

## Internal Revenue Service

### Program Summary by Budget Activity

Dollars in Thousands

Budget Activity	FY 2019	FY 2020	FY 2021	FY 2020 to FY 2021	
	Operating Plan <sup>1</sup>	Enacted <sup>2</sup>	Request	\$ Change	% Change
Taxpayer Services	\$2,556,554	\$2,535,554	\$2,562,554	\$27,000	1.06%
Pre-filing Taxpayer Assistance and Education	621,907	656,829	667,018	10,189	1.55%
Filing and Account Services	1,934,647	1,878,725	1,895,536	16,811	0.89%
Enforcement	\$4,677,600	\$4,909,500	\$5,071,260	\$161,760	3.29%
Investigations	595,686	654,285	675,533	21,248	3.25%
Exam and Collections	3,907,290	4,091,953	4,225,886	133,933	3.27%
Regulatory	174,624	163,262	169,841	6,579	4.03%
Operations Support	\$3,918,400	\$3,885,000	\$4,104,689	\$219,689	5.65%
Infrastructure	891,140	881,654	895,071	13,417	1.52%
Shared Services and Support	900,287	1,012,155	1,063,984	51,829	5.12%
Information Services	2,126,973	1,991,191	2,145,634	154,443	7.76%
Business Systems Modernization	\$150,000	\$180,000	\$300,000	\$120,000	66.67%
<b>Subtotal Internal Revenue Service</b>	<b>\$11,302,554</b>	<b>\$11,510,054</b>	<b>\$12,038,503</b>	<b>\$528,449</b>	<b>4.59%</b>
Reimbursables	124,559	170,726	179,262	8,536	5.00%
Offsetting Collections – Non-Reimbursables	9,749	31,781	33,370	1,589	5.00%
User Fees	319,023	530,230	549,930	19,700	3.72%
Recovery from Prior Years	7,515	11,386	11,339	(47)	-0.41%
Recoveries from Paid Obligations		3,681	3,681		
Unobligated Balances from Prior Years	356,057	168,743	116,142	(52,601)	-31.17%
Transfers In/Out	111				
<b>Total Program Operating Level</b>	<b>\$12,119,568</b>	<b>\$12,426,601</b>	<b>\$12,932,227</b>	<b>\$505,626</b>	<b>4.07%</b>
Direct FTE	72,731	74,544	73,361	(1,183)	-1.59%
Reimbursable FTE	642	978	1,027	49	5.01%
User Fee FTE	96	75	1,520	1,445	1926.67%
Unobligated Balances from Prior Years	727	15	15		
<b>Total FTE</b>	<b>74,196</b>	<b>75,612</b>	<b>75,923</b>	<b>311</b>	<b>0.39%</b>

<sup>1</sup>FY 2019 Operating Plan amount includes a \$194.4 million interappropriation transfer from Enforcement to Operations Support to cover anticipated operations and maintenance requirements in FY 2019. FY 2019 amount also includes \$77 million for the Section 112 Administrative Provision to implement requirements under the Tax Cuts and Jobs Act (Public Law 115-97). FY 2019 Other Resources and Full-time Equivalents (FTE) reflect actuals.

<sup>2</sup>FY 2020 Enacted Amount includes a proposed \$76.5 million interappropriation transfer from Enforcement to Operations Support to cover anticipated operations and maintenance requirements in FY 2020. FY 2020 Enacted Amount also includes \$24 million transfer from Enforcement to Taxpayer Services. FY 2021 Request does not include the \$400 million Program Integrity Cap Adjustment.

### Summary

The IRS FY 2021 budget request is \$12.039 billion, \$528.449 million (4.6 percent) more than the FY 2020 enacted level of \$11.510 billion.

The budget includes a program increase of \$220 million for the modernization plan and implementation of the Taxpayer First Act. The modernization request includes \$300 million total for the Integrated Modernization Business Plan to continue developing new web applications, payment features, electronic notices, secure online customer service assistance, and replacements for legacy systems. The Taxpayer First Act request includes \$106 million to implement several new requirements which will enhance customer service, taxpayer information protections, and online service platforms. The budget funds costs associated with two pay raises

and an increase in employee retirement contributions. The budget proposes several important legislative changes, including a program integrity cap adjustment of \$400 million in FY 2021, that when combined with future investments, will generate \$64 billion in net savings over 10 years and provide the Department of the Treasury with additional authority to improve tax administration.

The IRS Strategic Plan FY 2018 – FY 2022 guides resource decisions, programs, and operations. The plan aligns with the goals and objectives in Treasury’s strategic plan by administering tax laws to help taxpayers meet their obligations, while protecting the integrity of the tax system and achieving operational excellence.

In FY 2019, the IRS delivered a successful filing season that opened on January 28, 2019. During the 2019 filing season, the IRS:

- Received about 155 million individual tax returns and issued more than 109 million refunds totaling \$300 billion with an average individual refund of \$2,800. Almost 91 percent of these individual returns were filed electronically;
- Achieved a 66.9 percent filing season level of service (LOS), the relative success rate of taxpayers calling the toll-free line for assistance, an increase of 1.9 percent over the target of 65 percent;
- Answered more than 21.5 million calls;
- Served 1.3 million taxpayers, more than 798,000 face-to-face assistor contacts, and more than 483,000 taxpayers, who had issues resolved over the phone when calling for an appointment;
- Received 422 million visitors to the IRS.gov website with 317 million taxpayers checking the *Where’s My Refund?* tool for the status of their refund. This represents a 9 percent increase in the use of IRS.gov and a 20 percent increase in *Where’s My Refund?* compared to last filing season; and
- Received about 32 million business returns, and approximately 29 million were filed electronically, an increase of 5.8 percent from 2018.

## IRS Budget Highlights

Dollars in Thousands

Bureau: Internal Revenue Service Summary of FY 2021 Request	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT		BSM		TOTAL	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
FY 2020 Enacted (Pre-IAT)	\$2,511,554	26,390	\$5,010,000	35,388	\$3,808,500	11,970	\$180,000	426	\$11,510,054	74,174
Planned Interappropriation Transfer	24,000	370	(100,500)		76,500					370
FY 2020 Enacted	\$2,535,554	26,760	\$4,909,500	35,388	\$3,885,000	11,970	\$180,000	426	\$11,510,054	74,544
Changes to Base:										
Maintaining Current Levels (MCLs)	\$107,929		\$207,089		\$130,866		\$6,201		\$452,085	
Pay Annualization (3.1% average pay raise)	18,078		35,236		13,896		547		67,757	
Pay Raise (1.0% average pay raise)	17,631		34,364		13,552		533		66,080	
FERS Contribution Increase	26,523		52,345		20,143		989		100,000	
Non-Pay	4,058		7,258		41,840		2,188		55,344	
Additional Required Labor Costs	41,639		77,886		41,435		1,944		162,904	
Efficiencies/Savings	(\$80,929)	(1,082)	(\$56,589)	(454)	(\$6,277)				(\$143,795)	(1,536)
Increase e-File Savings	(4,607)	(85)			(77)				(4,684)	(85)
Space Optimization					(6,200)				(6,200)	
Personnel Savings	(76,322)	(997)	(56,589)	(454)					(132,911)	(1,451)
Subtotal FY 2021 Changes to Base	\$27,000	(1,082)	\$150,500	(454)	\$124,589		\$6,201		\$308,290	(1,536)
FY 2021 Current Services	\$2,562,554	25,678	\$5,060,000	34,934	\$4,009,589	11,970	\$186,201	426	\$11,818,344	73,008
Program Increases:										
Integrated Modernization Business Plan							113,799	91	113,799	91
Implementing the Taxpayer First Act			11,260	92	95,100	170			106,360	262
Subtotal FY 2021 Program Increases			\$11,260	92	\$95,100	170	\$113,799	91	\$220,159	353
<b>Total FY 2021 Request (Before Cap)</b>	<b>\$2,562,554</b>	<b>25,678</b>	<b>\$5,071,260</b>	<b>35,026</b>	<b>\$4,104,689</b>	<b>12,140</b>	<b>\$300,000</b>	<b>517</b>	<b>\$12,038,503</b>	<b>73,361</b>
Dollar/FTE Change FY 2021 Request over FY 2020 Enacted	\$27,000	(1,082)	\$161,760	(362)	\$219,689	170	\$120,000	91	\$528,449	(1,183)
Percent Change FY 2021 Request over FY 2020 Enacted	1.06%	-4.04%	3.29%	-1.02%	5.65%	1.42%	66.67%	21.36%	4.59%	-1.59%
Cap Adjustment Program Increases										
Increase Audit Coverage			123,440	1,325	49,740	8			173,180	1,333
Increase Collection Coverage			119,737	1,334	50,769	8			170,506	1,342
Expand Coverage in the Tax-Exempt Sector			12,102	109	3,664				15,766	109
Expand Cyber and Virtual Currency Compliance Efforts			24,704	101	15,844				40,548	101
Subtotal FY 2021 Cap Adjustment Investments			\$279,983	2,869	\$120,017	16			\$400,000	2,885
<b>Total FY 2021 Request Including Cap Adjustment</b>	<b>\$2,562,554</b>	<b>25,678</b>	<b>\$5,351,243</b>	<b>37,895</b>	<b>\$4,224,706</b>	<b>12,156</b>	<b>\$300,000</b>	<b>517</b>	<b>\$12,438,503</b>	<b>76,246</b>
Dollar/FTE Change FY 2021 Request Including cap over FY 2020 Enacted	\$27,000	(1,082)	\$441,743	2,507	\$339,706	186	\$120,000	91	\$928,449	1,702
Percent Change FY 2021 Request Including cap over FY 2020 Enacted	1.06%	-4.04%	9.00%	7.08%	8.74%	1.55%	66.67%	21.36%	8.07%	2.28%

## Budget Adjustments

**Base Adjustment.....+\$0 / +370 FTE**

The FY 2020 enacted level of \$11.510 billion assumes a \$100.5 million interappropriation transfer from Enforcement to Taxpayer Services (\$24.0 million) and Operations Support (\$76.5 million) that will be included in the IRS FY 2020 Operating Plan. A total of 370 FTE will be added to Taxpayer Services to support delivery of a 60 percent LOS and an estimated 65 percent LOS for the filing season (January through April) on the Accounts Management phone lines in FY 2020.

**Maintaining Current Levels (MCLs)..... +\$452,085,000 / +0 FTE**

**Pay Annualization (3.1%) +\$67,757,000 / +0 FTE**

Funds are requested for annualization of the January 2020 3.1% average pay raise.

**Pay Raise (1.0%) +\$66,080,000 / +0 FTE**

Funds are requested for a 1.0% average pay raise in January 2021.

FERS Contribution Increase +\$100,000,000 / +0 FTE

Funds are requested for the 1.3 percent increase to the Federal Employee Retirement System (FERS) contribution rates effective FY 2021, for a total employer contribution of 17.3 percent of base salaries. This amount is in addition to the 2.4 percent increase absorbed in FY 2020.

Non-Pay +\$55,344,000 / +0 FTE

Funds are requested for inflationary increases in non-labor expenses such as travel, contracts, rent, supplies, and equipment. This amount is based on an Office of Management and Budget (OMB) Circular A-11 inflation factor of 2 percent.

Additional Required Labor Costs +\$162,904,000 / +0 FTE

Funds are requested to pay for increases in labor resulting from employees moving through career ladders, above journey level promotions, manager payband increases, and within-grade increases (\$117.9 million). These funds will also pay for an increase in employee performance awards spending per OMB Circular A-11.

**Efficiencies/Savings..... -\$143,795,000 / -1,536 FTE**

Increase e-File Savings -\$4,684,000 / -85 FTE

The IRS projects a total of 1,300,100 fewer returns filed on paper (623,000 individual and 676,500 business returns). As a result, the IRS will need 85 fewer FTE in submission processing, generating a savings of \$4.7 million.

Space Optimization -\$6,200,000 / -0 FTE

The IRS will reduce expenditures on rent and improve usage of office space across the country. Since 2013, the IRS released 3.7 million square feet, closing 115 buildings and reducing total rent costs by about 11 percent. For FY 2020, the IRS anticipates the release of 500,000 square feet with an estimated \$10 million in annualized rent savings. The IRS will continue to consolidate space in FY 2021, projecting a release of 243,000 square feet for an estimated \$6.2 million in annualized rent savings.

Personnel Savings -\$132,911,000 / -1,451 FTE

Although the budget request increases staffing resources to support strategic priorities, the IRS must manage its personnel costs through limited attrition replacement and seasonal workforce adjustments across many operational areas. These adjustments are necessary to fund the \$452 million in inflationary and labor cost increases for existing personnel, including annualization of the 2020 pay raise, the proposed 2021 pay raise, employee promotions, and employee retirement contributions. To achieve these savings, the IRS plans to:

- Fill critical vacancies only;
- Streamline the workforce by reducing administrative, analyst, and other support positions; and
- Realign mission critical occupations by hiring employees who have the background and skills to support the IRS in meeting its strategic goals, objectives, and priorities.

**Program Increases..... +\$220,159,000 / +353 FTE**  
**IRS Integrated Modernization Business Plan +\$113,799,000 / +91 FTE**

Modernization is an IRS priority and a key driver of the President’s Management Agenda. The plan will enable the IRS to provide consistently superior service to taxpayers and deliver long-term budget efficiencies as the IRS modernizes capabilities currently provided via legacy applications. Highlights of the investment include:

- \$25 million for web applications to provide taxpayers and tax professionals a digital service channel to establish and manage taxpayer/tax professional authority relationships;
- \$10 million for digital notices available through a secure online account for taxpayers who prefer that channel over mailed correspondence;
- \$15 million for the live assistance program to expand customer callback capabilities on IRS phone lines;
- \$100 million for the Customer Account Data Engine 2 project to continue replacing legacy code established almost 60 years ago;
- \$64 million for Enterprise Case Management to establish a common cloud infrastructure, automate business functions, and enable seamless case transfers; and
- \$46 million to modernize IRS cybersecurity defenses.

**Implementing the Taxpayer First Act +\$106,360,000 / +262 FTE**

The Taxpayer First Act will usher in dramatic changes in how the IRS engages with taxpayers. The Taxpayer First Act’s provisions will improve the experience of taxpayers as they interact with the IRS and increase the IRS’s ability to secure taxpayer information, protect taxpayer identities, develop additional online capabilities for taxpayers, and develop comprehensive training for IRS employees. The IRS needs additional resources to implement the Taxpayer First Act’s provisions. Highlights of the investment include:

- \$30 million to create a new website that allows taxpayers to prepare, file, and distribute Form 1099 information returns;
- \$14 million to facilitate electronic filing of statements and returns in the Form 990 series or Form 8872 (Political Organization Report of Contributions and Expenditures); and
- \$9 million to provide increased staffing for the office of appeals to share case files with taxpayers prior to conference and for the IRS whistleblower office to provide periodic updates on referral status.

**Legislative Proposals**

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The FY 2021 budget request includes tax administration legislative proposals.

**Provide the IRS with greater flexibility to address correctable errors:** The budget would expand the IRS authority to correct errors on taxpayer returns. Current statute only allows the IRS to correct errors on returns in certain limited instances, such as basic math errors or the failure to include the appropriate social security number or taxpayer identification number. This proposal would expand the instances in which the IRS could correct a taxpayer’s return including cases where: (1) the information provided by the taxpayer does not match the information contained in Government databases or Form W-2, or from other third party databases as the Secretary determines by regulation; (2) the taxpayer exceeded the lifetime limit for claiming a deduction or credit; or (3) the taxpayer failed to include with his or her return certain documentation that is required to be included on or attached to the return. This proposal would

make it easier for IRS to correct clear taxpayer errors, directly improving tax compliance, reducing EITC and other improper payments, and freeing IRS resources for other enforcement activities.

**Increase Oversight of Paid Tax Return Preparers:** Paid tax return preparers have an important role in tax administration because they assist taxpayers in complying with their obligations under the tax laws. Incompetent and dishonest tax return preparers increase collection costs, reduce revenues, disadvantage taxpayers by potentially subjecting them to penalties and interest because of incorrect returns, and undermine confidence in the tax system. To promote high quality services from paid tax return preparers, the proposal would explicitly provide that the Secretary of the Treasury has the authority to regulate all paid tax return preparers.

**Improve clarity in worker classification and information reporting requirements:** The budget proposes to: (1) establish a new safe harbor that allows a service recipient to classify a service provider as an independent contractor and requires withholding of individual income taxes to this independent contractor at a rate of five percent on the first \$20,000 of payments; and (2) raises the reporting threshold for payments to all independent contractors from \$600 to \$1,000 and reduces the reporting threshold for third-party settlement organizations from \$20,000 and 200 transactions per payee to \$1,000 without regard to the number of transactions. In addition, Form 1099-K would be required to be filed with the IRS by January 31 of the year following the year for which the information is being reported. The proposal increases clarity in the tax code, reduces costly litigation, and improves tax compliance.

**Fund the Federal Payment Levy Program via Collections:** This proposal would allow the Fiscal Service to retain a portion of the funds collected under the Bureau's Federal Payment Levy Program (FPLP) which processes and collects delinquent tax debts through the Treasury Offset Program (TOP). TOP currently recoups its costs from retained amounts from collected amounts for all its programs except for the FPLP, but under current law, the IRS must pay these costs through annual reimbursement agreements under the Economy Act. This proposal would make the FPLP consistent with other TOP programs. Delinquent taxpayers will not be impacted by the proposal because they will receive credit for the full amount collected. This proposal creates efficiencies because it allows the Fiscal Service to recover its FPLP costs from the IRS in the same manner as other TOP programs.

**Require a social security number (SSN) that is valid for work to claim child tax credit (CTC), earned income tax credit (EITC), and credit for other dependents (ODTC):** The Administration proposes requiring an SSN that is valid for work to claim the EITC, CTC (both the refundable and non-refundable portion), and/or the ODTC for the taxable year. For all credits, this requirement would apply to taxpayers (including both the primary and secondary filer on a joint return) and all qualifying children or dependents. Under current law, taxpayers who do not have an SSN that is valid for work may claim the CTC if the qualifying child for whom the credit is claimed has a valid SSN. Furthermore, the ODTC, created by the Tax Cuts and Jobs Act, allows taxpayers whose dependents do not meet the requirements of the CTC, including the SSN requirement, to claim this non-refundable credit. This proposal would ensure that only individuals who are authorized to work in the United States could claim these credits by extending the SSN requirement for qualifying children to parents on the tax form for the CTC

and instituting an SSN requirement for the ODT. While this SSN requirement is already current law for the EITC, this proposal also would close an administrative gap to strengthen enforcement of the provision.

**Program Integrity Cap Adjustment:** In addition to the base appropriations request of \$12 billion request, the budget proposes a \$400 million discretionary program integrity cap adjustment in FY 2021 to fund new and continuing investments in expanding and improving the effectiveness and efficiency of the IRS’s overall tax enforcement program. The Budget proposes \$280 million for the Enforcement account and \$120 million for the Operations Support account. Additional adjustments are provided in future years to fund new initiatives and inflation. These investments will generate \$79 billion in new revenue over 10 years and will cost \$15 billion, for net revenue of \$64 billion over 10 years. This return on investment (ROI) is likely understated because it does not reflect the effect that enhanced enforcement has on deterring non-compliance. More information on the cap adjustment is available in Section 4.1 of the Appendix and in the Budget Process Chapter of the Analytical Perspective volume of the FY 2021 President’s Budget.

***Performance Highlights***

Budget Activity	Performance Measures	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2019 Target	FY 2020 Target	FY 2021 Target
Filing and Account Services	Customer Service Representative Level of Service (LOS)	77.1%	75.9%	65.4%	63.0%	60.0%	60.0%
Exam and Collections	Examination Coverage - Individual	0.6%	0.6%	0.45%	0.50%	0.48%	0.55%
Investigations	Criminal Investigations Completed	3,089	3,051	2,797	2,800	2,700	2,700
Investigations	Conviction Rate	91.5%	91.7%	91.2%	92.0%	92.0%	92.0%
Information Services	Percentage of Aged Hardware <sup>1</sup>	52.3%	45.5%	31.0%	43.8%	30.0%	30.0%
<sup>1</sup> This is a new budget level metric; the measure definition changed in FY 2018; and, prior-year numbers are reported consistent with the new definition.							

***Description of Performance***

In FY 2019, the IRS continued to provide quality service to taxpayers and to enforce the laws with integrity and fairness. The IRS continued to deliver improvements in key areas, including international, tax exempt, refund fraud, and identity theft.

***Taxpayer Services***

The IRS strives to deliver high quality and timely service to taxpayers and stakeholders and help them understand and meet their tax obligations. The IRS:

- Achieved an 88.8 percent individual e-file rate and a 57.8 percent business e-file rate;
- Delivered a fiscal year telephone LOS of 65.4 percent;
- Answered more than 21.5 million calls; and
- Answered 94.3 percent of account questions over the telephone correctly.

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 provide free tax assistance for the elderly, disabled, and limited English proficient individuals and families.

The Customer Service Representative (CSR) Level of Service (LOS) measures the relative success rate of taxpayers wanting to speak with a CSR on telephone lines answered by Accounts Management (78 percent of all telephone traffic). In FY 2019, the CSR LOS exceeded the target of 63 percent, reaching 65.4 percent. While the target was met, the LOS dropped 10.5 percentage points from FY 2018 due, in part, to the lapse in appropriations. The LOS target is set at 60 percent for FY 2020 with filing season LOS projected to reach 65 percent. The FY 2021 target is 60 percent with filing season projected to be 65 percent.

### ***Enforcement***

In FY 2019, the IRS collected \$57.5 billion through enforcement programs, a return on investment (ROI) of about \$5 to \$1. This number is likely understated, since the ROI estimate does not include the revenue effect of the indirect deterrence value of IRS enforcement programs.

The IRS Criminal Investigation (CI) organization 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 2019, CI completed 2,797 criminal investigations, achieved 1,735 convictions with a rate of 91.2 percent, and achieved a Department of Justice case acceptance rate of 93.0 percent and a U.S. Attorney case acceptance rate of 88.5 percent, which compares favorably with other federal law enforcement agencies.

The Examination program provides taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness. In FY 2019, Individual Exam Coverage was 0.45 percent, below the target of 0.50 percent. This measure tracks the number of individual audits closed in a given fiscal year but does not reflect in real time ongoing open audit activities or exam effectiveness. There were about 212,000 fewer individual audits completed in FY 2019, a 24 percent decrease compared to FY 2018. In FY 2019, Business Examination Coverage was 1.6 percent, below the target of 2.2 percent. Results for these measures were influenced by attrition, the lapse in appropriations, and training requirements for new employees.

### ***Operations Support***

The Percentage of Aged Hardware measure shows the quantity of IT hardware in operation past its useful life as a percentage of total hardware in use. The IRS made considerable progress reducing the percentage of aged hardware from 45.5 percent at the end of FY 2018 to 31 percent at the end of FY 2019. For FY 2020 and FY 2021, the IRS will set the target of 30 percent.



### ***Business Systems Modernization***

IRS modernization efforts continued in FY 2019. Some key accomplishments were:

- **WebApps - ID Verify Tool:** This tool provides an online option for taxpayers whose return has been selected as a potential identity theft return by the IRS's Taxpayer Protection Program. With the ID Verify Tool, taxpayers can provide additional identity verification information online rather than on the phone or in person. From February through August 29, 2019, over 131,000 taxpayers successfully logged in and more than 111,000 (85 percent) of unique users were able to resolve their account online.
- **Live Assistance – Callback - External Application - Balance Due:** This feature gives taxpayers on the IRS Toll-Free Balance Due line a callback option when calling to discuss or pay a balance due rather than having to wait on the phone for an IRS CSR. When offered, approximately 77 percent of taxpayers chose to receive a call back and over 90 percent of callbacks successfully reconnected the taxpayer with an IRS CSR.
- **Live Assistance - Callback - Internal Application - IRS IT Help Desk:** This new feature saves staff time by providing a callback option for IRS employees calling the internal help desk for IT assistance with their workplace technology.