

Internal Revenue Service

Program Summary by Budget Activity

Dollars in Thousands

Budget Activity	FY 2016	FY 2017	FY 2018	FY 2017 TO FY 2018	
	Enacted ¹	Annualized CR ²	Request	\$ Change	% Change
Taxpayer Services	\$2,333,376	\$2,328,940	\$2,212,311	(\$116,629)	-5.01%
Pre-filing Taxpayer Assistance and Education	620,338	625,829	600,717	(25,112)	-4.01%
Filing and Account Services	1,713,038	1,703,111	1,611,594	(91,517)	-5.37%
Enforcement	\$4,714,936	\$4,855,688	\$4,706,500	(\$149,188)	-3.07%
Investigations	596,417	624,462	606,747	(17,715)	-2.84%
Exam and Collections	3,981,257	4,083,908	3,967,808	(116,100)	-2.84%
Regulatory	137,262	147,318	131,945	(15,373)	-10.44%
Operations Support	\$3,896,688	\$3,739,565	\$3,946,189	\$206,624	5.53%
Infrastructure	848,191	861,229	860,643	(586)	-0.07%
Shared Services and Support	1,110,811	1,014,139	1,011,411	(2,728)	-0.27%
Information Services	1,937,686	1,864,197	2,074,135	209,938	11.26%
Business Systems Modernization	\$290,000	\$289,449	\$110,000	(\$179,449)	-62.00%
Subtotal Internal Revenue Service	\$11,235,000	\$11,213,642	\$10,975,000	(\$238,642)	-2.13%
Reimbursables	104,358	116,286	122,099	5,813	5.00%
Offsetting Collections - Non Reimbursables	19,212	28,134	29,541	1,407	5.00%
User Fees	343,642	503,076	525,650	22,574	4.49%
Recovery from Prior Years	27,751	4,773	-	(4,773)	-100.00%
Unobligated Balances from Prior Years	451,869	374,465	268,875	(105,590)	-28.20%
Transfers In/Out ³	126	-	-	-	N/A
Total Program Operating Level	\$12,181,958	\$12,240,376	\$11,921,165	(\$319,211)	-2.61%
Direct FTE	77,400	76,838	71,035	(5,803)	-7.55%
Reimbursable FTE	640	684	711	27	3.95%
Offsetting Collections - Non Reimbursables	-	-	-	-	N/A
User Fee FTE	524	170	164	(6)	-3.53%
Unobligated Balances from Prior Years	-	-	-	-	N/A
Resources from Other Accounts ⁴	2	-	-	-	N/A
Total FTE	78,566	77,692	71,910	(5,782)	-7.44%

¹FY 2016 Enacted includes \$290 million in Section 113 Administrative Provision funding in the following amounts: \$176.8 million in Taxpayer Services, \$4.9 million in Enforcement, and \$108.2 million in Operations Support. FY 2016 Enacted includes the approved inter-appropriation transfer of \$150 million from Enforcement to Operations Support.

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

³Resources from Transfers In/Out include a FY 2016 transfers between IRS and the Office of National Drug Control Policy (ONDCP) High Intensity Drug Trafficking Area (HIDTA) Program (obligations \$7000).

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

Summary

The IRS FY 2018 President's Budget request is \$10.975 billion, \$239 million or 2.1 percent below the FY 2017 Annualized Continuing Resolution level. The IRS will continue to seek less costly ways of delivering taxpayer service and maintaining enforcement using technology, training, and internal efficiencies.

The IRS collects revenue to fund the government and administers the nation's tax laws. During FY 2016, the IRS collected more than \$3.3 trillion in tax revenue, processed more than 244 million tax returns and other forms, and issued more than \$426 billion in tax refunds and outlays, equating to 93 percent of total federal government receipts. The IRS vision is to uphold the integrity of the nation's tax system and preserve the public trust. Even with the increasing complexity of tax laws, changing business models, expanding use of electronic data and the related security risks, accelerating growth in international tax activities, and growing human capital challenges, the IRS remains focused on serving and helping the taxpayer understand and meet their tax responsibility with integrity and fairness in order to close the nation's estimated \$458 billion tax gap through voluntary compliance.

The IRS remains committed to strengthening the public's confidence by protecting the privacy rights of all taxpayers. While many of these rights are stated in law, the IRS recognizes that compliance with legal requirements alone is not enough.

The Department of the Treasury is in the process of developing a new strategic plan for FYs 2018 – 2022. The IRS will publish its FY 2018 – FY 2022 strategic plan by June of 2018. The IRS is soliciting extensive input on the plan from its employees as well as from external stakeholders. The plan will serve as a roadmap to guide IRS operations to meet the changing needs and expectations of the nation's taxpayers and those in the tax community who serve them.

In FY 2016, the IRS delivered a successful filing season and opened on time on January 19, 2016. Increased funding in enabled the IRS to provide a higher level of service (LOS) during the filing season. During the summer and fall of 2015, the IRS revised 635 tax products, including the tax provisions associated with the Protecting Americans from Tax Hikes (PATH) Act of 2015, and implemented more than 400 changes. During the 2016 filing season, the IRS:

- Received more than 29.9 million business returns, 3.2 percent more than in 2015;
- Processed more than 17.5 million electronically-filed business returns, 7.6 percent more than in 2015; and
- Issued more than 97 million refunds in total, with an average value of \$2,711.

During the FY 2017 filing season, the IRS received more than 135 million individual tax returns and issued over 97 million refunds totaling over \$268 billion. Over 90 percent of individual returns received were filed electronically. Filing season LOS reached 79 percent, its highest level since 2007.

IRS FY 2018 Budget Highlights

Dollars in Thousands

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

FY 2018 Budget Adjustments

Adjustments to Request

Maintaining Current Level (MCLs)

Pay-Raise +\$122,449,000 / +0 FTE

Funds are requested for the proposed January 2018 pay-raise.

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

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

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

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

Resource Adjustments

Base Realignment for Support Services \$0 / 0 FTE

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

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

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

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

and \$80.6 million in Operations Support (a decrease of \$27.6 million) for customer service.

Program Changes

Program Increases +\$179,449,000 / +266 FTE

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

Program Decreases

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

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

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

The IRS will realize reductions in Taxpayer Services, Enforcement, Operations Support, and Business Systems Modernization (BSM) by reducing costs and streamlining operations. The IRS will mitigate the effect of this reduction by allocating funding from user fees to critical performance areas. The IRS will reduce staffing, supply, and contractual cost in all four accounts by an estimated \$220 million. Additionally, Taxpayer Services seasonal staffing costs will be reduced by an estimated \$239 million. The IRS will continue to provide service to taxpayers via a range of channels from the internet to telephones to face-to-face field assistance. The use and delivery of more online tools and other improved service channels, such as virtual tax assistance sites, will help the IRS operate in a cost effective manner.

Explanation of Budget Activities

Taxpayer Services

The FY 2018 President's Budget request is \$2,212,311,000 in direct appropriations, an estimated \$38,497,000 from reimbursable programs, an estimated \$67,600,000 from user fees, and an estimated \$15,000,000 from unobligated balances from prior years for a total operating level of \$2,333,408,000. This appropriation funds the following budget activities:

Pre-filing Taxpayer Assistance & Education (\$600,717,000 from direct appropriations, an estimated \$15,000 from reimbursable resources)

This budget activity funds services to assist taxpayers with understanding and meeting their tax obligations, including tax law interpretation, publication, production, and advocate services.

Filing & Account Services (\$1,611,594,000 from direct appropriations, an estimated \$38,482,000 from reimbursable resources,

and an estimated \$67,600,000 from user fees)

This budget activity funds programs that provide filing and account services to taxpayers, process paper and electronically submitted tax returns, issue refunds, and maintain taxpayer accounts. The IRS continues to make progress in decreasing paper returns and increasing the use of electronic filing and payment methods.

Enforcement

The FY 2018 President's Budget request is \$4,706,500,000 in direct appropriations, an estimated \$43,717,000 from reimbursable programs, an estimated \$29,541,000 from offsetting collections – non-reimbursables, an estimated \$16,150,000 from user fees, and an estimated \$18,321,000 from unobligated balances from prior years for a total operating level of \$4,814,229,000. This appropriation funds the following budget activities:

Investigations (\$606,747,000 from direct appropriations and an estimated \$42,993,000 from reimbursable resources)

This budget activity funds the Criminal Investigation (CI) programs that explore potential criminal and civil violations of tax laws, enforce criminal statutes relating to violations of tax laws and other financial crimes, and recommend prosecution when warranted. These programs identify and document the movement of legal and illegal sources of income and instances of suspected intent to defraud. This budget activity also provides resources for international investigations involving U.S. citizens residing abroad, non-resident aliens, and expatriates, and includes investigation and prosecution of tax and money laundering violations associated with narcotics organizations.

Exam & Collections (\$3,967,808,000 from direct appropriations and an estimated \$502,000 from reimbursable resources)

This budget activity funds programs that enforce the tax laws, increase compliance through examination and collection, and ensure proper payment and tax reporting. It also includes campus support of the Questionable Refund program and appeals and litigation activities associated with exam and collection.

Regulatory (\$131,945,000 from direct appropriations, an estimated \$222,000 from reimbursable resources, and an estimated \$16,150,000 from user fees)

This budget activity funds the development and printing of published IRS guidance materials; interpretation of tax laws; internal advice to the IRS on general non-tax legal issues such as procurement, personnel, and labor relations; enforcement of regulatory rules, laws, and approved business practices; and support of taxpayers in the areas of pre-filing agreements, determination letters, and advance pricing agreements. The Return Preparer Program is funded within this activity, as is the Office of Professional Responsibility, which identifies, communicates, and enforces Treasury Circular 230 standards of competence, integrity, and conduct of professionals representing taxpayers before the IRS.

Operations Support

The FY 2018 President's Budget request is \$3,946,189,000 in direct appropriations, an estimated \$39,885,000 from reimbursable programs, an estimated \$441,900,000 from user fees, and an estimated \$49,970,000 from unobligated balances from prior years for a total operating level of \$4,477,944,000. This appropriation funds the following budget activities:

Infrastructure (\$860,643,000 from direct appropriations and an estimated \$690,000 from reimbursable resources)

This budget activity funds administrative services related to space and housing, rent and

space alterations, building services, maintenance, guard services, and non-IT equipment.

Shared Services & Support (\$1,011,411,000 from direct appropriations, an estimated \$17,520,000 from reimbursable resources, and an estimated \$11,900,000 from user fees)

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

Information Services (\$2,074,135,000 from direct appropriations, an estimated \$21,675,000 from reimbursable resources, and an estimated \$430,000,000 from user fees)

This budget activity funds staffing, equipment, and related costs to manage, maintain, and operate the information systems critical to the support of tax administration programs. This includes the design and operation of security controls and disaster recovery planning. This budget activity funds the development and maintenance of the millions of lines of programming code that support all aspects and phases of tax processing and the operation and administration of mainframes, servers, personal computers, networks, and a variety of management information systems.

Business Systems Modernization

The FY 2018 President's Budget request is \$110,000,000 in direct appropriations and an estimated \$185,584,000 from unobligated balances from prior years for a total operating

level of \$295,584,000. This appropriation funds the following budget activity:

Business Systems Modernization (\$110,000,000 in direct appropriations)

This budget activity funds the planning and capital asset acquisition of IT to modernize IRS business systems, including labor and related contractual costs. It funds investments in systems that enhance the IRS's capability to detect, resolve, and prevent tax refund fraud and protect U.S. Treasury revenue, simplify the taxpayer's online experience, provide secure digital communications, and add more interactive capabilities to existing web self-service products.

Legislative Proposals

The IRS requests Streamlined Critical Pay (SCP) authority through September 30, 2021. This authority allowed the IRS to recruit and retain IT and other senior professionals and limited this authority to 40 positions. The authority to make new SCP appointments expired September 30, 2013. Currently there are seven senior employees under SCP appointments, down from a high of 30. If the SCP is not renewed, the IRS will face additional challenges recruiting and retaining top level talent as the remaining SCP term appointments expire, especially IT professionals who can help protect taxpayer data from cyberattacks and who can assist with modernizing the IRS's IT infrastructure. According to Treasury Inspector General for Tax Administration report 2015 IE-R001, The Internal Revenue Service's Use of Its Streamlined Critical Pay Authority, "private sector expertise had been crucial to introducing new leadership to supplement in house expertise, and the IRS had taken advantage of the private sector expertise by retaining the critical pay appointees whenever feasible."

IRS Performance Highlights

Budget Activity	Performance Measure	FY 2014	FY 2015	FY 2016	FY 2016	FY 2017	FY 2018
		Actual	Actual	Actual	Target	Target	Target
Filing and Account Services	Customer Accuracy - Accounts (Phones)	96.2	95.5	96.1	94.0	95.0	95.0
Filing and Account Services	Customer Service Representative (CSR) Level of Service (%)	64.4	38.1	53.4	47.0	64.0	39.0
Filing and Account Services	Percent of Individual Returns Processed Electronically (%)	84.1	85.3	86.4	86.0	87.0	88.0
Exam and Collections	Automated Collection System (ACS) Accuracy (%)	95.2	95.3	95.4	95.0	95.0	95.0
Exam and Collections	Automated Underreporter (AUR) Coverage (%)	2.6	2.3	2.3	2.2	2.0	2.0
Exam and Collections	Examination Efficiency - Individual (Form 1040)	138	148	143	122	118	126

Description of Performance

In FY 2016, the IRS continued to provide quality service to taxpayers and enforce the law with integrity and fairness but was unable to maintain some performance levels due to resource constraints. Nevertheless, the IRS continued to deliver in key areas, including international, tax exempt, refund fraud, and identity theft.

Taxpayer Services

Providing high quality service and helping taxpayers understand and meet their tax obligations remain priorities for the IRS. During FY 2016, the IRS collected more than \$3.3 trillion in tax revenue, processed more than 244 million tax returns and other forms, and issued more than \$426 billion in tax refunds. Other highlights include:

- Achieved an 86.4 percent individual e-file rate and a 50 percent business e-file rate;
- Delivered a telephone LOS of 53.4 percent;

- Answered more than 13.1 million calls, 5.3 million more calls than in 2015; and
- Correctly answered 96.1 percent of account questions over the telephone.

The IRS continues to improve and expand its outreach and educational services through partnerships with state taxing authorities, volunteer groups, and other organizations. Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites provided free tax assistance for the elderly, disabled, and limited English proficient individuals and families.

The IRS made steady progress on a number of efforts that will deliver service efficiently and effectively, such as:

- Launching *Finding Out How Much You Owe* on IRS.gov, which provides taxpayers with straightforward balance inquiries in a secure, easy, and convenient way. In nearly four weeks after launch in late 2016,

taxpayers checked their account balance nearly 54,000 times, and made more than 6,700 tax payments, for more than \$21 million, through *Direct Pay*; and

- Releasing the 100th eBook for mobile devices in the ePub format.

Enforcement

In FY 2016, the IRS collected more than \$54.3 billion, for a total ROI of \$5 to \$1. The ROI estimate does not include the revenue effect of the indirect deterrence value of these investments and other IRS enforcement programs, which is conservatively estimated to be at least three times the direct revenue effect.

The IRS CI program investigates potential criminal violations of the Internal Revenue Code and related financial crimes, such as money laundering, currency violations, tax-related identity theft fraud, and terrorist financing that adversely affect tax administration.

In FY 2016, results for criminal investigation completions are 2.1 percent below the year-end target and reflect a 17.1 percent decrease compared to FY 2015. Overall performance in FY 2016 was affected by a significant decrease in the number of Special Agents in recent years and a focus on more complex tax cases, which take longer to complete, and a working inventory still in the judicial process. CI obtained 2,672 convictions.

During the past year, the IRS maintained its international enforcement presence, continued actions to leverage the tax return preparer community, and continued prioritizing refund fraud prevention. The IRS stopped \$4 billion in fraudulent refunds claimed by identity thieves on 787,000 tax returns through new screening criteria. In addition, the IRS worked

with its Security Summit partners from state tax agencies and the broader tax community to add extra layers of security protection for the filing season.

Business Systems Modernization

IRS modernization efforts continued in FY 2016. Protecting IRS systems and taxpayer data is essential for maintaining high-quality taxpayer service programs. In FY 2016, the IRS:

- Deployed several CADE 2 Transition State 2 projects for filing season 2016, which allowed a more effective way to record and retain taxpayer history, corrected automated failure to pay calculations for the adjusted refundable credits, and aggregated and provided taxpayer data to downstream systems across the IRS; and
- Deployed maintenance and enhancements for the Return Review Program in preparation for the 2016 filing season, which allowed for receipt of Forms W-2, *Wage and Tax Statement*, directly from reporting agents and other Form W-2 issuers earlier in the filing season to verify income and reduce fraud and anomalies. Receiving the Form W-2 information earlier allowed the IRS to release good returns sooner in the fraud detection process, which reduced taxpayer burden.