprest fund, purchase cards, corporate express, and employee clearances;
- Treasury Complaint Centers plans and manages the Treasury Complaint Centers;
- Shared Support provides resources for shared cross-functional support such as copiers, postage meters, shredders, courier services, and P. O. Boxes;

- Printing and Postage provides operating divisions with printing and postage, including shipping of taxpayer and internal use materials;
- Security protects employees, facilities and assets, and the confidentiality of taxpayer information;
- Shared Services (excluding Space and Housing and Rent) provide addition services such as Public Transit Subsidy and Career Counselor Contract;
- Communications & 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 Servicewide compliance with Disclosure and Privacy laws;
- Security Services ensures that the IRS has effective security policies and programs in place to safeguard taxpayer records, employees, facilities, business processes, systems and other resources. It includes operation of the Computer Systems Incident Response Center (CSIRC) and Situation Awareness and Management Centers (SAMC), coordination of Service-wide disaster recovery and business continuity planning, security training and awareness, and sensitive system certification and accreditation coordination with Treasury on the Federal Critical Infrastructure Protection Program;
- Research provides resources for researching annual income, financial, and tax data from tax returns filed by individuals, corporations, and tax-exempt organizations;
- Statistics of Income provides resources for market-based research to identify compliance issues; for conducting tests of treatments to address non-compliance; and for the implementation of successful treatments of taxpayer non-compliant behavior; and
- Benefit Payments provides resources to fund Workmen's Compensation benefits and Unemployment Compensation payments.

### 3B – Budget and Performance Plan

#### Budget and Performance by Budget Activities

Table 3.2.7

Dollars in Thousands

Shared Services and Support		Strategic Objective F4A FY 2008			
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY 2007 CR-rate	President's Budget	
Financial Resources					
Appropriated Resources	\$1,211,877	\$1,176,202	\$1,163,846	\$1,223,351	
Offsetting Collections - Reimbursable	10,216	13,844	44,990	50,990	
Mandatory Appropriations - User Fees	0	0	20,000	10,000	
<b>Total Operating Level</b>	<b>\$1,222,093</b>	<b>\$1,190,046</b>	<b>\$1,208,836</b>	<b>\$1,274,341</b>	
Human Resources					
Appropriated FTE	7,084	7,047	6,705	6,693	
Other FTE	101	171	140	143	
<b>Total FTE (direct and reimbursable)</b>	<b>7,185</b>	<b>7,218</b>	<b>6,845</b>	<b>6,836</b>	

Measure		FY 2004	FY 2005	Includes Strategic Objective F4A		
		FY 2006	FY 2007	FY 2008		
There are no externally reported performance measures associated with this activity.	Target Actual Met					

#### Description of Performance

The IRS continues to provide shared services to all IRS programs through various support programs including: facilities, management and administration of human resources, research, procurement, and security.

In FY 2006, the IRS introduced its Human Capital Strategic Implementation Plan. The plan links achievement of Treasury's Human Capital (HC) Strategic Goals, the IRS' Strategic Goals, and the IRS' HC Strategic Goals outlined in the HC Strategic Plan (2005-2009). The plan also establishes measures to monitor performance against HC objectives, processes, and projects to ensure the IRS builds and maintains a workforce that can carry out its mission.

The IRS remains committed to increasing employee engagement and employee satisfaction. The IRS' Employee Engagement Surveys measure the percentage of IRS employees who feel they are in the right job, managed well, and are productive. In FY 2006, the IRS addressed Employee Engagement through programs that promote

employee development and continuity such as safety and security, training, succession planning and workplace conflict prevention. The IRS employee engagement score, as measured by the grand mean on Gallup's survey, increased from 3.80 in 2005 to 3.82 in 2006.

Ninety-six percent of IRS systems are compliant, with 33 percent certified under the new more stringent National Institutes of Standards and Technology (NIST) standards. The IRS efforts in 2004 and 2005 were focused on security certification and accreditation of the network and infrastructure systems, which were achieved at the end of FY 2005. Our priority in FY 2006 was updating the security certification and accreditation of IRS business applications to comply with new process guidance issued by the Office of Management and Budget (OMB) and NIST. The remaining systems will be updated in FY 2007 and FY 2008.

The IRS achieved Personal Identity Verification (PIV I) compliance by October 2005, as mandated by Homeland Security Presidential Directive 12 (HSPD-12). The IRS now leads the Treasury HSPD-12 Program to adopt an enterprise solution for PIV II through the implementation of new Federal identification cards. PIV I compliance focused on implementing standard processes for common identity proofing, registration and issuance that incorporate security and privacy requirements. The Treasury HSPD-12 enterprise solution, PIV II, focuses on government-wide uniformity and the issuance of new identification cards that are interoperable across the federal government. The IRS will continue to work collaboratively with other agencies to manage security costs as it addresses increased security requirements at government facilities nationwide.

Research enables the IRS to develop strategies to combat specific areas of noncompliance, improve voluntary compliance, allocate resources more effectively, and reduce the tax gap.

The National Research Program (NRP) demonstrates the importance of comprehensive compliance data. As part of the NRP, the IRS reviewed approximately 46,000 randomly sampled individual income tax returns from tax year 2001 – the first comprehensive compliance study for individual income tax returns since 1988. Returns for which reported information could not be independently verified were audited. An NRP reporting compliance study of 5,000 S corporation tax returns filed in 2003 and 2004 is currently underway. Data from the NRP reporting compliance study have been used to estimate the individual income tax component of the tax gap and to identify sources of noncompliance. Accurate NRP data provide a critical benchmark for determining the sources of noncompliance and for measuring changes in compliance rates over time. The IRS is also using the findings from the NRP to target examinations and other compliance activities better, thus increasing the dollar-per-case yield and reducing “no change” audits of compliant taxpayers. Innovations in audit techniques to reduce taxpayer burden, pioneered during the 2001 NRP, have been adopted in regular operational audits. In addition, Statistics of Income (SOI) gathered, analyzed, and published information, which was used internally as well as by a variety of federal agencies and other interested parties.

This information is used to analyze tax policy, project tax revenues, and to estimate the impact of tax law changes on tax collections.

In FY 2007 and FY 2008, the IRS will implement new research projects in the following areas: update and initiate new NRP reporting compliance studies, examine the linkages between taxpayer service and compliance, and develop new tools to uncover patterns of noncompliance.

## **OS Budget Activity: *Information Services***

### **3A – Description**

*Information Services* (\$1,638,141,000 in direct appropriation, \$5,741,000 from reimbursable programs, and \$62,000,000 from user fees)

This budget activity funds staffing, equipment, and related costs to manage, maintain, and operate the information systems critical to the support of tax administration programs. The IRS' business programs rely on these systems 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 telecommunications services for all business activities including the public's toll-free access to tax information. These systems are located in a variety of sites, including the Martinsburg, Tennessee, and Detroit Computing Centers, Service Centers, and in other field office operations. Staffing funded by this activity develop and maintain the millions of lines of programming code supporting all aspects of tax-processing, as well as operate and administer the hardware infrastructure of mainframes, minicomputers, personal computers, networks, and a variety of management information systems. This includes the following program activities:

- Tier B provides support to single owner, small to medium-sized investment projects using core data to support specialized functions;
- Information Technology Services (ITS) Management provides support to the immediate office of the Associate CIO, ITS, and provides executive direction for the ITS organization and its divisions: Infrastructure, Architecture & Engineering; Business Systems Development; Enterprise Operations; Enterprise Networks; End User Equipment & Services; Web Services; and Electronic Tax Administration. This program also includes and funds the MITS Competitive Sourcing Office;
- MITS Executive Oversight provides support to the immediate office of the Chief Information Officer, as well as the direct reports for EEO and Diversity, 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 information technology solutions that are responsive to customer business priorities and effectively meet functional and operational needs;

- Business Systems Development performs the analysis, design, development, testing, and implementation of approximately 85,000 application programs supporting critical tax processing, management information reporting, and financial and management support systems for the IRS. This program activity 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 information technology that supports critical tax processing, management information reporting, and financial and management support systems for the IRS. The program supports data exchanges with external organizations, such as other federal government agencies, state and local governments, and external entities (e.g., employers, banks, etc.) and includes a comprehensive disaster recovery capability to ensure continued operations in the agency 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 and executing routine 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;
- Web Services implements applications and technologies for IRS employees;
- End User Equipment and Services maintains the IRS' automated business processes at headquarters and field sites, including technical systems support and applications software support to end users, maintaining legacy operations, local and corporate systems administration activities, email and domain user account maintenance, network and systems monitoring administration, asset management activities, and support and maintenance of the voice and data infrastructure at the Territory Offices;
- Infrastructure Architecture & Engineering provides the systems architecture, sequencing plans, release management, and high-level engineered designs supporting information systems applications, software development tools, and infrastructure products necessary to build and evolve enterprise-wide business solutions;
- MITS Management provides the management and oversight of investments in information technology, human capital investment, and other MITS operational priorities;
- Information Technology Operational Security oversees FISMA reporting, including preparing for, conducting, and reporting Certification and Accreditation of systems using FIPS 199 and NIST 800-37; and self-assessments and annual testing of controls based on NIST 800-53;

- Information Technology Operational Security oversees FISMA reporting, including preparing for, conducting, and reporting NIST 800-26 self-assessments and annual testing of controls;
- Information Technology Security Training provides training for FISMA reporting purposes; and
- Information Technology Homeland Security Presidential Directive-12 oversees the use of Personal Identify 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.

### 3B – Budget and Performance Plan

#### Budget and Performance by Budget Activities

Table 3.2.8				
Dollars in Thousands				
Information Services			Strategic Objective F4A	
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY 2008	
			FY2007 President's CR-rate	Budget
Financial Resources				
Appropriated Resources	\$1,485,802	\$1,420,600	\$1,482,236	\$1,638,141
Offsetting Collections - Reimbursable	4,098	7,481	5,618	5,741
Mandatory Appropriations - User Fees	113,000	19,000	54,000	62,000
<b>Total Operating Level</b>	<b>\$1,489,900</b>	<b>\$1,428,081</b>	<b>\$1,487,854</b>	<b>\$1,643,882</b>
Human Resources				
Appropriated FTE	6,901	6,421	6,249	6,264
Other FTE	4	30	20	20
<b>Total FTE (direct and reimbursable)</b>	<b>6,905</b>	<b>6,451</b>	<b>6,269</b>	<b>6,284</b>

Measure	FY 2005	Includes Strategic Objective F4A		
		FY 2006	FY 2007	FY 2008
There are no externally reported performance measures associated with this activity.	Target	Actual	Met	

## Description of Performance

In FY 2007 and FY 2008, the IRS will continue to provide new technology solutions and improve work processes. In addition, the IRS will enhance efficiencies in tax administration operations by delivering modernized information systems to front-line IRS programs.

Information technology solutions are the most effective and efficient means of increasing the number of IRS contacts with taxpayers by increasing the volume of transactions, and offers a greater variety of faster alternatives to file and pay their tax obligations. Information technology solutions also enhance the IRS' ability to identify non-compliance and to combat tax avoidance schemes that contribute to the tax gap.

The IRS' FY 2008 Budget provides base funding to develop and continue projects selected for the FY 2007 and 2008 investment portfolio. The FY 2008 selected projects fall into five major categories as described below:

- Decision Analytics (DA) - In FY 2008, the IRS is investing in several strategic IT projects to enhance compliance and customer service through the development of better case selection tools. Technologies being pursued in FY 2008 include predictive model development, data mining and data marts/data warehouse technologies.
- Case Creation: Electronically build issue and assign workload - Many current production environment (CPE) systems rely, in part, on manual (paper) processes to build, assign and track cases. In FY 2008, these investments target near or mid-term enhancements to CPE systems and enable the migration from manual processes to electronic processes. Enabling technologies being pursued in FY 2008 include document imaging and document management and research of third party data sources.
- Case Processing - These IT investments significantly augment and may, over time, replace CPE systems that bring new tools to improve customer service and/or increase casework. Other FY 2008 projects provide automation for discrete manual tasks that are very time consuming by leveraging available electronic data to pre-populate templates and perform preliminary analytics and centralize the availability of critical customer contact information.

- E-Filing/Self-Service - In FY 2008, these investments will expand the taxpayer's ability to electronically interact with the IRS, whether filing or for self-service capabilities. Other projects anticipated in FY 2008 will expand electronic filing services that are central to the IRS' overall e-file strategy.

In addition, in FY 2008, the IRS will continue to develop and test the automated Correspondence Imaging System and improve FISMA compliance. Maintaining the infrastructure, modernizing our information systems and developing better tools will allow the IRS to operate more efficiently with improved productivity.

# **Business Systems Modernization**

## Business Systems Modernization (BSM)

### Appropriation Description

The Business Systems Modernization (BSM) appropriation provides resources for the planning and capital asset acquisition of information technology to modernize the IRS' business systems. The program combines best practices and expertise in business solutions and internal management from IRS, business, and technology to develop a world-class tax administration system that fulfills the revenue collection requirements of the United States as well as taxpayers' needs and expectations.

The Business Systems Modernization budget request for FY 2008 is \$282,090,000 in direct appropriations and 317 FTE. This is an increase of \$85,280,000 or 43.3 percent, and no change in FTE, over the FY 2007 Continuing Resolution (CR) rate of \$196,810,000 and 317 FTE.

### Appropriation Detail Table Business Systems Modernization

Table 3.1

Dollars in Thousands

Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR-rate		FY 2008 Budget		% Change over CR-rate	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>												
Business Systems Modernization	317	\$242,010	317	\$158,702	317	\$212,310	317	\$196,810	317	\$282,090	0.00%	43.33%
<b>Subtotal New Appropriated Resources</b>	<b>317</b>	<b>\$242,010</b>	<b>317</b>	<b>\$158,702</b>	<b>317</b>	<b>\$212,310</b>	<b>317</b>	<b>\$196,810</b>	<b>317</b>	<b>\$282,090</b>	<b>0.00%</b>	<b>43.33%</b>
<b>Other Resources:</b>												
Recoveries				\$4,361								
Offsetting Collections - Reimbursable												
Available multi-year/no-year funds		\$115,777		101,433		\$97,112		\$97,112		\$136,790		
Transfers In/Out												
<b>Subtotal Other Resources</b>	<b>0</b>	<b>\$115,777</b>	<b>0</b>	<b>\$105,794</b>	<b>0</b>	<b>\$97,112</b>	<b>0</b>	<b>\$97,112</b>	<b>0</b>	<b>\$136,790</b>	<b>0.00%</b>	<b>40.86%</b>
<b>Total Resources Available for Obligation</b>	<b>317</b>	<b>\$357,787</b>	<b>317</b>	<b>\$264,496</b>	<b>317</b>	<b>\$309,422</b>	<b>317</b>	<b>\$293,922</b>	<b>317</b>	<b>\$418,880</b>	<b>0.00%</b>	<b>42.51%</b>

**Budget Adjustment Table  
Business Systems Modernization**

Table 2.1

**FY 2008 Budget Highlights**

Dollars in Thousands

<b>Appropriation: Business Systems Modernization</b>	<b>FTE</b>	<b>Amount</b>
<b>FY 2007 President's Budget</b>	317	\$212,310
CR-rate Adjustment		(15,500)
<b>FY 2007 CR-rate</b>	317	\$196,810
Interappropriation Transfer Corrections to Budget Restructure		
<b>FY 2007 Operating Plan at CR-rate</b>	317	\$196,810
<b>Changes to Base:</b>		
<b>Technical Adjustments to FY 2007 Base due to CR</b>	0	\$21,886
Base Adjustment		21,886
<b>Maintaining Current Levels (MCLs)</b>		\$1,245
Pay Annualization		226
Pay Inflation Adjustment		1,019
Non-Pay Inflation Adjustment		
<b>Subtotal, Changes to Base</b>	0	\$23,131
<b>FY 2008 Base</b>	317	\$219,941
<b>Program Changes:</b>		
<b>Program Increases:</b>	0	\$62,149
Fund Business Systems Modernization		62,149
<b>Subtotal, FY 2008 Program Changes</b>	0	\$62,149
<b>Total, FY 2008 President's Budget Request</b>	317	\$282,090

## Operating Levels Table Business Systems Modernization

Table 2.2							
Dollars in Thousands							
Appropriation Title: Business Systems Modernization	FY 2006	FY 2007		FY 2007	Proposed	FY 2007	FY 2008
	Enacted	President's Budget	CR-rate Adjustment	CR-rate	Reprogram-mings	Proposed Operating Plan at CR-rate	President's Budget
FTE	317	317		317		317	317
<b>Object Classification:</b>							
11.1 Full-Time Permanent Positions.....	\$33,969	\$33,968	(\$12,873)	\$21,095		\$21,095	\$34,896
11.3 Other than Full-Time Permanent Positions.....	446	447	0	447		447	470
11.5 Other Personnel Compensation.....	626	625	0	625		625	658
11.8 Special Personal Services Payments.....	0	0	0	0		0	0
<b>11.9 Personnel Compensation (Total).....</b>	<b>\$35,041</b>	<b>\$35,040</b>	<b>(\$12,873)</b>	<b>\$22,167</b>	<b>\$0</b>	<b>\$22,167</b>	<b>\$36,024</b>
12.0 Personnel Benefits.....	9,772	9,772	(2,627)	7,145		7,145	10,034
13.0 Benefits to Former Personnel.....	0	0	0	0		0	0
21.0 Travel.....	187	187	0	187		187	187
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.....	0	0	0	0		0	0
23.3 Communications, Utilities, & Misc.....	0	0	0	0		0	0
24.0 Printing and Reproduction.....	0	0	0	0		0	0
25.1 Advisory & Assistance Services.....	0	0	0	0		0	0
25.2 Other Services.....	147,498	117,799	0	117,799		117,799	172,102
25.3 Purchase of Goods/Serv. from Govt. Accts.....	0	0	0	0		0	0
25.4 Operation & Maintenance of Facilities.....	0	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.....	5,700	5,700	0	5,700		5,700	7,095
25.8 Subsistence & Support of Persons.....	0	0	0	0		0	0
26.0 Supplies and Materials.....	0	0	0	0		0	0
31.0 Equipment.....	43,812	43,812	0	43,812		43,812	56,648
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
<b>Total Budget Authority.....</b>	<b>\$242,010</b>	<b>\$212,310</b>	<b>(\$15,500)</b>	<b>\$196,810</b>	<b>\$0</b>	<b>\$196,810</b>	<b>\$282,090</b>
<b>Budget Activities:</b>							
IT Investments	\$242,010	\$212,310	(\$15,500)	\$196,810		\$196,810	\$282,090
<b>Total Budget Authority.....</b>	<b>\$242,010</b>	<b>\$212,310</b>	<b>(\$15,500)</b>	<b>\$196,810</b>	<b>\$0</b>	<b>\$196,810</b>	<b>\$282,090</b>

## BSM Budget Activity: *Business Systems Modernization*

### 3A – Description

#### *Business Systems Modernization* (\$282,090,000 in direct appropriation)

This budget activity funds the planning and capital asset acquisition of information technology to modernize the IRS' business systems, including related contractual costs. The program combines best practices and expertise in business solutions and internal management from the IRS, business, and technology to develop a world-class tax administration system that fulfills the revenue collection requirements of the United States as well as taxpayers' needs and expectations. The IRS' BSM program is required to submit for approval an annual expenditure plan that justifies the projects for which resources are requested.

BSM management provides executive direction over the program. The BSM program develops the vision and strategy, manages the release of projects, and provides enterprise architecture support. The program ensures that all the integrated components of both technical and business modernization will provide a total business solution. This program will meet the needs of both taxpayers and internal users by providing business processes, enabled by information technology, that permit timely and accurate delivery of tax account and other tax-related information while ensuring security and privacy. The BSM program is responsible for the acquisition management activities of all the modernization projects and provides the direct interface to the PRIME Integrated Product Teams.

BSM projects are developed and funded on a useable-segment basis—each request for funding for each project covers an identifiable portion of the project's development. As projects are completed and have demonstrated successful operation, they leave the BSM fold and their operational costs are funded from the Operations Support account. BSM funding by project is shown in the chart below.

<b>FY 2008 BSM Project Activities</b> (Dollars in Thousands)				
<b>Project</b>	<b>Activities</b>	<b>FY 2006 Budget</b>	<b>FY 2007 Budget</b>	<b>FY 2008 President's Budget</b>
<b>Customer Account Data Engine</b>	Release content master plan which includes a mid-year release to add new functionality and January release adding tax law changes	60,000	58,500	58,500
<b>Modernized e-File</b>	Complete forms 1041 and 990T and development of form 1040	27,881	20,000	55,802
<b>Accounts Management Services</b>	Provides a Common User Interface for access and update of taxpayer accounts managed by CADE Systems and IMF/CFOL/IDRS	21,518	0	28,983
<b>Filing &amp; Payment Compliance</b>		6,984	3,500	
<b>Common Services</b>	Initiate work on cross-domain prioritization and sharing projects known as Common Services Project for Portal Upgrade	0	0	16,000
<b>Core Infrastructure</b>		<b>44,610</b>	<b>43,500</b>	<b>39,150</b>
<b>Architecture, Integration &amp; Management</b>		<b>30,124</b>	<b>39,500</b>	<b>35,100</b>
<b>Management Reserve</b>		<b>5,893</b>	<b>2,310</b>	<b>2,310</b>
<b>Total Capital Investments</b>		<b>\$197,010</b>	<b>\$167,310</b>	<b>\$235,845</b>
<b>BSM Labor</b>		<b>45,000</b>	<b>45,000</b>	<b>46,245</b>
<b>Total BSM Program Request</b>		<b>\$242,010</b>	<b>\$212,310</b>	<b>\$282,090</b>

NOTE: The IRS will work to allocate BSM staffing costs to the projects for the FY 2009 President's Budget.

### 3B – Budget and Performance Plan

#### Budget and Performance by Budget Activities

Table 3.2.9				
Dollars in Thousands				
Business Systems Modernization			Strategic Objective F4A FY 2008	
Resource Level	FY 2005 Enacted <sup>1</sup>	FY 2006 Enacted	FY2007 CR-rate	President's Budget
Financial Resources				
Appropriated Resources	\$203,360	\$242,010	\$196,810	\$282,090
Offsetting Collections - Reimbursable				
<b>Total Operating Level</b>	<b>\$203,360</b>	<b>\$242,010</b>	<b>\$196,810</b>	<b>\$282,090</b>
Human Resources				
Appropriated FTE	0	317	317	317
Other FTE				
<b>Total FTE (direct and reimbursable)</b>	<b>0</b>	<b>317</b>	<b>317</b>	<b>317</b>

<sup>1</sup> FY 2005 Enacted excludes Salaries and Expenses.

Measure		Includes Strategic Objective F4A			
BSM Project Cost Variance by Release/Subrelease (E)					
		FY 2005	FY 2006	FY 2007 Target <sup>1</sup>	FY 2008
F&PC R1.2 MS3 (Filing and Account Payment Compliance)	Target	N/A	10%	10%	10%
	Actual		-46%		
	Met		N		
F&PC R1.2 MS4a (Filing and Account Payment Compliance)	Target	N/A	10%	10%	10%
	Actual		0%		
	Met		Y		
MeF R3.2 MS4 (Modernized e-file)	Target	N/A	10%	10%	10%
	Actual		32%		
	Met		N		
MeF R4 MS3 (Modernized e-file)	Target	N/A	10%	10%	10%
	Actual		-53%		
	Met		N		
CADE R 1.3.2 FS06 (Customer Account Data Engine)	Target	N/A	10%	10%	10%
	Actual		0%		
	Met		Y		
CADE R 2.1 MS4 (Customer Account Data Engine)	Target	N/A	10%	10%	10%
	Actual		15%		
	Met		N		

<sup>1</sup> Changes to the FY 2007 performance targets are attributed to funding adjustments under the Continuing Resolution, the implementation of the new tax legislation, and improvements resulting from program efficiencies.

Table 3.2.9 (Continued)

Business Systems Modernization Measure		Includes Strategic Objective F4A			
BSM Project Schedule Variance by Release/Subrelease (E)					
		FY 2005	FY 2006	FY 2007 Target <sup>1</sup>	FY 2008
F&PC R1.2 MS3 (Filing and Account Payment Compliance)	Target	N/A	10%	10%	10%
	Actual		0%		
	Met		Y		
F&PC R1.2 MS4a (Filing and Account Payment Compliance)	Target	N/A	10%	10%	10%
	Actual		6%		
	Met		Y		
MeF R3.2 MS4 (Modernized e-file)	Target	N/A	10%	10%	10%
	Actual		-2%		
	Met		Y		
MeF R4 MS3 (Modernized e-file)	Target	N/A	10%	10%	10%
	Actual		59%		
	Met		N		
CADE R 1.3.2 FS06 (Customer Account Data Engine)	Target	N/A	10%	10%	10%
	Actual		0%		
	Met		Y		
CADE R 2.1 MS4 (Customer Account Data Engine)	Target	N/A	10%	10%	10%
	Actual		7%		
	Met		Y		

<sup>1</sup> Changes to the FY 2007 performance targets are attributed to funding adjustments under the Continuing Resolution, the implementation of the new tax legislation, and improvements resulting from program efficiencies.

## Description of Performance

Core IT systems investments support services to both taxpayers and other government agencies and enforcement by providing the IRS frontline employees with the basic tools necessary to perform their jobs. A modernized and secure infrastructure will enhance the speed, security, and functionality necessary to keep pace with an automated economy. The IRS must keep pace with the growing demand and volume of electronic submission, payment, and refund transactions for tax remittances and offer taxpayers a variety of faster alternatives for satisfying tax obligations. These efforts will continue to place greater demand on the IRS to provide a modernized and secure IT infrastructure.

Furthermore, a successful modernization program is critical to supporting long-term tax administration operations. Successful program delivery by the IRS during the past two years demonstrates that the IRS' BSM program has established a foundation of disciplined program management processes and controls. The IRS executed BSM projects with a degree of sustained success not seen since program inception. This accomplishment is especially noteworthy in that the program achieved this while transitioning from a contractor-led program to an IRS-led program.

The IRS has developed an IT Modernization Vision and Strategy (MV&S) for its IT systems for 2008 that align with and support the IRS Strategic Plan. Through the MV&S process, the IRS developed a plan showing how the IRS can effectively meet IT modernization goals in an incremental approach that provides near-term value. The plan

focuses on delivery of four major tax administration systems – Customer Account Data Engine (CADE), Account Management Services (AMS), Modernized e-File (MeF), and Filing & Payment Compliance (F&PC) – addressing the IRS’ strategic business priorities. The plan also capitalizes on IT infrastructure initiatives and smaller IT project initiatives to support a unified approach in continued improvement to program operations.

Throughout FY 2006, the IRS modernization efforts continued to focus on its four core tax administration systems designed to provide more sophisticated tools to taxpayers and the IRS employees. The following highlights the IRS’ efforts in FY 2006 in advancing these core systems:

- Introduced new CADE capabilities for the 2006 filing season. CADE supports faster refunds to taxpayers, issuing direct deposit refunds between one and seven days faster, and paper refunds four to thirteen days faster than refunds generated by the legacy system. CADE posted over 7.3 million returns – more than a 400 percent increase over the previous year, and issued 7 million taxpayer refunds exceeding \$3.4 billion. CADE improved taxpayer service by allowing access to account information up to seven days sooner, increasing the likelihood of single telephone call resolution, faster issue detection, and more timely account settlement. CADE is expected to post between 25 and 30 million returns in 2007.
- Began the development of Account Management Services (AMS), a project that will enable real-time access to taxpayer account information, to support much faster resolution of taxpayer issues by IRS customer service representatives. AMS, in conjunction with CADE, will finally enable the IRS to break the weekly update system paradigm that has existed since the 1960s, enabling the IRS to begin to provide settlement of all account information by end-of-day, similar to what one expects from major private-sector financial institutions. The first release of AMS is due the summer of 2007 to support real-time address change capability in CADE and enable faster notice processing for a number of math-error notices.
- Implemented Release 3.2 of its Modernized e-File (MeF) project, which enabled the filing of both federal and state returns concurrently for corporations (Forms 1120 and 1120-S) and tax-exempt organizations (Form 990). In 2006, the MeF platform supported an e-filing mandate for certain large corporations and tax-exempt entities. Tax returns for large corporations typically include hundreds, or even thousands, of pages. Receiving the data electronically improves the accuracy of the tax return, reduces the volume of paper tax returns submitted to IRS Service Centers, and accelerates the examination process by having all tax return data available electronically. Electronic capture of return information enables the IRS to quickly deliver the data to analysts and agents for compliance risk assessment and action. In 2006, MeF accepted over 550,000 corporate returns. The IRS is expanding the MeF taxpayer base in 2007 to include Partnership Income tax returns (Form 1065), eventually enabling nearly 2.7 million small business and self-employed taxpayers to benefit from electronic filing. The IRS is in the planning stage to migrate the 1040 individual tax return to the Modernized e-File platform. The development and

implementation of MeF 1040 capability will be completed by January 2011, with initial planned deployment for January 2009.

- Completed the first release of the F&PC strategy. F&PC functionality analyzes tax collection cases and separates cases that require direct IRS involvement from those that can be handled by Private Collection Agencies (PCAs). The introduction of PCAs is expected to:
  - Assist the IRS by addressing the volume of delinquent taxpayers that exceeds the IRS' capacity to work, approximately 250,000 cases per year; and
  - Help eliminate backlogs in the large number of outstanding tax liabilities, which have grown by 118 percent over the last 12 years, increasing tax revenue and reducing the tax gap.

Tax administration in the 21st century requires improved IRS information technology. For FY 2007 and FY 2008, the IRS is committed to continuing to make improvements in technology, including:

- Replacing antiquated core account management systems and technology;
- Expanding and enhancing compliance activities through early detection, better case selection, and better case management;
- Delivering effective customer service, including expanded e-file systems and web services at reduced cost; and
- Investing in infrastructure necessary to perform operations more efficiently, thus freeing up resources for enforcement and taxpayer service programs.

# **Health Insurance Tax Credit Administration**

## Health Insurance Tax Credit Administration (HITCA)

### Appropriation Description

The Health Insurance Tax Credit Administration (HITCA) appropriation provides funding for contractor support to develop and administer the advance payment option for the health insurance tax credit included in Public Law 107-210, the Trade Act of 2002.

The IRS administers specific components of this credit: enrollment, payment and compliance. The Department of Labor, state workforce agencies, and the Pension Benefits Guaranty Corporation are responsible for determining potentially eligible Health Care Tax Credit (HCTC) taxpayers.

The HITCA budget request for FY 2008 is \$15,235,000 in direct appropriations and 17 FTE. This is an increase of \$389,000 or 2.6 percent, and no change in FTE, over the FY 2007 Continuing Resolution (CR) rate of \$14,846,000 and 17 FTE.

### Appropriation Detail Table Health Insurance Tax Credit Administration

Dollars in Thousands												
Resources Available for Obligation	FY 2006 Enacted		FY 2006 Obligations		FY 2007 President's Budget		FY 2007 CR-rate		FY 2008 Budget		% Change over CR-rate	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>												
Health Insurance Tax Credit Administration	17	\$20,008	10	\$19,993	17	\$14,846	17	\$14,846	17	\$15,235	0.00%	2.62%
<b>Subtotal New Appropriated Resources</b>	<b>17</b>	<b>\$20,008</b>	<b>10</b>	<b>\$19,993</b>	<b>17</b>	<b>\$14,846</b>	<b>17</b>	<b>\$14,846</b>	<b>17</b>	<b>\$15,235</b>	<b>0.00%</b>	<b>2.62%</b>
<b>Other Resources:</b>												
Recoveries												
Offsetting Collections - Reimbursable												
Available multi-year/no-year funds												
Transfers In/Out												
<b>Subtotal Other Resources</b>	<b>0</b>	<b>\$0</b>	<b>0</b>	<b>\$0</b>	<b>0</b>	<b>\$0</b>	<b>0</b>	<b>\$0</b>	<b>0</b>	<b>\$0</b>	<b>0.00%</b>	<b>0.00%</b>
<b>Total Resources Available for Obligation</b>	<b>17</b>	<b>\$20,008</b>	<b>10</b>	<b>\$19,993</b>	<b>17</b>	<b>\$14,846</b>	<b>17</b>	<b>\$14,846</b>	<b>17</b>	<b>\$15,235</b>	<b>0.00%</b>	<b>2.62%</b>

**Budget Adjustment Table**  
**Health Insurance Tax Credit Administration**

Table 2.1

**FY 2008 Budget Highlights**

Dollars in Thousands

<b>Appropriation: Health Insurance Tax Credit Administration</b>	<b>FTE</b>	<b>Amount</b>
<b>FY 2007 President's Budget</b>	<b>17</b>	<b>\$14,846</b>
CR-rate Adjustment		
<b>FY 2007 CR-rate</b>	<b>17</b>	<b>\$14,846</b>
Interappropriation Transfer Corrections to Budget Restructure		
<b>FY 2007 Operating Plan at CR-rate</b>	<b>17</b>	<b>\$14,846</b>
<b>Changes to Base:</b>		
<b>Technical Adjustments to FY 2007 Base due to CR</b>	<b>0</b>	<b>\$0</b>
Base Adjustment		
<b>Maintaining Current Levels (MCLs)</b>		<b>\$389</b>
Pay Annualization		15
Pay Inflation Adjustment		82
Non-Pay Inflation Adjustment		292
<b>Subtotal, Changes to Base</b>	<b>0</b>	<b>\$389</b>
<b>FY 2008 Base</b>	<b>17</b>	<b>\$15,235</b>
<b>Program Changes:</b>		
<b>Subtotal, FY 2008 Program Changes</b>	<b>0</b>	<b>\$0</b>
<b>Total, FY 2008 President's Budget Request</b>	<b>17</b>	<b>\$15,235</b>

# Operating Levels Table

## Health Insurance Tax Credit Administration

Table 2.2

Dollars in Thousands

Appropriation Title: Health Insurance Tax Credit Administration	FY 2006	FY 2007	CR-rate Adjustment	FY 2007	Proposed Reprogram-mings	FY 2007	FY 2008
	Enacted	President's Budget		CR-rate		Operating Plan at CR-rate	President's Budget
<b>FTE</b>	17	17		17		17	17
<b>Object Classification:</b>							
11.1 Full-Time Permanent Positions.....	\$2,241	\$2,302	\$0	\$2,302		\$2,302	\$2,386
11.3 Other than Full-Time Permanent Positions.....	0	0	0	0		0	0
11.5 Other Personnel Compensation.....	22	23	0	23		23	23
11.8 Special Personal Services Payments.....	0	0	0	0		0	0
<b>11.9 Personnel Compensation (Total).....</b>	<b>\$2,263</b>	<b>\$2,325</b>	<b>\$0</b>	<b>\$2,325</b>	<b>\$0</b>	<b>\$2,325</b>	<b>\$2,409</b>
12.0 Personnel Benefits.....	348	358	0	358		358	371
13.0 Benefits to Former Personnel.....	0	0	0	0		0	0
21.0 Travel.....	142	144	0	144		144	148
22.0 Transportation of Things.....	0	0	0	0		0	0
23.1 Rental Payments to GSA.....	191	193	0	193		193	198
23.2 Rent Payments to Others.....	0	0	0	0		0	0
23.3 Communications, Utilities, & Misc.....	0	0	0	0		0	0
24.0 Printing and Reproduction.....	0	0	0	0		0	0
25.1 Advisory & Assistance Services.....	0	0	0	0		0	0
25.2 Other Services.....	17,057	11,819	0	11,819		11,819	12,102
25.3 Purchase of Goods/Serv. from Govt. Accts.....	0	0	0	0		0	0
25.4 Operation & Maintenance of Facilities.....	0	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.....	0	0	0	0		0	0
25.8 Subsistence & Support of Persons.....	0	0	0	0		0	0
26.0 Supplies and Materials.....	7	7	0	7		7	7
31.0 Equipment.....	0	0	0	0		0	0
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
<b>Total Budget Authority.....</b>	<b>\$20,008</b>	<b>\$14,846</b>	<b>\$0</b>	<b>\$14,846</b>	<b>\$0</b>	<b>\$14,846</b>	<b>\$15,235</b>
<b>Budget Activities:</b>							
Health Insurance Tax Credit Administration.....	\$20,008	\$14,846	\$0	\$14,846		\$14,846	\$15,235
<b>Total Budget Authority.....</b>	<b>\$20,008</b>	<b>\$14,846</b>	<b>\$0</b>	<b>\$14,846</b>	<b>\$0</b>	<b>\$14,846</b>	<b>\$15,235</b>

**HITCA Budget Activity: *Health Insurance Tax Credit Administration***

**3A - Description**

***Health Insurance Tax Credit Administration*** (\$15,235,000 in direct appropriation)

The HITCA budget activity funds costs to administer a refundable tax credit for health insurance to qualified individuals.

The Trade Adjustment Assistance Reform Act of 2002 created a tax credit for the purchase of certain types of health insurance coverage for eligible taxpayers. The credit was created to help displaced workers and retirees who have lost their jobs due to trade with countries who participate in the North American Free Trade Agreement. The credit pays for 65 percent of the health insurance premiums for eligible workers. The IRS' responsibility relating to HCTC is to ensure participating eligible taxpayers receive the credit to which they are entitled.

The Act required the IRS to develop and operate a system to provide an advance, refundable tax credit for certain individuals who receive a trade readjustment allowance or benefit from the Pension Benefit Guaranty Corporation. This activity maintains the administrative and direct support for the HITCA Program Office and the staff charged with administering the program for the Service.

### 3B – Budget and Performance Plan

#### Budget and Performance by Budget Activities

Table 3.2.10				
Dollars in Thousands				
Health Insurance Tax Credit Administration			Strategic Objective F4A	
Resource Level	FY 2005 Enacted	FY 2006 Enacted	FY2007 CR-rate	FY 2008 President's Budget
Financial Resources				
Appropriated Resources	\$34,562	\$20,008	\$14,846	\$15,235
Offsetting Collections - Reimbursable				
<b>Total Operating Level</b>	<b>\$34,562</b>	<b>\$20,008</b>	<b>\$14,846</b>	<b>\$15,235</b>
Human Resources				
Appropriated FTE	17	17	17	17
Other FTE				
<b>Total FTE (direct and reimbursable)</b>	<b>17</b>	<b>17</b>	<b>17</b>	<b>17</b>

Measure		Includes Strategic Objective F4A			
		FY 2005	FY 2006	FY 2007	FY 2008
Cost per Taxpayer Served	Target	N/A	Baseline	\$14.25	\$13.97
	Actual	N/A	\$12.95		
	Met	N/A			
Sign-up Time	Target	Baseline	99	97	97
	Actual	106	99		
	Met		Y		

#### Description of Performance

The IRS administers specific components of this credit: enrollment, payment and compliance. The Department of Labor, state workforce agencies, and the Pension Benefits Guaranty Corporation are responsible for determining potentially eligible HCTC taxpayers.

In FY 2005, the IRS implemented a new HCTC service delivery model that saved approximately \$20 million. In FY 2006, the IRS continues to implement new business processes to identify, prevent, and recover erroneous payments.

For FY 2007 and continuing in FY 2008, the IRS will maintain a balanced approach to administering the credit -- encouraging eligible taxpayers to comply and seeking to improve compliance through research that will guide future HCTC operation changes.

# **Supporting Material**

## Section 4 – Supporting Materials

### 4A – Human Capital Strategy Description

The IRS' approximate 104,000 employees represent approximately 81 percent of the Department of the Treasury's total employee population. The IRS workforce is diverse in multiple dimensions, including job series, demographic mix, and geographic distribution. The IRS has a large seasonal workforce that accounts for as much as 23 percent of the IRS' employee population during peak workload seasons. Between 76 and 77 percent of the IRS annual budget is dedicated to financing the IRS' "human capital." To ensure that strategic management of its human capital resources is aligned with the IRS mission, the four human capital strategic goals were established to help focus the use of these resources:

*Goal 1: Continually Assess and Shape the Workforce to Efficiently Accomplish the Service's Mission*

*Goal 2: Increase Employee Proficiency and Engagement to Enhance Tax Law Compliance*

*Goal 3: Leverage Human Capital Technology to Reduce Burden*

*Goal 4: Enable Quick and Agile Management Action to Achieve Business Goals.*

In FY 2006, the IRS published its first Human Capital Strategic Plan (HCSP) for FY 2005 - 2009 and the Human Capital Strategic Implementation Plan (HCSIP) for FY 2006-2007. These Plans focus on these strategic goals and address IRS workforce challenges.

In terms of critical workforce challenges, the IRS and continues to make headway in the area of leadership succession. Over 60 percent of IRS' current executive cadre will be eligible to retire within the next five years – half are eligible to retire by the end of 2009. The anticipated loss poses obvious concerns about IRS leadership continuity and clearly supports the need for aggressive leadership succession planning.

#### Leadership Retirement Eligibility through FY 2011

Management Type	On-Boards	Optional Retirement Eligibility						TOTAL
		2006 +Prior	2007	2008	2009	2010	2011	
Department Managers	374	35	31	21	17	17	24	145
Executives	280	83	14	23	18	19	9	166
Front-line Managers	6371	1028	310	368	351	324	285	2666
Senior Managers	1534	342	119	137	109	98	93	898
<b>TOTAL</b>	<b>8559</b>	<b>1488</b>	<b>474</b>	<b>549</b>	<b>495</b>	<b>458</b>	<b>411</b>	<b>3875</b>

Based on National Finance Center data. Run date 11/28/06

To address this challenge, the IRS has established an overarching Leadership Succession Program that focuses on the recruitment, development and retention of an enterprise-wide talent pool of highly skilled leaders across the organization to effectively and efficiently support tax administration.

In addition to leadership attrition, the IRS continues to focus on the attrition rates of its overall workforce. The following table is based on data from the TreasNet database and shows the number and percent of the current permanent employee population that will be eligible to retire through 2009.

Number Eligible 2007	Percent Eligible 2007	Number Eligible 2008	Percent Eligible 2008	Number Eligible 2009	Percent Eligible 2009
22,490	22.59%	26,747	26.87%	31,250	31.39%

Based on minimum eligibility for Optional Retirement.

To mitigate the anticipated loss of talent and ensure continued workforce competency, the IRS is using the following strategies to maintain the optimum skill/competency level of its workforce:

1. Selecting Mission Critical Occupation (MCO) new hires with increased education/experience;
2. Established a FY 2007 IRS-wide Retention Plan to retain employees who possess mission critical skills and competencies;
3. Expanded use of competency assessment tools to include additional MCO and target technical knowledge;
4. Developed and implemented the Leadership Succession Plan redesign to complete succession management strategies and increase workforce management readiness; and
5. Provided quality continued professional education, e-learning and other training to sustain and/or increase the proficiency of the current workforce.

## Human Resources Table

Table 4.1				
Changes in Full Time Equivalents				
Direct and Reimbursable				
		FY 2006	FY 2007	FY 2008
Base: Year-end Actual from Prior Year		94,282	92,846	93,718
<b>Increases:</b>				
Reason #1:	Adjusted to enacted level <sup>1</sup>	3,158	3,683	
Reason #2:	Program Reinvestment	805	11	
Reason #3:	Program Increase	1,672		1,584
Reason #4:	Transfer of ICDE from Justice	329		
Reason #5:	Increase in reimbursable work	112		14
Reason #6:				
Subtotal, Increases		6,076	3,694	1,598
<b>Decreases:</b>				
Reason #1:	Base Adjustment	(2230)	(937)	
Reason #2:	Rescission	(605)		
Reason #3:	Operating Plan FTE Adjustment	(1018)		
Reason #4:	Program Cost Savings & Efficiencies		(1424)	(1184)
Reason #5:	Adjusted to operating level/under	(3659)		
Reason #6:	CR-rate Adjustment			(1318)
Reason #7:	Decrease in reimbursable work		(461)	
Subtotal, Decreases		(7512)	(2822)	(2502)
Year-end Actual/Estimated FTEs		92,846	93,718	92,814
<b>Net Change from prior year SOY to budget year EOY</b>				
<sup>1</sup> FY 2005 enacted level was 97,440 and FY 2006 enacted level was 96,529.				

## **4B – Information Technology Strategy**

In the spring of 2006, the IRS unveiled a comprehensive vision for IRS future operations beyond 2006. The Modernization Vision & Strategy (MV&S) establishes a plan that drives investment decisions, addressing the priorities for modernizing front-line tax administration and establish technical capabilities provided by the infrastructure and security. The MV&S reflects the priorities of the organization across all IRS business units and is coordinated with Treasury's overall Enterprise Architecture. It serves as a guide for where investments should be focused. This strategy allows IRS to develop defined, strategically prioritized, costs and a ranked list of proposed IRS modernization projects (investments) for a given year. Whenever possible, the MV&S approach leverages existing systems and, as necessary, the program will include new development to optimize capacity, manage program costs, and deliver functionality in smaller and more frequent releases. The IRS expects this approach to deliver business value sooner and at lower risk.

The IRS has 31 investments that are defined as major because they meet one or more of the criteria set by OMB in Circular A-11 for a major investment: (1) requires special management attention because of the investment's importance to the mission or function of the IRS; (2) is for financial management purposes and obligates more than \$500,000 annually; (3) has significant program or policy implications; (4) has high executive visibility; (5) has high development, operating, or maintenance costs; or (5) is defined as a "major" by the Treasury or IRS' capital planning and investment control process. An Exhibit 300 has been submitted as part of the FY 2008 Congressional Budget Submission for each of these 31 investments.

The IRS Business Systems Modernization (BSM) program has delivered significant benefits, and particularly in recent years, the program has demonstrated a consistent record of success – replacing major segments of antiquated systems with modernized capabilities.

Following two consecutive successful years in FY 2004 and FY 2005, the IRS modernization effort in FY 2006 continued to sustain a track record of successful implementation of modernized capabilities and remains positioned to continue this success in FY 2007. A key success factor has been focusing more directly on managing contractor performance and leveraging IRS resources. This approach is integrated into the Modernization Vision and Strategy (MV&S) efforts, in which a key feature is to leverage the existing production environment. This enables greater cost effectiveness and speeds delivery of IRS modernization.

BSM Major Information Technology (IT) activities address internal and external priorities through a balanced investment portfolio fully aligned with core IRS strategic priorities:

- Taxpayer Service + Enforcement = Compliance
- Modernization of IRS technology

The BSM Program has successfully implemented all projects delivered in the second half of FY 2005 and the first half of FY 2006 – attaining nearly all cost and schedule milestones as planned while delivering desired business benefits and functionality.

During the summer of FY 2005, the IRS coordinated the development of a revised performance methodology with Treasury Inspector General for Tax Administration (TIGTA) and General Accountability Office (GAO). For the first time, the BSM Expenditure Plan introduces a performance measurement methodology based on greater control, visibility, and consistent treatment of baseline and variance calculations.

In FY 2006, BSM continued to stabilize and institutionalize program management improvements. BSM continues to deliver projects with attention to cost and schedule targets and to providing benefits to taxpayers. On a program-wide basis, for four projects in progress (i.e., results represent current performance for projects exiting milestone 3 for F&PC, MeF and CADE), all four have met both cost and schedule targets.

As BSM program management capabilities have continued to mature, the ability to more consistently establish and manage reasonable cost and schedule baselines has similarly improved. BSM has expanded its financial and schedule management capabilities to include finer levels of granularity and controls than previously available in past Expenditure Plans.

Some specific examples of success over the past few fiscal years include the following:

**Customer Account Data Engine:**

- Supports faster refunds to taxpayers than is possible with legacy systems. CADE allows direct deposit refunds to be issued between one and seven days faster and paper refunds to be issued four to 13 days faster than refunds generated by the legacy system.
- During the 2006 Filing Season, CADE posted more than 7.3 million returns – a nearly fourfold increase over the previous year and issued more than \$3.4 billion in refunds to nearly 7 million taxpayers;
- Improves taxpayer service by allowing IRS customer service representatives access to current information up to seven days sooner, increasing the likelihood of single telephone call resolution; and
- Faster issue detection and more timely account settlement.

**e-Service:**

- Taxpayer and third party transcript request processing cycle time is reduced from 15+ days to minutes;
- To date e-Services has processed more than 1,276,000 requests for transcripts via the Registered User Portal and more than 7.4 million via the Employee User Portal since launch to employees and Telephone Routing Interactive System on May 16, 2005;
- Disclosure Authorization cycle is reduced from 26 days to same day;
- Electronic Account Resolution cycle time reduced by up to two weeks, eliminating delay between initial contact and issue resolution; and
- Prior to e-Services, 70 million, five percent, of the 1.4 billion Form 1099 documents could not be attached to specific taxpayer accounts due to Taxpayer Identification Number (TIN) matching errors. The IRS estimated that unreported income due to non-filing or invalid TINs accounts for \$42 billion in income that cannot be taxed, which equates to roughly \$93 million per year in tax underpayment. e-Services reduces this error rate to less than one percent (approximately \$10 million), enabling recovery of much of this underpayment.

**Filing and Payment Compliance:**

- Provides a government/industry partnership enabling private collection agencies to assist the IRS by addressing the volume of delinquent taxpayers that exceeds the IRS' capacity to work. Between now and 2017, this partnership will result in approximately 2.6 million delinquent cases receiving treatment that would otherwise have gone unworked;
- Reduces backlogs in outstanding tax liabilities, which have grown by 118% over the last 12 years;
- Improves overall economic outcomes by reducing the large number of unresolved cases (by approximately 250,000 cases/year), which undermine the fairness of the tax system. Reduction of unresolved cases also improves the prevailing attitudes of compliant taxpayers toward their tax obligation, reducing adverse effects associated with the current volume of unresolved cases; and
- Improves financial performance by generating an estimated gross revenue of \$2.8 billion through 2017 and reducing taxpayer burden.

**Modernized e-File:**

- Major productivity and service efficiency gains helping taxpayer service and enforcement:
  - Taxpayer Service – IRS employees have all original documents available online and in real time. This capability eliminates back-end re-keying, data entry and enables responsive taxpayer support. Prior to MeF, only a limited subset of these documents was available – requiring retrieval of source documents – a time consuming process, which could take several weeks;
  - Enforcement – Online abilities and 100 percent data access improves the ability of revenue agents to perform compliance and enforcement activities in a timely and accurate manner. Corporate returns can now be reviewed in a matter of days or weeks as opposed to previous 18 month-long cycle times.

- More than \$34 million in savings to taxpayers in reduced tax preparation fees, postage, and storage;
- Fully compatible with industry standard architectures, consistent with long term technology trends, and aligned with IRS third party partners who are also standardizing on Extensible Markup Language (XML)-based technologies. This capability reduces industry burden, greatly simplifies exchanging data in a secure fashion, and reduces the costs incurred by taxpayers and IRS business partners to do business with the IRS; and
- Error rate is reduced to four percent, which compares favorably to the error rate of 18 percent for returns processed in paper-based systems; and MeF processed Form 7004 (filing extension for corporations), Form 1120 as well as Form 990PF (information return for private foundations) at higher than expected volumes – twice the anticipated number of return receipts over projections, while still achieving performance goals – a significant reduction in burden and time for corporate and tax-exempt taxpayer.

# Summary of IT Resources Table

Information Technology Investments (from Exhibit 53) (in \$ Millions)		FY 2005		FY 2006		FY 2007		FY 2008	
Major IT Investments <sup>1</sup>	Program Alignment	Operating Plan	Obligations	Operating Plan	% Change from FY 05 Obligations to FY 06	President's Budget	% Change from FY 06 to FY 07	President's Budget	% Change from FY 07 to FY 08
Account Management Services Program (AMS) - Major	Modernization	0.0	0.0	8.5	8.5%	21.0	147.1%	33.6	60.0%
Appeals Automation Environment (AAE)	Exam/Collections	12.4	9.4	13.1	39.4%	14.8	13.0%	15.3	3.4%
Automated Collection System (ACS) - Major	Submission Processing	0.0	0.0	0.0	0.0%	4.8	0.0%	5.0	4.0%
Business Master File (BMF)	Taxpayer Service	11.9	11.7	14.2	21.4%	12.3	-13.4%	12.7	3.3%
CEAS - Major	Taxpayer Service	0.0	0.0	0.0	0.0%	7.5	0.0%	7.6	1.3%
CEAS - Major	Taxpayer Service	0.0	0.0	0.0	0.0%	5.4	0.0%	5.4	0.0%
CEAS - Major	Taxpayer Service	0.0	0.0	0.0	0.0%	2.1	0.0%	2.1	0.0%
Correspondence Imaging System (CIS) - Release 2 - Major	Tax Collection	0.0	0.0	0.0	0.0%	10.3	0.0%	10.6	2.9%
Counsel Automated Systems Environment (CASE)	Exam/Collections	26.3	25.8	27.0	4.7%	28.5	5.6%	29.2	2.5%
Criminal Investigation Management Information System (CIMIS) - Major	Criminal Investigations	0.0	0.0	0.0	0.0%	2.6	0.0%	2.6	0.0%
Criminal Investigation Management (CIMIS)	Criminal Investigations	0.0	0.0	0.0	0.0%	2.6	0.0%	2.6	0.0%
Customer Account Data Engine (CADE)	Submission Processing/Tax Collection	98.9	98.9	118.6	19.9%	120.4	1.6%	72.4	-39.9%
Customer Account Data Engine (CADE)	Same as above	92.6	92.6	104.7	13.0%	110.9	6.0%	62.6	-43.6%
Customer Account Data Engine (CADE)	Same as above	5.2	5.2	2.3	-55.8%	2.2	-4.3%	2.3	4.5%
Customer Account Data Engine (CADE)	Same as above	1.1	1.1	11.6	954.5%	7.3	-37.1%	7.5	2.7%
Electronic Federal Tax Payment System (EFTPS) - Major	Tax Collection	0.0	0.0	0.0	0.0%	69.9	0.0%	69.9	0.0%
Electronic Federal Tax Payment System (EFTPS)	Tax Collection	0.0	0.0	0.0	0.0%	2.1	0.0%	2.2	4.8%
Electronic Federal Tax Payment System (EFTPS)	Tax Collection	0.0	0.0	0.0	0.0%	67.8	0.0%	67.7	-0.1%
Electronic Fraud Detection System (EFDS)	Tax Collection	11.9	11.9	11.1	-7.0%	11.3	2.1%	11.6	2.5%
Electronic Fraud Detection System (EFDS)	Tax Collection	8.0	8.0	7.5	-5.9%	7.8	3.6%	8.0	2.6%
Electronic Fraud Detection System (EFDS)	Earned Income Tax Credit	3.9	3.9	3.5	-9.4%	3.5	-1.0%	3.6	2.4%
Electronic Management System (EMS)	IRS Submission Processing	10.6	10.8	9.8	-9.3%	8.9	-9.2%	9.1	2.2%
Enterprise Data Warehouse (EDW)	Exam/Collections	7.6	7.6	7.0	-8.6%	7.0	0.0%	7.3	5.0%
e-Services	Examinations	41.8	41.8	14.2	-66.0%	14.1	-7.7%	14.4	2.1%
e-Services	Examinations	36.9	36.9	0.0	-100.0%	0.0	0.0%	0.0	0.0%
e-Services	Examinations	4.9	4.9	14.2	189.8%	14.1	-0.7%	14.4	2.1%
Examination Desktop Support System (EDSS) - Release 2 - Major	Examinations	3.6	3.6	7.0	94.4%	4.8	-31.4%	5.0	3.1%
Excise Tax e-File & Compliance (ETEC) Major	Exam/Collections	0.0	0.0	0.0	0.0%	6.5	0.0%	6.6	1.5%
Excise Tax e-File & Compliance (ETEC) (Blended)	Submission Processing	0.0	0.0	0.0	0.0%	13.6	0.0%	2.3	-83.1%
Filing and Payment Compliance (F&PC) (Blended)	Exam/Collections	0.2	0.2	32.5	16150.0%	19.3	-40.6%	1.5	-92.2%
Filing and Payment Compliance (F&PC) (Blended)	Exam/Collections	0.0	0.0	28.1	0.0%	19.3	-31.8%	0.0	-100.0%
Filing and Payment Compliance (F&PC) (Blended)	Exam/Collections	0.2	0.2	0.2	0.0%	0.0	-100.0%	0.0	0.0%
Financial Management Information System (FMIS)	Exam/Collections	0.0	0.0	4.2	0.0%	0.0	-100.0%	1.5	0.0%
Financial Management Information System (FMIS)	Tax Collection	4.5	4.5	2.5	-44.4%	5.9	136.0%	6.0	1.7%
Individual Master File (IMF)	Submission Processing	11.9	10.1	12.7	25.7%	12.6	-0.8%	13.0	3.2%
Information Returns Processing (IRP)	Submission Processing	6.9	7.3	7.4	1.4%	7.6	2.7%	7.9	3.9%
Integrated Collection System (ICS)	Tax Collection	7.7	9.3	8.9	-4.3%	8.9	0.0%	9.2	3.4%
Integrated Data Retrieval Systems (IDRS)	Taxpayer Service	14.2	14.2	17.2	21.1%	17.0	-1.3%	17.9	5.4%
Integrated Financial System (IFS)	Tax Collection	16.7	16.7	17.9	7.2%	17.6	-1.7%	18.3	4.0%
Integrated Financial System (IFS)	Treasury-Financial	12.8	12.8	22.0	71.9%	16.6	-24.5%	17.0	2.4%
Integrated Financial System (IFS)	Treasury-Financial	9.4	9.4	18.4	95.7%	12.9	-29.8%	14.8	14.7%
Integrated Financial System (IFS)	Treasury-Financial	0.0	0.0	0.0	0.0%	0.0	0.0%	0.0	0.0%
Integrated Financial System (IFS)	Treasury-Financial	3.4	3.4	3.6	5.9%	3.7	2.8%	2.2	-40.5%
Integrated Submission and Remittance Processing System (ISRP)	Submission Processing	12.4	13.7	18.0	31.3%	16.6	-7.7%	17.0	2.2%
Interim Revenue Accounting Control System (IRACS)	Treasury-Financial	1.8	1.8	0.7	-61.1%	0.8	14.3%	0.8	0.0%
Modernized e-File (MeF)	Submission Processing	69.2	69.2	69.9	1.0%	61.5	-12.0%	79.6	29.4%
Modernized e-File (MeF)	Submission Processing	61.0	61.0	57.4	-5.8%	48.2	-21.0%	61.4	27.4%
Modernized e-File (MeF)	Submission Processing	6.4	6.4	11.7	81.5%	12.0	2.7%	12.3	2.6%
Modernized e-File (MeF)	Submission Processing	0.0	0.0	0.0	0.0%	0.5	0.0%	5.2	940.0%
Modernized e-File (MeF)	Submission Processing	1.8	1.8	0.8	-54.7%	0.8	-3.5%	0.7	-12.5%
Service Center Recognition/Image Processing System (SCRIPS)	Submission Processing	17.4	17.4	16.0	-8.1%	17.0	6.0%	17.4	2.5%
Tax Return Database (TRDB)	Submission Processing	4.6	4.6	6.9	50.0%	4.8	-30.4%	5.0	4.0%
Travel Reimbursement and Accounting System (TRAS)	Treasury-Financial	1.8	1.8	1.5	-16.7%	1.4	-6.7%	1.5	7.1%
IRS EA Investment	Treasury-Financial	0.0	0.0	4.2	0.0%	4.4	4.8%	4.7	5.8%
Total		407.1	405.1	468.6	15.7%	570.2	21.7%	531.8	-6.7%

# Summary of IT Resources Table

IT Investments Portfolio		FY 2005		FY 2006		FY 2007		FY 2008	
Information Technology Investments (from Exhibit 53) (in \$ Millions)	Program Alignment	Operating Plan	Obligations	Operating Plan	% Change from FY 05 Obligations to FY 06	President's Budget	% Change from FY 07 to FY 08	President's Budget	% Change from FY 07 to FY 08
<b>Major IT Investments<sup>1</sup></b>									
<b>Infrastructure Investments</b>									
IRS Consolidated Infrastructure (Infrastructure)		312.4	312.4	238.4	-23.7%	323.0	35.5%	380.3	17.7%
IRS Consolidated Infrastructure (Infrastructure) - BSM Portion		312.4	312.4	238.4	-23.7%	323.0	35.5%	346.5	7.3%
IRS Consolidated Infrastructure (Common Services)		0.0	0.0	0.0	0.0%	0.0	0.0%	33.8	0.0%
IRS Consolidated Infrastructure (Common Services)-Web Portal		0.0	0.0	8.8	0.0%	0.0	-100.0%	16.0	0.0%
IRS Consolidated Infrastructure (Office Automation)		326.2	326.3	349.2	7.0%	259.9	-25.6%	300.3	15.5%
IRS Consolidated Infrastructure (Office Automation) - BSM Portion		326.2	326.3	349.2	7.0%	259.9	-25.6%	300.3	15.5%
IRS Consolidated Infrastructure (Security)		57.0	57.0	51.1	-10.4%	51.1	0.0%	77.3	51.3%
IRS Consolidated Infrastructure (Security) - BSM Portion		57.0	57.0	51.1	-10.4%	51.1	0.0%	72.9	42.7%
IRS Consolidated Infrastructure (Telecommunications)		288.5	288.5	245.5	-14.9%	213.3	-13.1%	258.4	21.1%
IRS Consolidated Infrastructure (Telecommunications) - BSM Portion		288.5	288.5	245.5	-14.9%	213.3	-13.1%	258.4	21.1%
IRS Consolidated Infrastructure (Telecom) - BSM Portion		0.0	0.0	0.0	0.0%	0.0	0.0%	1.0	0.0%
IRS Consolidated Infrastructure (Telecom) - EITC		0.0	0.0	0.0	0.0%	0.0	0.0%	1.0	0.0%
<b>Total</b>		<b>984.1</b>	<b>984.2</b>	<b>893.0</b>	<b>-9.3%</b>	<b>847.3</b>	<b>-5.1%</b>	<b>1032.3</b>	<b>21.8%</b>
<b>Total Major Investments</b>		<b>1391.2</b>	<b>1389.3</b>	<b>1361.6</b>	<b>-2.0%</b>	<b>1417.5</b>	<b>4.1%</b>	<b>1564.1</b>	<b>10.3%</b>
<b>Non-Major IT Investments</b>									
Program and Management Support Programs		170.5	167.5	185.5	10.7%	214.9	15.8%	236.2	9.9%
Information Technology Non-Major Systems/Programs		185.1	190.9	196.7	3.0%	98.1	-50.1%	101.6	3.6%
Improvement Project Systems (FY 07 and 08 based on MV&S)		49.3	49.3	56.7	15.0%	45.4	-19.9%	46.6	2.6%
ITeR B Infrastructure		0.0	0.0	2.6	0.0%	7.3	182.6%	7.4	1.4%
Security Audit and Analysis System		0.0	0.0	6.6	0.0%	10.8	63.6%	11.0	1.4%
BSM Architecture & Integration		0.0	0.0	0.0	0.0%	27.6	0.0%	62.7	127.2%
BSM Management Reserve		5.8	5.8	13.0	124.1%	2.3	-82.3%	2.3	0.0%
<b>Total</b>		<b>410.7</b>	<b>413.5</b>	<b>461.1</b>	<b>11.5%</b>	<b>406.4</b>	<b>-11.9%</b>	<b>467.8</b>	<b>15.1%</b>
<b>Total IT Investments</b>		<b>1,801.9</b>	<b>1,802.8</b>	<b>1,822.7</b>	<b>1.1%</b>	<b>1,823.9</b>	<b>0.1%</b>	<b>2,031.9</b>	<b>11.4%</b>

<sup>1</sup> Major IT projects include funding for the IRS' staffing associated with direct management of Business Systems Modernization projects.

## **Program Assessment Rating Tool (PART) Evaluation Table**

The IRS continues to provide full support and attention to the PART process and recommendations. The following are examples of how the IRS uses the PART process to make improvements:

- The Taxpayer Advocate Service (TAS) established teams charged with creating an application that will capture time spent on cases while in the system (Phase I) as well as the development of a front end application to allow capture of time spent on a case outside of the system (Phase II). The System Acceptability Testing (SAT) of Phase I was completed in mid-June and has been followed by a separate stress test to ensure the timekeeping component does not negatively impact Taxpayer Advocate Management Information System (TAMIS) response times. The Request for Information Services (RIS) has been submitted and TAS expects to have Phase 2 implemented before the close of 2007.
- The PART program improvements for the Earned Income Tax Program (EITC) program provide for the increased monitoring of the EITC examination and closure programs. These improvements support the President's Management Agenda (PMA) initiative for "Eliminating Improper Payments" and also provide a potential means to narrow the tax gap. In FY 2006, the IRS launched the second phase of its EITC return preparer strategy with emphasis on tracking and research. The IRS plans to further expand the program to include client audits of preparers penalized in FY 2005 for Reverse Preparer Action Case treatment.
- In May 2006, the IRS implemented its new Criminal Investigation (CI) information management system in compliance with a PART recommendation from FY 2005. This information management system will enhance program effectiveness by providing more timely information on investigative trends and issues that will increase casework accuracy.

## PART Tax Collection

**Table 4.3**

### **PART Evaluation**

**PART Name:** Tax Collection

**Year PARTed:** FY 2002

**Rating:** Results Not Demonstrated

This program collects tax debts from citizens and businesses. Agents contact taxpayers through notices, phone calls and personal visits to secure payments. If necessary, collection agents can use liens, levies or seizures, or refer delinquent taxpayers for criminal prosecution.

### **OMB Major Findings/Recommendations**

1. IRS collection of unpaid taxes yields substantial revenue (\$18 billion in 2001). However, IRS does not work enough collection cases with its current resources, work processes and technology to ensure fair tax enforcement. Each year billions of dollars of unpaid taxes goes uncollected.
2. IRS has been working to make management improvements in the last several years, including implementing good output measures. However, its financial management systems do not provide the information needed to make effective day to day management decisions.
3. IRS has a strong planning process closely linked to its budget process. IRS is currently developing improved collection outcome measures and goals.

### **Bureau Actions Planned or Underway**

1. Implementing new tools in 2007 to segment collection workload according to risk to ensure IRS takes the right action to secure delinquent taxes.
2. Implementing legislation - including strong taxpayer rights protections - allowing IRS to hire private collection agents to help secure delinquent tax debt (full implementation by January 2008).
3. Reviewing the effectiveness of the revised collection performance measures of workload coverage and efficiency. Information from these measures will be used in the development of the 2008 budget.

## PART Earned Income Tax Credit

**Table 4.3**

### **PART Evaluation**

**PART Name:** Earned Income Tax Credit

**Year PARTed:** FY 2002

**Rating:** Ineffective

This program administers the earned income tax credit (EITC) which rewards work and lifts families out of poverty. The program seeks to maximize participation of eligible taxpayers and reduce payments to ineligible taxpayers.

### **OMB Major Findings/Recommendations**

1. The program has failed to reduce EITC erroneous payments to acceptable levels. While IRS prevents roughly \$1 billion in erroneous EITC payments per year, 27 to 32 percent of all EITC payments were still made in error for 1999. The magnitude of this error rate is the reason for the rating of "ineffective".
2. IRS has a strong planning process closely linked to its budget process, but it has not yet used outcome information for this program to set performance targets that allow it to demonstrate results.
3. IRS has made numerous management improvements in recent years. However, its financial management systems do not provide the information needed to make effective day to day management decisions.

### **Bureau Actions Planned or Underway**

1. Conducting 500,000 examinations of EITC returns per year based on enhanced case selection systems.
2. Preventing \$270 million in incorrect refunds in 2006 by detecting and correcting errors during return processing.
3. Identifying paid tax return preparers with EITC error rates and using education and enforcement procedures to improve their performance.

## PART Submission Processing

**Table 4.3**

### **PART Evaluation**

**PART Name:** Submission Processing

**Year PARTed:** FY 2003

**Rating:** Moderately Effective

This program processes 224 million tax returns and one and a half billion information returns (such as bank reports on taxpayer's interest income) each year and issues 109 million refunds. In 2005, more than half of individual tax returns were submitted electronically.

### **OMB Major Findings/Recommendations**

1. More Americans are electronically filing their taxes. Electronic filing is growing more than 10 percent per year. However, this growth is not sufficient for IRS to meet the legislative goal of 80 percent electronic filing by 2007. Congress has not yet acted on the Administration's proposals to accelerate the increase in electronic filing.
2. Every return converted from paper to electronic filing saves the IRS \$2.15 in processing costs. More importantly, electronically filed returns have a less than one percent error rate compared to five percent for paper filed returns, saving taxpayers time and money. Finally, according to the annual American Customer Satisfaction Results report electronic filers have high satisfaction rates.
3. Based on IRS' recently completed tax gap study, approximately 13 percent of refund dollars (excluding earned income tax credit refunds) are paid in error. With current third party reporting and technology, IRS is unable to identify and prevent these errors during processing.

### **Bureau Actions Planned or Underway**

1. Seeking legislative changes to promote electronic filing, including greater authority to require electronically-filed returns.
2. Setting goals by 2007 for reduced taxpayer filing burden resulting from the time and expense of preparing and filing their returns.
3. Using a single cost based efficiency measure by 2008 (cost per return processed).

## PART Taxpayer Service

**Table 4.3**

### **PART Evaluation**

**PART Name:** Taxpayer Service

**Year PARTed:** FY 2004

**Rating:** Adequate

This program reduces taxpayer burden by providing assistance on tax law and account issues in a professional and courteous manner. In 2005 the IRS answered 59 million calls, served 6.6 million taxpayers in walk-in offices, and had almost 116 million downloads from its forms, instructions and publications web site.

### **OMB Major Findings/Recommendations**

1. IRS has significantly improved taxpayer service and maintained high levels of customer satisfaction in recent years. In 2001 IRS was able to answer only 62 percent of taxpayer calls. In 2005, IRS had improved this to 83 percent with a 94 percent customer satisfaction rate.
2. IRS continues to have trouble with the accuracy of answers. In 2004, IRS estimates only 80 percent of tax law calls were answered accurately (improved to 89 percent in 2005). Accuracy is a significant challenge given the complexity of the tax code.
3. IRS has developed a strong set of balanced measures (quality, customer satisfaction and results) to understand its taxpayer service performance. During the assessment IRS added an efficiency measure (customer contacts per staff year) for this program.

### **Bureau Actions Planned or Underway**

1. Converting to cost based efficiency measures for the 2007 budget (e.g., cost per call answered) and adding efficiency measures for service processes for management. (Delayed until 2008)
2. Improving the accuracy of tax law telephone information provided to taxpayers to 90 percent accuracy by 2010.
3. Researching the impact of taxpayer service programs on voluntary compliance and reporting findings by 2007.

## PART Taxpayer Advocate Service

**Table 4.3**

### **PART Evaluation**

**PART Name:** Taxpayer Advocate Service

**Year PARTed:** FY 2004

**Rating:** Moderately Effective

This program helps taxpayers solve tax problems when normal IRS systems have failed to treat them fairly. It serves as an independent advocate within the IRS for individuals and proposes solutions to systemic problems.

### **OMB Major Findings/Recommendations**

1. The quality of the Advocate's case work on behalf of taxpayers has improved from 71 percent with quality standards in 2001 to 90.5 percent in 2004.
2. Taxpayer hardship cases caused by flaws in IRS' business processes have declined from 217,081 in 2001 to 129,382 in 2004 as the Advocate has worked with IRS program managers to improve processes.
3. During the assessment, the program set goals and developed an efficiency measure. These include achieving a 100 percent closure-to-receipts ratio through 2010, 95 percent case quality score by 2009, and 4.53 (out of 5) customer satisfaction score by 2009. Efficiency is measured by counting the reduction in the quantity of taxpayer problems resulting from flaws in IRS' business processes.

### **Bureau Actions Planned or Underway**

1. Developing a unit cost measure for its casework by 2006 (delayed to 2007).
2. Exploring other means to measure its effectiveness in solving systemic problems leading to taxpayer hardship. IRS will report its findings in 2006 for possible inclusion in its FY 2008 Budget.
3. Improving case quality to 91.5 percent by 2006, 93 percent by 2009, and 95 percent by 2014.

## PART Criminal Investigations

**Table 4.3**

### PART Evaluation

**PART Name:** Criminal Investigations

**Year PARTed:** FY 2005

**Rating:** Moderately Effective

This program ensures taxpayers comply with their tax obligations by investigating possible criminal violations of the tax code. Conviction of tax cheaters deters tax evasion among the general public and helps reassure taxpayers that the system is fair.

### OMB Major Findings/Recommendations

1. The tax gap, the difference for a given year between taxes legally owed and taxes actually paid, for 2001 (latest available figure) is estimated to be between \$312 and \$353 billion. Criminal Investigation is one of the major IRS programs intended to minimize this revenue loss.
2. Research suggests that higher levels of criminal sentences lead to higher tax compliance. IRS has succeeded in raising convictions in recent years. They rose from 1,926 in 2002 to 2,215 in 2005. However, they remain low by historical standards (in 1996 convictions totaled 2,915).
3. IRS has set long term goals and efficiency measures. However, it has difficulty measuring compliance in a timely manner due to the complexity and expense involved and in holding employees accountable for performance due to legal restrictions.

### Bureau Actions Planned or Underway

1. Exploring methods for measuring the impact of criminal investigations on tax compliance. IRS will report on its progress by the end of 2006.
2. Implementing a new information management system in 2006 to enhance investigative case tracking and improve efficiency.
3. Developing methods to improve case prioritization in 2006 to ensure that cases yield the greatest impact on compliance.

## PART Examinations

**Table 4.3**

### PART Evaluation

**PART Name:** Examinations

**Year PARTed:** FY 2005

**Rating:** Moderately Effective

This program ensures that citizens pay the correct tax by auditing returns at a high risk for non-compliance. Audits help ensure individuals comply with their tax obligations, deter tax evasion among the general public, and help reassure taxpayers that the system is fair.

### OMB Major Findings/Recommendations

1. The tax gap, the difference for a given year between taxes legally owed and taxes actually paid, for 2001 (latest available figure) is estimated to be between \$312 and \$353 billion. Examination is one of the major IRS programs intended to minimize this revenue loss.
2. After dropping substantially in the late 1990s, IRS' audit rates have begun to rise and will continue to increase, largely through productivity growth. IRS' audit rate has grown from a low of 1.49 percent (i.e., less than two returns in one hundred audited) in 2001 to 3.09 percent in 2005.
3. IRS has set long term goals and efficiency measures. However, it has difficulty measuring compliance in a timely manner due to the complexity and expense involved and in holding employees accountable for performance due to legal restrictions. It also needs cost based efficiency measures.

### Bureau Actions Planned or Underway

1. Researching tax compliance of S-corporations (a popular business form where profits are taxed only once passed through to the owners) based on a statistically valid sample of the filing population.
2. Improving tools for selecting the most productive audit cases by 2007 using the detailed compliance information gathered in the recent individual tax gap study.
3. Introducing cost based efficiency measures by 2008 (e.g., enforcement revenue/program budget).

## PART Retirement Savings Regulatory Program

**Table 4.3**

### **PART Evaluation**

**PART Name:** Retirement Savings Regulatory Program

**Year PARTed:** FY 2006

**Rating:** Adequate

This program ensures that tax breaks provided to encourage retirement savings are only allowed for retirement plans that follow minimum standards. The law requires that plans follow participation, funding and vesting standards and provide some protection for the surviving spouse of the plan participants.

### **OMB Major Findings/Recommendations**

1. The Internal Revenue Service cooperates with the Department of Labor and the Pension Benefit Guarantee Corporation to protect retirement investors and to ensure that retirement related tax breaks are used for the intended purposes. Tax breaks to retirement plans to encourage savings total more than \$100 billion per year.
2. Preliminary data from the program's compliance study shows that retirement plans are in compliance with legal standards 80 percent of the time. The IRS is working to improve this level by increasing enforcement efforts and improving targeting. This compliance study is a critical element in this effort because it gives the IRS better information on the sources of non-compliance.
3. IRS has had trouble processing requests for regulatory approval from retirement plans in a timely manner (less than 120 days). It is working to improve its performance in this area by implementing a new staggered schedule for retirement plan renewal requests and improving productivity.

### **Bureau Actions Planned or Underway**

1. IRS will introduce cost based efficiency measures by 2008.
2. IRS will work to nearly double enforcement efforts by 2011 in order to improve retirement compliance to 82 percent.
3. IRS will improve efficiency, processing timeliness and case targeting through a new information management system and other inventory selection tools implemented in 2007.

## PART Health Care Tax Credit Administration

**Table 4.3**

### **PART Evaluation**

**PART Name:** Health Care Tax Credit Administration

**Year PARTed:** FY 2006

**Rating:** Results Not Demonstrated

This program administers the Health Insurance Tax Credit which helps displaced workers and retirees afford health insurance. It is intended to benefit workers who have lost their jobs due to trade with countries which participate in free trade agreements (e.g., the North America Free Trade Agreement).

### **OMB Major Findings/Recommendations**

1. The program's measures do not adequately capture the program's success in providing access to the credit to potential beneficiaries.
2. This credit has low participation. This can be attributed to the time it takes for other agencies to identify potentially eligible workers and for the Internal Revenue Service to enroll them. Another likely cause is the affordability of coverage to potential recipients. It is also possible that many of those identified as potentially eligible may ultimately not qualify.
3. The IRS successfully implemented this unique tax credit in 2003. This required the creation of a new process outside of the normal tax filing system in a short timeframe. Since that time, in response to the low take up, the IRS has successfully reduced the cost of administering the credit by 50 percent.

### **Bureau Actions Planned or Underway**

1. IRS will work with other participating federal agencies to develop long term goals by 2011 that capture the program's success to providing access to the tax credit to potential beneficiaries.
2. IRS will work with partner federal agencies to find ways to improve access to the tax credit for eligible workers.
3. IRS will continue to focus on administrative changes to lower program cost and improve taxpayer service.

## IRS Performance Measures Summary Table and Data Dictionary Link

FY 2008 IRS Performance Measures Summary Table							
Performance Measures	FY 2003	FY 2004	FY 2005	FY 2006 Planned	FY 2006 Actual	FY 2007 Planned <sup>1</sup>	FY 2008 Planned
Customer Service Representative (CSR) Level of Service Oe, L	80.1%	87.3%	82.6%	82.0%	82.0%	78.0%	81.0%
Customer Contacts Resolved per Staff Year E	8,318	8,015	7,585	7,477	7,414	7,702	7,880
Percent of Eligible Taxpayers Who File for EITC Oe	N/A	80.0%	80.0%	80.0%	*	80.0%	80.0%
Customer Accuracy - Tax Law Phones Oe	82.0%	80.0%	89.0%	90.0%	90.9%	91.0%	91.2%
Customer Accuracy - Accounts (Phones) Oe	88.2%	89.3%	91.5%	92.0%	93.2%	93.3%	93.4%
Timeliness of Critical Filing Season Tax Products to the Public Ot	N/A	76.0%	91.4%	92.0%	83.0%	85.2%	92.0%
Timeliness of Critical Other Tax Products to the Public Ot	N/A	76.0%	80.0%	85.0%	61.2%	79.6%	86.0%
Percent Individual Returns Processed Electronically Oe, L	40.0%	46.5%	51.1%	55.0%	54.1%	57.0%	61.6%
Percent of Business Returns Processed Electronically Oe, L	N/A	17.4%	17.8%	18.6%	16.6%	19.5%	21.2%
Refund Timeliness - Individual (paper) Oe	98.8%	98.3%	99.2%	99.2%	99.3%	99.2%	99.2%
Taxpayer Self Assistance Rate E, L	51.0%	46.4%	42.5%	45.7%	46.8%	48.6%	51.4%
Examination Coverage - Individual Oe, L	N/A	0.8%	0.9%	0.9%	1.0%	1.0%	1.0%
Field Exam Embedded Quality Oe, L	N/A	N/A	N/A	Baseline	85.9%	87.0%	87.0%
Office Exam Embedded Quality Oe, L	N/A	N/A	N/A	Baseline	88.2%	89.0%	89.0%
Examination Quality - Industry Oe, L	74.0%	74.0%	77.0%	80.0%	85.0%	88.0%	90.0%
Examination Quality - Coordinated Industry Oe, L	89.0%	87.0%	89.0%	92.0%	96.0%	97.0%	97.0%
Examination Coverage - Business Oe, L	N/A	7.5%	7.8%	7.5%	7.3%	8.2%	8.2%
Examination Efficiency - Individual E, L	N/A	N/A	121	121	128	136	136
Automated Underreporter Efficiency E, L	N/A	1,514	1,701	1,759	1,832	1,932	1,808
Automated Underreporter Coverage E, L	N/A	1.90%	2.2%	2.3%	2.4%	2.5%	2.7%
Collection Coverage - units Oe, L	N/A	N/A	53.0%	52.0%	54.0%	54.0%	54.0%
Collection Efficiency - units E, L	N/A	N/A	1,514	1,650	1,677	1,723	1,751
Field Collection Embedded Quality Oe, L	N/A	N/A	N/A	Baseline	84.2%	86.0%	86.0%
Automated Collection System Accuracy Oe	N/A	87.8%	88.5%	88.0%	91.0%	91.0%	92.0%
Criminal Investigations Completed Ot, L	3,766	4,387	4,104	3,945	4,157	4,000	4,025
Number of Convictions Ot, L	N/A	2,008	2,151	2,260	2,019	2,069	2,135
Conviction Rate E, L	N/A	91.2%	91.2%	92.0%	91.5%	92.0%	92.0%
Conviction Efficiency Rate(\$\$) E, L	N/A	362,849	295,316	339,565	328,750	314,008	314,560
TEGE Determination Case Closures Ot	171,812	143,877	126,481	112,400	108,462	118,200	109,500
BSM Project Cost Variance by Release/Subrelease E	N/A	N/A	N/A	Baseline	**	10.0%	10.0%
BSM Project Schedule Variance by Release/Subrelease E	N/A	N/A	N/A	Baseline	**	10.0%	10.0%
Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure and L - Long-Term Goal							
and improvements resulting from program efficiencies.							
* Data to estimate the eligibility rate will be available late in FY 2007..							
** Cost and Schedule variance is based on +/- 10% and is reported on several project releases/subreleases.							

**Data Dictionary Link for Performance Measures:**

For detailed information about each performance measure, including definition, verification and validation, please go to:

[http://www.treas.gov/offices/management/dcfo/accountability-reports/2006-par/Part IV Appendices.pdf](http://www.treas.gov/offices/management/dcfo/accountability-reports/2006-par/Part_IV_Appendices.pdf)