

Internal Revenue Service

Appropriation / Budget Activity	FY 2008	FY 2009		FY 2010		
	Enacted ¹	ARRA	Enacted ²	Request	\$ Change	% Change
Taxpayer Services	\$2,191,085		\$2,293,000	\$2,269,830	(\$23,170)	-1.01%
Pre-filing Taxpayer Assistance and Education	645,253		661,000	676,063	15,063	2.28%
Filing and Account Services	1,545,832		1,632,000	1,593,767	(38,233)	-2.34%
Enforcement	4,780,000		5,117,267	5,504,000	386,733	7.56%
Investigations	592,906		603,466	637,694	34,228	5.67%
Exam and Collections	4,037,812		4,363,826	4,706,350	342,524	7.85%
Regulatory	149,282		149,975	159,956	9,981	6.66%
Operations Support	3,841,109		3,867,011	4,082,984	215,973	5.59%
Infrastructure	826,313		883,325	900,852	17,527	1.98%
Shared Services and Support	1,291,296		1,254,542	1,296,629	42,087	3.35%
Information Services	1,723,500		1,729,144	1,885,503	156,359	9.04%
Business Systems Modernization	267,090		229,914	253,674	23,760	10.33%
Health Insurance Tax Credit Administration	15,235	80,000	15,406	15,512	106	0.69%
Subtotal, Internal Revenue Service	\$11,094,519	\$80,000	\$11,522,598	\$12,126,000	\$603,402	5.24%
Offsetting Collections - Reimbursable	140,207		143,611	147,101	3,490	2.43%
Mandatory Appropriation - User Fees	246,946		175,700	167,700	(8,000)	-4.55%
Total Program Operating Level	\$11,481,672	\$80,000	\$11,841,909	\$12,440,801	\$598,892	5.06%

¹ The FY 2008 Enacted Budget reflects the FY 2008 Operating Plan which includes a transfer of \$9.6M between Taxpayer Services and Operations Support and includes supplemental funding for Economic Stimulus payment of \$202.1M.

² The FY 2009 Enacted column excludes the Recovery Act, Administrative Expenses account, funded in the Treasury Departmental Offices (\$123M).

Explanation of Request

The Internal Revenue Service (IRS) collects the revenue that funds the government and administers the nation's tax laws. The IRS collected \$2.7 trillion in FY 2008, 96 percent of total federal receipts. In order to protect the flow of revenues to the government, the IRS pursues a robust service and enforcement agenda. The service agenda is designed to support and protect the trillions in revenue from hundreds of millions of taxpayers that already come into the Treasury every year. The enforcement agenda is designed to vigorously pursue those who evade their responsibility to pay the taxes they owe.

Total resources to support the IRS activities for FY 2010 are \$12,440,801,000. This includes \$12,126,000,000 from direct appropriation, an estimated \$147,101,000 from reimbursable programs, and an estimated \$167,700,000 from user fees. The direct appropriation is a \$603,402,000 increase, or an increase of 5.2 percent, over the FY 2009 enacted level of \$11,522,598,000 (excludes

funding to implement the American Recovery and Reinvestment Act (ARRA) of 2009 (Public Law 111-5)).

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

The IRS strategic plan goals and objectives are:

- Goal 1 Improve Service to Make Voluntary Compliance Easier*
- Goal 2 Enforce the Law to Ensure Everyone Meets Their Obligation to Pay Taxes*

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

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

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

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

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

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

- Ensure the privacy and security of data and safety and security of employees.

The FY 2010 President's Budget Request for IRS provides the funding needed to implement key strategic priorities.

Enforcement Program: The FY 2010 President's Budget request includes program increases of \$332.2 million for investments in strong compliance programs, including a robust portfolio of international enforcement initiatives. The Budget request includes additional resources for enhanced tax enforcement through a program integrity allocation adjustment.

Increased resources for the IRS compliance programs yield direct measurable results through high return-on-investment activities. The new enforcement personnel funded in the FY 2010 President's Budget will generate \$2.0 billion in additional annual enforcement revenue once the new hires reach full potential in FY 2012. This estimate does not account for the deterrent effect of IRS enforcement programs, which are conservatively estimated to be at least three times larger than the direct revenue impact.

The tax law is complex, and even sophisticated taxpayers make honest mistakes on their tax returns. Accordingly, helping taxpayers understand their obligations under the tax law is a critical to improving compliance. To this end, the IRS remains committed to a balanced program of assisting taxpayers in both understanding the tax law and remitting the proper amount of tax.

Taxpayer Service Program: The FY 2010 President's Budget request continues improvements to both the quality and efficiency of taxpayer service, using a variety of person-to-person, telephone, and web-based methods to help people understand their tax obligations and pay their taxes. The IRS taxpayer service program is funded in the

Taxpayer Services and Operations Support appropriations.

Providing quality taxpayer service is fundamental to keeping honest taxpayers in the system. It also helps them avoid making unintentional errors before returns are filed, which in turn reduces the need for follow up correspondence from the IRS. The IRS provides year-round assistance to millions of taxpayers, including outreach and education programs, issuance of tax forms and publications, rulings and regulations, toll-free call centers, the IRS.gov web site, Taxpayer Assistance Centers (TACs), Volunteer Income Tax Assistance (VITA) sites, and Tax Counseling for the Elderly (TCE) sites.

American Recovery and Reinvestment

Act: ARRA includes a number of tax provisions for which IRS implementation is now underway, including among others: individual tax credits; tax incentives for business; bond incentives along with tax exempt and tax-favored bonds for economic recovery; and a tax credit to provide discounted health benefits to certain workers who have lost their jobs. IRS will be able to continue to implement and administer these

critical tax programs within the levels contained in this Budget request.

Purpose of Program

The IRS serves individuals, businesses, and non-profit organizations, and processes over 249 million tax returns annually. Our system of voluntary tax compliance requires the IRS to excel at taxpayer service for those who are trying to meet their obligations under the law and enforcement programs for those who shirk their responsibilities to their fellow citizens. Most taxpayers comply with the law by filing returns and paying their taxes on time, but some do not comply either because they do not understand their obligations under our complex tax laws, or because they seek to avoid those obligations.

The FY 2010 President's Budget request seeks funding to improve the responsiveness of taxpayer service, to support a robust portfolio of international tax and other compliance initiatives, and to address critical information technology infrastructure needs to allow the IRS to adapt to the complex and constantly changing environment in which the IRS operates.

IRS FY 2010 Budget Highlights

(Dollars in thousands)

Appropriation	Taxpayer Services	Enforcement	Operations Support	Business Systems Modernization	Health Insurance Tax Credit Administration	Total
FY 2009 Enacted	\$2,293,000	\$5,117,267	\$3,867,011	\$229,914	\$15,406	\$11,522,598
Changes to Base						
Maintaining Current Levels (MCLs)	\$60,195	\$133,815	\$61,060	\$1,153	\$106	\$256,329
Pay Annualization	20,135	46,489	13,005	412	13	80,054
Pay Inflation Adjustment	38,828	85,486	23,816	741	23	148,894
Non-Pay Inflation Adjustment	2,463	3,680	24,829		141	31,113
Government-wide Reduction for Productivity Improvements	(1,231)	(1,840)	(10,590)		(71)	(13,732)
GAO Audit Reimbursement Pursuant to P.L. 110-323			10,000			10,000
Efficiencies/Savings	(\$90,918)		(\$27,207)			(\$118,125)
Increase e-File Savings	(8,227)		(133)			(8,360)
Non-Recur Savings			(27,074)			(27,074)
Non-Recur Stimulus Savings	(67,900)					(67,900)
Non-Recur FY08 Reduction Adjustment / Correspondence Inventory	(13,439)					(13,439)
Non-Recur Pension Plan	(1,352)					(1,352)
Reinvestment	\$2,025		\$306			\$2,331
Submission Processing Consolidation (Andover)	2,025		306			2,331
Subtotal, FY 2010 Changes to the Base	(\$28,698)	\$133,815	\$34,159	\$1,153	\$106	\$140,535
Total FY 2010 Base	\$2,264,302	\$5,251,082	\$3,901,170	\$231,067	\$15,512	\$11,663,133
Program Changes						
Program Increases						
Enforcement Initiatives	\$5,528	\$252,918	\$73,714			\$332,160
Reduce the Tax Gap Attributable to International Activities	\$3,124	\$104,113	\$20,827			128,064
Improve Reporting Compliance of SB/SE Taxpayers	267	75,114	18,834			94,215
Expand Document Matching for Business Taxpayers	1,425	17,955	6,857			26,237
Address Nonfiling/Underpayment and Collection Coverage	712	55,736	27,196			83,644
Infrastructure Initiatives			108,100			108,100
Address IT Security and Material Weakness			90,000			90,000
Implement Return Review Program (RRP)			18,100			18,100
Business Systems Modernization Initiative				22,607		22,607
Subtotal, FY 2010 Program Changes	\$5,528	\$252,918	\$181,814	\$22,607		\$462,867
Total FY 2010 President's Budget Request	\$2,269,830	\$5,504,000	\$4,082,984	\$253,674	\$15,512	\$12,126,000

FY 2010 Budget Adjustments

The IRS funding increase for FY 2010 is \$603,402,000, which includes \$256,329,000 for maintaining current levels; a net decrease of \$115,794,000 from efficiency/savings and reinvestments; and a program increase of \$462,867,000 to strengthen enforcement, address IT security needs and deploy information technology systems. These investments fund increased front-line enforcement efforts. By FY 2012, these investments are projected to increase annual enforcement revenue by \$2.0 billion.

The budget request supports these activities by proposing:

- \$332,160,000 to target the tax gap by addressing underreporting of tax associated with complex international activities; expanding enforcement efforts on noncompliance among business and high-income taxpayers; and minimizing revenue loss by increasing document matching efforts;
- \$108,100,000 to address critical IT operational and security infrastructure needs; and
- \$22,607,000 to accelerate efforts to modernize the core taxpayer account database.

FY 2009 Enacted

The FY 2009 enacted level for the IRS is \$11,522,598,000, supporting an estimated 94,209 FTE.

Maintaining Current Levels

Adjustments Necessary to Maintain Current Levels +\$260,061,000 / 0 FTE

Funds are requested for: FY 2010 cost of the January 2009 pay increase of \$80,054,000, the proposed January 2010 pay raise of \$148,894,000, and non-labor related items such as contracts, travel, supplies, equipment, and GSA rent adjustments of \$31,113,000.

Government-wide Reduction for Productivity Improvements -\$13,732,000 / 0 FTE

The IRS continues to focus on improving the efficiency of its operations through a disciplined process of productivity improvement. Note that the IRS outlines additional efficiency savings in the next section.

GAO Audit Reimbursement Pursuant to Public Law 110-323 +\$10,000,000 / 0 FTE

This adjustment will provide funds up to \$10 million to reimburse the Government Accountability Office (GAO) for the audit of the IRS annual financial statements. The IRS must pay this cost pursuant to Public Law 110-323. In prior years, GAO conducted the financial statement audit for which it did not receive reimbursement.

Efficiency Savings

Increase e-File Savings -\$8,360,000 / -182 FTE This decrease is a result of savings from increased electronic filing (e-File), which is projected to lead to 4.6 million fewer returns filed on paper (2.9 million individual and 1.7 million business) in FY 2010. This is projected to result in a savings of 182 FTE in submission processing.

Non-Recur Savings -\$27,074,000 / 0 FTE

This is the net reduction of one-time costs associated with the IRS FY 2009 enforcement initiatives.

Non-Recur Stimulus Savings -\$67,900,000 / -1,322 FTE

One-time resources were provided in FY 2009 to meet the requirements of the Economic Stimulus Act of 2008 (Public Law 110-185).

Non-Recur FY 2009 Reduction Adjustment/ Correspondence Inventory -\$13,439,000 / 0 FTE One-time resources were provided in FY 2009 to handle the increased adjustment/correspondence workload that resulted from diverting staff from paper correspondence to telephone service to meet the requirements of the Economic Stimulus Act of 2008 (Public Law 110-185).

Non-Recur Pension Plan Form Processing -\$1,352,000 / 0 FTE This is a decrease resulting from the funding of the one-time cost in FY 2009 to test the IRS ERISA (Employee Retirement Income Security Act of 1974) Residual Solution (IERS) system. This system will process the electronic Form 5500, *Annual Return/Report of Employee Benefit Plan* from the new Department of Labor ERISA Filing Acceptance system and the paper Form 5500EZ, *Annual Return of One-Participant (Owners and Their Spouses) Retirement*.

Reinvestment

Submission Processing Consolidation (Andover) +\$2,331,000 / 0 FTE Increased use of electronic filing options has led to consolidation of the individual return processing sites. Increased e-File savings will be reinvested to fund one-time severance pay costs for the ramp down of the Andover submissions processing site. As the Andover consolidation approaches, the IRS will continue to assist employees in finding employment either in or outside the IRS.

Program Increases

Reduce the Tax Gap Attributable to International Activities +\$128,064,000 / +784 FTE The IRS plans a multi-year investment, beginning in FY 2010, to deal more effectively with increasing international tax activities of individual and business taxpayers.

This effort will address the underreporting of tax associated with international transactions as well as domestic taxpayers involved with offshore activities. It will also expand the IRS presence in the tax-exempt and governmental sectors and confront international tax evasion schemes.

This initiative will increase examinations of additional international issues of complex international structures involving tiered pass-through entities and cross-border transactions by a projected 5,357; close an estimated additional 1,057 related corporate and individual returns; increase the number of additional examinations of individual and small business returns with offshore activity by an estimated 1,145; and resolve approximately 18,362 additional collection cases. These additional activities will generate \$736.6 million in additional enforcement revenue once the new hires reach full potential in FY 2012.

Improve Reporting Compliance of Small Business and High Income Taxpayers +\$94,215,000 / +755 FTE This initiative will improve reporting compliance by increasing examinations of business and high-income returns and exams involving flow-through entities by 47,400; audits targeting employment, excise, and estate and gift taxes by 6,350; and investigations of business non-filers by 183,000. This request will generate \$567.2 million in additional enforcement revenue once new hires reach full potential in FY 2012.

Expand Document Matching for Business Taxpayers +\$26,237,000 / +300 FTE This initiative will increase the coverage of the document matching program to reduce the number of business taxpayers who misreport their income. This request will generate \$386.5 million in additional revenue once new hires reach full potential in FY 2012.

efforts in recent years, the IRS must invest in improving its collection operations to ensure appropriate overall balance and coverage. This initiative will generate \$359.4 million in additional revenue once new hires reach full potential in FY 2012. In addition, this initiative will fund the rent, furniture, telecommunication, and IT costs to build two new Automated Collection System (ACS) sites.

Address Nonfiling/Underpayment and Collection Coverage +\$83,644,000 / +491 FTE With expanded enforcement

Return on Investment for Enforcement Initiatives

Dollars in Millions

FY 2010 Enforcement Investment	First Year (FY 2010)			Full Performance (FY 2012)		
	Cost	Revenue	ROI	Cost	Revenue	ROI
Direct Revenue Producing Initiatives	\$332.1	\$611.1	1.8	\$262.8	\$2,049.7	7.8
Reduce the Tax Gap Attributable to International Activities	128.1	93.8	0.7	103.4	736.6	7.1
Improve Reporting Compliance of SB/SE Taxpayers	94.2	159.6	1.7	72.6	567.2	7.8
Expand Document Matching for Business Taxpayers	26.2	191.8	7.3	22.8	386.5	17.0
Address Nonfiling/Underpayment and Collection Coverage	83.6	165.9	2.0	64.0	359.4	5.6

Address IT Security and Material Weakness +\$90,000,000 / +36 FTE Improving IT security is necessary to ensure the integrity of the tax system and maintain taxpayer confidence. This initiative will allow the IRS to enhance enterprise security risk management; harden software applications and network infrastructure security; improve security compliance monitoring and reporting; and provide an enterprise solution to deploy end-to-end audit log collection.

IRS fraudulent refund detection systems. It will deliver an integrated and unified RRP system that will enhance IRS capabilities to detect, resolve, and prevent criminal and civil tax refund and abuse.

Implement Return Review Program (RRP) +\$18,100,000 / +10 FTE In FY 2008 the Electronic Fraud Detection (EFDS) System stopped \$1.4 billion in erroneous refunds. This initiative will complete modernization of the

Business System Modernization (BSM) +\$22,607,000 / 0 FTE This initiative will provide funding for the continued modernization of the core taxpayer account database. This effort is a critical underpinning of the next generation of IRS service and enforcement initiatives. The integration strategy includes a particular focus on enhanced information technology security practices and robust accounting and financial management controls.

Explanation of Budget Activities

Enforcement

The FY 2010 President's Budget request is \$5,504,000,000 in direct appropriations and an estimated \$60,797,000 from reimbursable programs, and an estimated \$7,800,000 from user fees, for a total operating level of \$5,572,597,000. The direct appropriations level is an increase of 7.6 percent from the FY 2009 enacted level and includes enhanced tax enforcement activities funded by an allocation adjustment. This appropriation funds the following budget activities.

Investigations (\$637,694,000 from direct appropriations and an estimated \$51,553,000 from 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. These programs identify and document the movement of both legal and illegal sources of income to identify and document cases of suspected intent to defraud. It also includes investigation and prosecution of tax and money laundering violations associated with narcotics organizations.

Exam and Collections (\$4,706,350 from direct appropriations, an estimated \$8,783,000 from reimbursable programs, and an estimated \$7,800,000 from user fees) 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.

Regulatory (\$159,956,000 from direct appropriations and an estimated \$461,000 from reimbursable programs) This budget

activity funds the development and printing of published IRS guidance materials; interpretation of tax laws; advice on general legal servicing, ruling and agreements; enforcement of regulatory rules, laws, and approved business practices; and supporting taxpayers in the areas of pre-filing agreements, determination letters, and advance pricing agreements. The Office of Professional Responsibility is funded within this budget activity and is responsible for identifying, communicating, and enforcing the Treasury Circular 230 standards of competence, integrity, and conduct of professionals representing taxpayers before the IRS.

Taxpayer Services

The FY 2010 President's Budget request is \$2,269,830,000 in direct appropriations, an estimated \$39,000,000 from reimbursable programs, and an estimated \$127,000,000 from user fees, for a total operating level of \$2,435,830,000. The direct appropriations level is a reduction of 1.0 percent from the FY 2009 enacted level though it does not represent a program reduction due to non-recurrent activities and savings. This appropriation funds the following budget activities.

Pre-Filing Taxpayer Assistance and Education (\$676,063,000 from direct appropriations, an estimated \$819,000 from reimbursable programs, and an estimated \$18,700,000 from user fees) This budget activity funds services to assist with tax return preparation, including tax law interpretation, publication production, and advocate services. In addition, funding for these programs continues to emphasize taxpayer education, outreach, increased volunteer support time and locations, and enhancing pre-filing taxpayer support through electronic media.

Filing and Account Services (\$1,593,767,000 from direct appropriations, an estimated

\$38,181,000 from reimbursable programs, and an estimated \$108,300,000 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.

Operations Support

The FY 2010 President's Budget request is \$4,082,984,000 in direct appropriations, an estimated \$47,304,000 from reimbursable programs, and an estimated \$32,900,000 from user fees, for a total operating level of \$4,163,188,000. The direct appropriation level is an increase of 5.6 percent from the FY 2009 enacted level and includes dedicated support funding for enhanced enforcement activities. This appropriation funds the following budget activities.

Infrastructure (\$900,852,000 from direct appropriations, an estimated \$155,000 from reimbursable programs, and an estimated \$16,100,000 from user fees) This budget activity funds administrative services related to space and housing, rent and space alterations, building services, maintenance, guard services, and non-Automated Data Processing (ADP) equipment.

Shared Services and Support (\$1,296,629,000 from direct appropriations and an estimated \$32,228,000 from reimbursable programs) This budget activity funds policy management, 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.

Information Services (\$1,885,503,000 from direct appropriations, an estimated \$14,921,000 from reimbursable programs, and an estimated \$16,800,000 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.

Business Systems Modernization (BSM)

The FY 2010 President's Budget request is \$253,674,000 in direct appropriation. This is an increase of 10.3 percent from the FY 2009 enacted level. This appropriation funds the following budget activity.

BSM (\$253,674,000 from direct appropriations) This budget activity funds the planning and capital asset acquisition of information technology (IT) to continued modernization of the core taxpayer account database. This effort is a critical underpinning of the next generation of IRS service and enforcement initiatives. The integration strategy includes a particular focus on enhanced information technology security practices and robust accounting and financial management controls. This activity also funds the ongoing development of the Modernized e-File platform for filing tax returns electronically. BSM labor (salaries and expense dollars) and related contract costs also are funded.

Health Insurance Tax Credit Administration (HITCA)

The FY 2010 President's Budget request is \$15,512,000 in direct appropriations. This is an increase of 0.7 percent from the FY 2009 enacted level. This appropriation funds the following budget activity.

HITCA (\$15,512,000 from direct appropriations) This budget activity funds costs to administer a refundable tax credit for health insurance to qualified individuals, which was enacted as part of the Trade Adjustment Assistance Reform Act of 2002.

Legislative Proposals

The FY 2010 President's Budget includes a number of legislative proposals intended to improve tax compliance with minimum taxpayer burden. These proposals will specifically target the tax gap and generate nearly \$11 billion over the next ten years. The Administration proposes to expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties.

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

- Require information reporting on payments to corporations;
- Require a certified taxpayer identification number (TIN) from contractors;
- Require increased information reporting on certain government payments; and
- 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:

- Require electronic filing by certain large organizations; and
- Implement standards clarifying when employee leasing companies can be held liable for their clients' federal employment taxes.

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:

- Expand IRS access to information in the National Directory of New Hires for tax administration purposes;
- Make repeated willful failure to file a tax return a felony;
- Facilitate tax compliance with local jurisdictions;
- Extend statutes of limitations where state tax adjustments affect federal tax liability;
- Improve the investigative disclosure statute;
- Expand electronic filing requirements for tax return preparers;
- Repeal the requirement of a partial payment with an application for an offer-in-compromise; and
- Allow assessment of criminal restitution as tax.

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

- Impose a penalty on failure to comply with electronic filing requirements; and
- Clarify that the bad check penalty applies to electronic checks and other forms of payment.

Improve Tax Administration and Other Miscellaneous Proposals

The Administration has put forward additional proposals relating to IRS administrative reforms. These proposals would:

- Require information reporting on expense payments relating to rental property;
- Improve the foreign trust reporting penalty;

- Apply the Federal Payment Levy Program to contractors before providing Collection Due Process; and
- Clarify that vendor levy on “goods and services” would not exclude “property.”

IRS Performance by Programs

Programs	Performance Measure	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	
		Actual	Actual	Actual	Target	Target	
Taxpayer Service	Customer Contacts Resolved per Staff Year - E	7,414	7,648	12,634	Yes	10,386	8,919
	Customer Accuracy - Tax Law Phones (%) - Ot	90.9%	91.2%	91.2%	Yes	91.0%	91.2%
	Percent of Individual Returns Processed Electronically (%) - Oe (L)	54.1%	57.1%	57.6%	No	64.0%	67.3%
Enforcement	Examination Efficiency - Individual (1040) - E (L)	128	137	138	Yes	132	130
	Automated Collection System Accuracy (%) - Oe	91.0%	92.9%	95.3%	Yes	92.0%	93.5%
	AUR Efficiency E (L)	1,832	1,956	1,982	Yes	1,855	1,894

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

Description of Performance

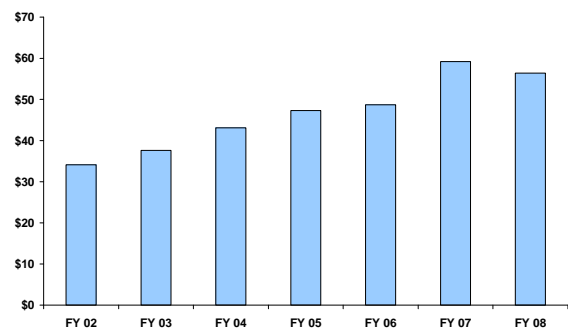
In FY 2008 the IRS continued to provide excellent service to taxpayers and enforced the tax laws in a balanced manner. The following is a summary of significant program performance improvements:

Enforcement

Enforcement of the tax laws is an integral component of the IRS effort to enhance voluntary compliance and close the tax gap. IRS enforcement activities, such as examination and collection, target elements of the tax gap, remained

a high priority in FY 2008, and will continue to be a high priority in the future.

IRS Enforcement Revenue (In Billions)



In FY 2008 the IRS collected \$56.4 billion in enforcement revenue.

In FY 2008, IRS enforcement performance improved over FY 2007 in the following key areas:

- Increased high-income taxpayer audits almost 16 percent;
- Increased small business audits 3 percent;
- Increased tax-exempt and government entities compliance contacts 6 percent;

- Increased Automated Underreporter (AUR) contact closures by almost 4 percent; and dollars collected through AUR and information return processing by 22 percent; and
- Increased collection case closures 1.4 percent.

The IRS continued to investigate vigorously egregious tax, money laundering, and other financial crimes that adversely affect tax administration. Performance levels for the criminal investigation program remained high in FY 2008 with 4,044 completed criminal investigations and 2,144 convictions.

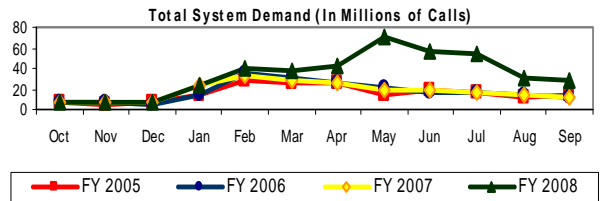
Maintaining a strong enforcement presence in the tax-exempt sector is important to ensure that charitable organizations are not used for non-charitable or illegal purposes. In FY 2008, the IRS increased tax-exempt and government entities compliance contacts 6 percent over FY 2007 levels.

Research allows the IRS to target specific areas of noncompliance to improve voluntary compliance and allocate resources more effectively to reduce the tax gap. Improved research data also refine the workload selection models to reduce audits of compliant taxpayers and ultimately help the IRS achieve high rates of return from its enforcement programs. Current National Research Program (NRP) efforts include analyzing individual income tax returns for Tax Years 2006, 2007, and 2008. In addition, an employment tax reporting compliance scores as measured by the independent American Customer Satisfaction Index showing improvement from 53 percent in 1998 to 68 percent in 2008. For the thirteenth year in a row, the number of

study is in the planning stages. Results from these studies will be used to develop additional approaches to addressing the tax gap.

Taxpayer Service

In 2008, the IRS served taxpayers through multiple channels during the tax filing



season while also delivering \$94.3 billion in economic stimulus payments to 116.2 million taxpayers and successfully implementing Alternative Minimum Tax legislation enacted late in 2007. Demand for telephone services was unprecedented in 2008, and as a result, the overall telephone level of service was 53 percent, well below the target of 82 percent.

In FY 2008, there were nearly 350 million visits to IRS.gov, up over 61 percent from 215 million in FY 2007. Taxpayers visited the website to obtain information on the economic stimulus package, determine if they qualify for the Earned Income Tax Credit (EITC), and track the status of their returns using the “Where’s My Refund?” feature. The IRS answered 92.4 million calls and served over 6.9 million taxpayers at 401 Taxpayer Assistance Centers. Taxpayer service improvements are reflected in increases in IRS Customer Satisfaction

individual returns that were filed electronically, excluding taxpayers who filed solely to claim an economic stimulus payment, increased, with over 63 percent of

all individual income tax returns e-filed in FY 2008.

FY 2009 continues to bring significant challenges to IRS service programs. Workload remains high from taxpayers seeking assistance in resolving issues from the Economic Stimulus Act of 2008 (Public Law 110-185). At the same time, the IRS is implementing the ARRA tax provisions.

Business System Modernization

IRS modernization efforts continued to focus on its core tax administration systems designed to provide more sophisticated tools to taxpayers and the IRS employees.

The following highlights the IRS efforts in FY 2008 in advancing these core systems:

- *CADE*– The 2008 CADE release was delivered on time for the filing season, and over 30.6 million taxpayers were processed using a modernized account database, a substantial increase from 11.2 million in 2007.
- *Modernized e-File (MeF)* – In 2008, MeF accepted over 3.7 million returns, a 55 percent increase over the same period in 2007; and

- *Account Management Services (AMS)* – The 2008 releases of AMS delivered the capability to update account data on a daily cycle to over 33,000 IRS customer service representatives and provided improved customer support with new inventory and workflow functionalities.

Human Capital

In late FY 2008, the IRS Commissioner established a *Workforce of Tomorrow* task force to address recruitment and retention issues so that the IRS has the necessary leadership and workforce to address future challenges.

The IRS considers employee engagement fundamental to the overall success of the organization and believes that employee engagement is an ongoing process. The IRS conducts an annual survey to assess the level of engagement of employees. Overall satisfaction showed steady improvement from a score of 3.48 in 2002 to a score of 3.79 in 2008, on a scale of 1 to 5, with 5 being the most satisfied.

IRS job satisfaction is higher than most other federal agencies according to the Office of Personnel Management's Federal Human Capital Survey.