

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

Dollars in Thousands

Appropriations Internal Revenue Service	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%
Enforcement	4,780,000		5,117,267	5,504,000	386,733	7.56%
Operations Support	3,841,109		3,867,011	4,082,984	215,973	5.59%
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%
Total Appropriated Resources	\$11,094,519	\$80,000	\$11,522,598	\$12,126,000	\$603,402	5.24%
FTE	92,415		94,209	95,081		

¹The 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.

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

FY 2010 Priorities

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 supports and protects the trillions in revenue from hundreds of millions of taxpayers that already come into the Treasury every year. The enforcement agenda vigorously pursues those who evade their responsibility to pay the taxes they owe.

In its FY 2010 request, the IRS requests additional funding for its compliance and information technology programs:

- **Enforcement** – Reducing the tax gap by investing in a strong compliance program and addressing international tax evasion
- **Information Technology** – Upgrading IRS information technology systems to streamline tax administration, protect taxpayer information, and replace aging infrastructure

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Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

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:

IRS Strategic Goals	
Goal 1	Improve Service to Make Voluntary Compliance Easier
Goal 2	Enforce the Law to Ensure That Everyone Meets Their Obligations to Pay Taxes

To improve service to 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.

FY 2010 Budget Request

The FY 2010 President's Budget Request for the IRS is \$12,126 million, which is \$603 million or an increase of 5.2 percent over the FY 2009 enacted level. The funding request for Taxpayer Services is \$2,270 million; Enforcement is \$5,504 million; Operations Support is \$4,083 million; Business Systems Modernization (BSM) is \$254 million; and Health Insurance Tax Credit Administration (HITCA) is \$16 million. The FY 2010 Budget Request funds new investments to improve compliance through enforcement, replace core technology, and improve security and performance through enhanced IT infrastructure.

The IRS \$603 million increase consists of:

- \$140 million for changes to the base:
 - \$270 million for the pay raise, inflation, and legislated cost increase;
 - -\$14 million for the government-wide reduction for productivity improvements
 - -\$118 million for savings and non-recurrent activities; and
 - \$2 million for reinvestments and other base adjustments.
- \$463 million for program increases:
 - \$332 million to reduce the tax gap by investing in a strong compliance program;
 - \$108 million to address IT operational and security risks; and
 - \$23 million to continue development of modernized IT systems.

The IRS requests \$332 million to continue reducing the tax gap by investing in a strong compliance program. The FY 2010 initiatives will allow the IRS to address underreporting of income associated with international activities and to expand enforcement efforts on noncompliance among business and high-income taxpayers. These enforcement investments will bring in \$2,050 million in new enforcement revenue each year beginning in FY 2012 once new hires are fully trained. 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 IRS requests \$108 million to improve security and performance through investments in IT infrastructure. The environment and expectations surrounding taxpayer data privacy and information technology security have changed dramatically. The IRS, as a

custodian of significant amounts of taxpayer data, requires funding to ensure the integrity and security of IRS systems.

The IRS requests an additional \$23 million 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.

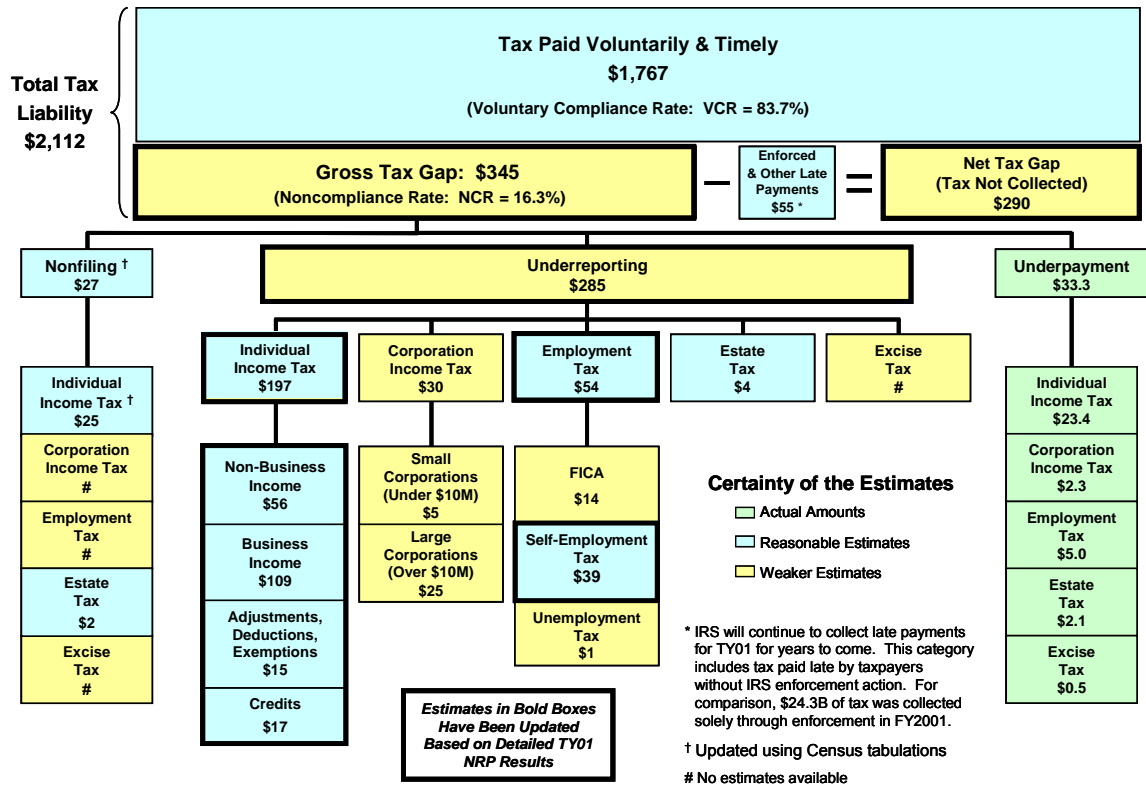
Reducing the Tax Gap

In FY 2008, the IRS collected more than \$2.7 trillion in taxes (gross receipts before tax refunds), over 96 percent of total federal government receipts. Recent investments in IRS enforcement programs have yielded significant increases in enforcement revenue. Enforcement revenue has risen from \$33.8 billion in FY 2001 to over \$56.4 billion in FY 2008, an increase of 67 percent, for a total IRS-wide ROI of 5.2 to 1. This number reflects only the direct revenue collected and does not take into account the deterrent effects of IRS enforcement programs such as Criminal Investigation.

In 2006, the IRS released updated results of its first study in two decades of the difference between taxes owed and taxes actually paid on a timely basis – the “tax gap.” The IRS estimated that taxpayers initially underpaid by \$345 billion in 2001 see “Tax Gap Map for Tax Year 2001” below. This equates to a voluntary compliance rate of almost 84 percent. Late payments and IRS enforcement action reduced this to a net tax gap of \$290 billion. The three components of the tax gap are:

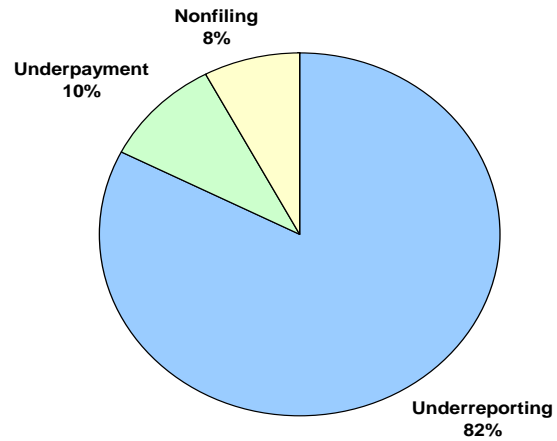
- **Underreporting** – Not reporting one’s full tax liability on a timely filed return;
- **Nonfiling** – Not filing required returns on time; and
- **Underpayment** – Not timely paying the full amount of tax reporting on a timely return.

TAX GAP MAP for Tax Year 2001 (in \$ Billions)



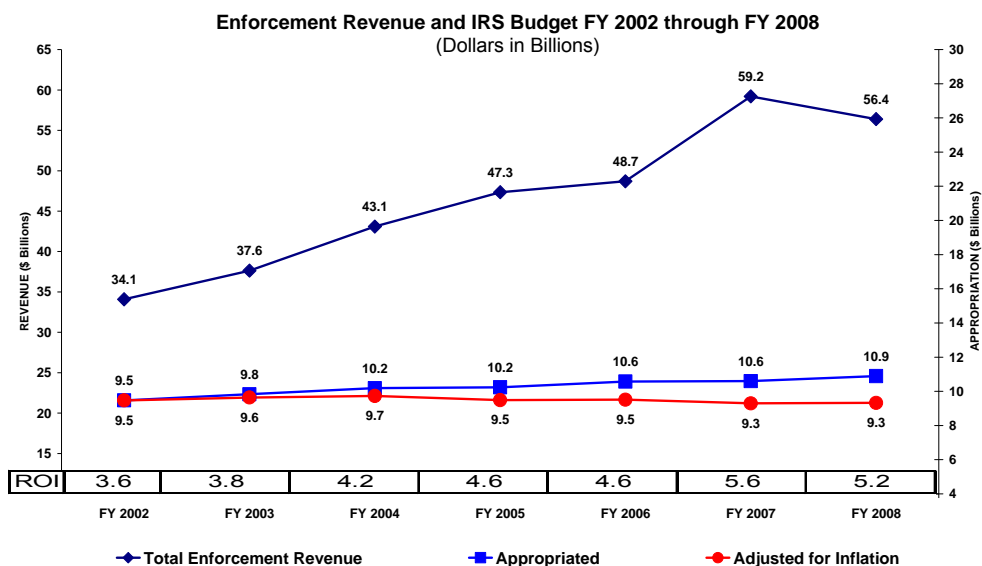
Underreporting tax liability comprises 82 percent of the gross tax gap (\$285 billion). The remainder is almost evenly divided between nonfiling (8 percent) and underpaying (10 percent). The IRS remains committed to finding ways to increase compliance and reduce the tax gap, while minimizing the burden on the vast majority of taxpayers who pay their taxes accurately and on time.

Noncompliance may not be deliberate and can stem from a wide range of causes, including lack of knowledge, confusion, poor recordkeeping, differing legal interpretations, unexpected personal emergencies, and temporary cash flow problems. Accordingly, helping taxpayers understand and fulfill their obligations under the tax law is a critical part of addressing the tax gap. However, some noncompliance is willful, even to the point of criminal tax evasion. The IRS remains committed to improving voluntary compliance and reducing the tax gap through both taxpayer service and enforcement.



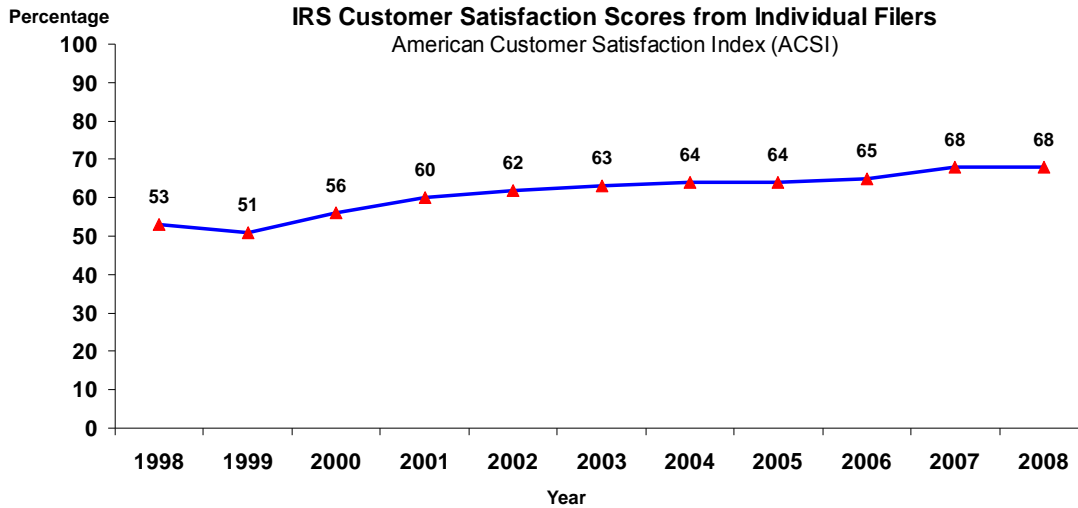
Taxpayer Service and Enforcement Programs

Although resources have remained flat (after inflation), the IRS has consistently improved customer satisfaction in its service programs and increased the efficiency of its enforcement program.



The IRS serves every individual, business, and nonprofit organization in the nation, and processes almost a quarter of a 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.

Providing quality taxpayer service is especially important to help taxpayers avoid making unintentional errors. The IRS customer satisfaction scores continue to improve (see chart below). Assisting taxpayers with their tax questions before they file their returns prevents inadvertent noncompliance and reduces burdensome post-filing notices and other correspondence from the IRS. Accordingly, the IRS provides year-round assistance to millions of taxpayers through many sources, including outreach and education programs, issuance of tax forms and publications, rulings and regulations, toll-free call centers, the IRS.gov website, Taxpayer Assistance Centers (TAC), Volunteer Income Tax Assistance (VITA) sites, and Tax Counseling for the Elderly (TCE) sites. Many of these sites provide information in Spanish as well as English.



The IRS delivered Phase 1 of the Taxpayer Assistance Blueprint (TAB) Report to Congress in April 2006. Phase 1 defined the population that uses IRS services and identified leading practices, opportunities for improvement, and a plan for additional research.

In April 2007, the IRS delivered Phase 2 of the TAB Report to Congress, which outlines a five-year strategic plan for taxpayer service that will help the IRS enhance the services delivered to taxpayers and partners. The TAB strategic plan includes performance measures, service improvement initiatives, and an implementation strategy for improving future service investment decisions.

The TAB Report provides the future direction of IRS service delivery and identifies strategic challenges, including:

- Accommodating complexity and changes to the tax code;
- Responding to the need for additional data on the causes of noncompliance;
- Expanding use of third parties;
- Adapting to the scope and diversity of the taxpaying population; and
- Keeping pace with technology and taxpayer expectations.

Increased resources for IRS enforcement programs yield a positive return on investment (ROI). As shown in the table below, the proposed IRS FY 2010 enforcement initiatives will generate \$2,050 million in additional annual enforcement revenue once the new hires reach full potential in FY 2012.

Return on Investment for IRS Enforcement Initiatives

Dollars in Millions						
	First Year (FY 2010)			Full Performance (FY 2012)		
FY 2010 Enforcement Investment	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

In addition to direct revenue, IRS enforcement activities yield indirect revenue by deterring noncompliance. This effect is more difficult to measure, but it is estimated to be at least three times 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.

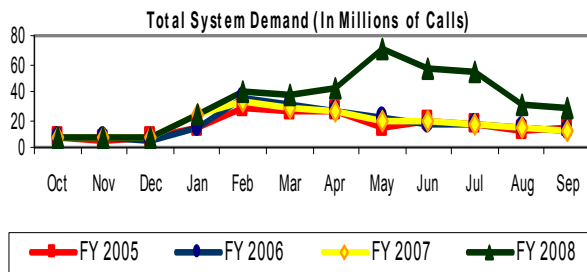
1B – Program History and Future Outlook

The IRS helps taxpayers understand and comply with federal income tax laws. Each year, IRS employees make millions of contacts with 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. Providing excellent service to taxpayers and enforcing the tax laws in a balanced manner continues to be the IRS main focus. FY 2008 performance confirms that the IRS is making steady gains in service to America’s taxpayers.

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, as shown in the chart below, and therefore, the overall telephone level of service was 53 percent, 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 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 individual returns that were filed electronically, excluding taxpayers who filed solely to claim an economic stimulus payment, increased, with over 63 of all individual income tax returns e-filed in FY 2008.



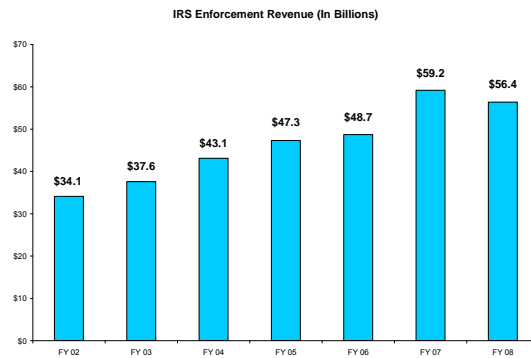
FY 2009 continues to bring significant challenges to IRS service programs. Workload remains high from taxpayers seeking assistance in resolving issues from the Economic Stimulus Act of 2008 (Public Law 110-85). At the same time, the IRS is implementing the ARRA tax provisions including among others: 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.

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

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

In FY 2008, the IRS improvements in enforcement performance resulted primarily from the focus on corrosive activities of corporations, high-income taxpayers, and other major violators of the tax code. As a result, in FY 2008 IRS 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 vigorously investigate 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 study is in the planning stages. Results from these studies will be used to develop additional approaches to addressing the tax gap.

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.

Section 2 – Budget Adjustments – Internal Revenue Service

The IRS Budget request for FY 2010 is \$12,126,000,000 in direct appropriations and 95,081 FTE. This is an increase of \$603,402,000 or 5.2 percent, and 872 FTE, over the FY 2009 enacted level of \$11,522,598,000 and 94,209 FTE.

Program Summary by Appropriations Account and Budget Activity

Dollars in Thousands

Appropriations Internal Revenue Service	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%
Total Appropriated Resources	\$11,094,519	\$80,000	\$11,522,598	\$12,126,000	\$603,402	5.24%
Total FTE	92,415		94,209	95,081		

¹The 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.

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

2.1 – Budget Adjustments Tables

Dollars in Thousands

Internal Revenue Service

	FTE ¹	Amount
FY 2009 Enacted	94,209	\$11,522,598
Changes to Base:		
Maintaining Current Levels		\$256,329
Pay Annualization		80,054
Pay Inflation Adjustment		148,894
Non-Pay Inflation Adjustment		31,113
Government-wide Reduction for Productivity Improvements		(13,732)
GAO Audit Reimbursement Pursuant to P.L. 110-323		10,000
Efficiencies/Savings	(1,504)	(\$118,125)
Increase e-File Savings	(182)	(8,360)
Non-Recur Savings		(27,074)
Non-Recur Stimulus Savings	(1,322)	(67,900)
Non-Recur FY09 Reduction Adjustment/Correspondence Inventory		(13,439)
Non-Recur Pension Plan		(1,352)
Reinvestment		\$2,331
Submission Processing Consolidation (Andover)		2,331
Subtotal Changes to Base	(1,504)	\$140,535
Total FY 2010 Base	92,705	\$11,663,133
Program Changes:		
Enforcement Initiatives	2,330	\$332,160
Reduce the Tax Gap Attributable to International Activities	784	128,064
Improve Reporting Compliance of SB/SE Taxpayers	755	94,215
Expand Document Matching for Business Taxpayers	300	26,237
Address Nonfiling/Underpayment and Collection Coverage	491	83,644
Infrastructure Initiatives	46	\$108,100
Address IT Security and Material Weakness	36	90,000
Implement Return Review Program (RRP)	10	18,100
Business Systems Modernization Initiative		\$22,607
Subtotal FY 2010 Program Changes	2,376	\$462,867
Total FY 2010 President's Budget Request	95,081	\$12,126,000

¹ Includes Technical FTE adjustments made since February 2008.

2A – Budget Increases and Decreases Description

Treasury Strategic Goals and Outcome

All of the IRS FY 2010 initiatives support the Treasury Strategic Goal of “Effectively Managed U.S. Government Finances” and the Treasury Strategic Outcome of “Revenue collected when due through a fair and uniform application of the law.” The table below shows the IRS Budget by strategic outcome.

This table lists all FY 2010 resources by Strategic Goal, Objective and Outcome outlined in the FY 2007-2012 Treasury Strategic Plan. The Treasury Strategic Plan is a corporate level plan for the Department that provides a description of what the agency intends to accomplish over the next five years.

Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2009 Enacted	FY 2010 Request	Percent Change
Revenue collected when due through a fair and uniform application of the law	11,252,550	11,856,572	5.4%
Removed and reduced threats to national security from terrorism, proliferation of weapons of mass destruction, drug trafficking, and other criminal activity on the part of rogue regimes, individuals, and their support networks	270,048	269,428	-0.2%
Total	\$11,522,598	\$12,126,000	5.2%

Initiative Costing Methodology

The IRS applies a variety of methodologies to cost its initiatives based on the type of initiative. Costs for initiatives that require labor funding are calculated by converting the workload to the number and type of staff (e.g. Revenue Agents, Revenue Officers, or Special Agents) needed to deliver targeted performance goals. Once the number of full-time equivalents (FTE) and type of staff are determined, the cost of the FTE is estimated using a Unit Cost Rate (UCR) calculator, a tool for projecting FTE salary and non-salary support cost and/or savings. The UCR Calculator fully costs the salary, benefits, and support costs needed for each FTE.

Total Changes to Base +\$140,535,000 / -1,504 FTE

Maintaining Current Levels (MCLs) +256,329/ 0 FTE

Pay Adjustments and Inflation

+\$260,061,000 / 0 FTE

This request funds the estimated cost of pay and benefits increases and non-pay inflation. This amount includes:

- \$80,054,000 to fund annualization of the 3.9 percent January 2009 federal pay raise in FY 2010;
- \$148,894,000 to fund the assumed 2.0 percent January 2010 federal pay raise; and
- \$31,113,000 to fund the 1.0 percent FY 2010 non-pay inflation adjustment for items such as rent, utilities, communications, contracts, travel, supplies, and equipment.

Government-wide Reduction for Productivity Improvements

-\$13,732,000 / 0 FTE

The IRS continues to improve the efficiency of its taxpayer service and enforcement programs by identifying productivity improvements that will increase the effectiveness of the organization.

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. Public Law 110-323 requires the IRS to pay this cost. In prior years, GAO conducted the financial statement audit for which it did not receive reimbursement.

Efficiencies and Savings -\$118,125,000 / -1,504 FTE

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, generating a savings of \$8.4 million. Part of this savings will be reinvested to cover the costs of *Submission Processing Consolidation (Andover)*.

The IRS continues to strive to meet the Congressional goal of electronically receiving 80 percent of all tax and information returns. By making technological advances and increasing e-filing marketing strategies, the IRS will move toward meeting its Strategic Goals. This includes expanding options for filing, payments, and communications.

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

This is the net of reductions of non-recurring, one-time costs associated with the IRS FY 2009 enforcement initiatives (e.g., ADP equipment and training).

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). The IRS does not expect to need these funds in FY 2010.

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). The IRS expects inventory levels to return to acceptable levels in FY 2010.

Non-Recur Pension Plan
-\$1,352,000 / 0 FTE

This is a decrease resulting from the funding of the one-time, non-recurring 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 +\$2,331,000 / 0 FTE

Submission Processing Consolidation (Andover)
+\$2,331,000 / 0 FTE

Increased use of e-filing options has driven continued efforts to reduce the number of sites that process individual returns. Resources of \$2.3 million from *Increase e-File Savings* will be reinvested to fund one-time separation costs associated with the September 30, 2009 closure of the Andover submissions processing site (\$2.0 million) and cover redistribution/disbursement of existing furniture and equipment in Andover (\$0.3 million).

This reinvestment supports two IRS operational priorities – to improve returns processing efficiency and to implement planned submission processing strategies. Included in those strategies are the downsizing of IRS paper-based operations to meet the increase in

electronic submissions and the utilization of cost efficient methods to process the remaining paper workload. The ramp-down and consolidation of the Andover submissions processing site also will improve compliance by providing taxpayer services more efficiently and effectively, a key component of the tax gap strategy.

As the Andover consolidation approaches, the IRS will continue to assist employees in finding employment either in or outside the organization. The IRS makes every effort possible to place affected employees in other positions; however, the expectation that some employees will separate through Reductions in Force, Voluntary Early Retirement Authority (VERA) and Voluntary Separation Incentive Payment (VSIP), will cause the IRS to incur separation costs associated with the consolidation.

Program Increases

+462,867,000 / +2,376 FTE

Reduce the Tax Gap Attributable to International Activities

+\$128,064,000 / +784 FTE

Initiative Summary

This initiative requests an increase of \$128.1 million and 784 FTE to promote compliance with U.S. international tax provisions and to address the tax gap attributable to international transactions. The IRS needs a multi-year investment, beginning in FY 2010, to deal more effectively with increasing and complex international tax activities of individual and business taxpayers. Funding this initiative would allow the IRS to better meet the challenges of international tax administration to collect the share of tax due to the U.S. Government. This initiative will produce additional enforcement revenue of \$737 million per year (yielding an ROI of 7.1 to 1) once new hires reach full performance levels in FY 2012.

The IRS needs to respond to expanding international activity by addressing the underreporting of taxes associated with international transactions, U.S. taxpayers living overseas and domestic taxpayers involved with offshore activities.

In the last few years, the IRS has observed the following trends:

- The number of multinational enterprises increased by twentyfold from 3,000 in 1990 to well over 63,000 in 2007;
- The number of filings of Form 1120, *U.S. Corporation Income Tax Return*, containing international features has increased by 87 percent from 2002 to 2007;
- Technology has enabled the growth in industrial globalization by making it easier for small and mid-market businesses to compete across borders;
- Low- and no-tax jurisdiction countries are home to 58 percent of the foreign profits of U.S. multi-nationals; and
- A 2006 U.S. Senate Permanent Subcommittee on Investigations report estimated that the IRS could lose \$40-70 billion each year to low- and no-tax jurisdictions.

This IRS-wide effort to address international noncompliance will allow IRS to:

- Enhance IRS-wide coordination and effectiveness in the identification of emerging international compliance issues;
- Develop and resolve key international issues by increasing issue focus and specialization;
- Increase examination coverage on the international issues with the highest compliance risk;
- Discover international tax shelter issues;
- Identify individual taxpayers involved in offshore arrangements that are designed to shield ownership of assets and income;
- Address proliferation of ambitious tax evasion schemes through use of foreign and domestic trusts, offshore employee leasing, transfer pricing, and reinsurance schemes;
- Address the Treasury Inspector General for Tax Administration (TIGTA) concerns with the timeliness of requesting and delivering international specialist assistance in examinations with international features as well as reporting and withholding issues related to U.S. source payments to foreign persons and entities. (“Actions Are Needed to Control Risks With International Transactions Reported on Corporate Income Tax Returns,” Reference Number 2008-30-114. May 2008. Washington, DC. Treasury Inspector General for Tax Administration);
- Address the 2007 Government Accountability Office (GAO) concerns with the potential in under-withholding of U.S. source income flowing to undisclosed jurisdictions and unknown recipients offshore (“Challenges in Ensuring Offshore Tax Compliance.” GAO-07-823T. May 2007. Washington, DC. Government Accountability Office);
- Investigate the use of offshore tax shelters by pension plans and the diversion of exempt assets offshore; and
- Disrupt the financial structure of terrorist organizations and other financial criminal enterprises.

The IRS resources needed to carry out the international initiative are shown below.

FY 2010 Resources		
Areas of Focus	FTE	Dollars (In Millions)
Improve Identification and Coverage of International Issues and Increase Issue Specialization to Address Complex International Transactions	373	63.0
Increase Coverage of Smaller International Businesses and Individuals	113	18.0
Increase Reporting Compliance of Domestic Taxpayers with Offshore Activity	109	16.1
Further National Law Enforcement and Counterterrorism Objectives	10	5.4
Expand International Presence in Tax-Exempt and Government Sectors	16	2.4
Increase Withholding Compliance Regarding Foreign Person's U.S. Source Income	40	3.9
Expand Research and Workload Identification	2	0.5
Other Direct Costs	121	18.8
Total	784	128.1

Initiative Detail

Improve Identification and Coverage of International Issues and Increase Issue Specialization to Address Complex International Transactions (+\$63.0 million / +373 FTE)

The first component of this initiative will allow the IRS to combine the skills of Revenue Agents (RAs) with international and financial products experts and economists to address the global nature of tax administration. This initiative will:

- Expand the identification and coverage of international and cross-border transactions of large and mid-size corporations, pass-through entities, and individuals;
- Increase the examination coverage of small foreign corporations, pass-through entities, and individuals engaged in multinational transactions; and
- Address the reporting and withholding issues that indentify U.S. source income flowing to foreign recipients.

Increasingly, U.S. entities are engaging in cross-border transactions, developing complex multinational structures, and using the tax treaty network to lower their effective worldwide tax rate with both appropriate as well as abusive methods. International features on U.S. tax returns have now become the norm rather than an exception. The IRS is taking steps to increase its international expertise and ability to address the compliance challenges of globalization by increasing the training of domestic agents to identify significant international issues. This initiative will allow the IRS to increase and realign international examiners to match directly the industry and geography they serve and to identify and address risk on international issues more quickly.

The IRS will improve its ability to ensure proper tax reporting of these complex transactions. The following are just a few of the indicators of risk that challenge how the IRS approaches international tax administration:

- In 2005, 26 percent of filings by active foreign corporations owned by U.S. taxpayers represented low- and no-tax jurisdictions;
- The amount of Foreign Tax Credit (FTC) claimed has increased 95 percent from \$40.9 billion in 2002 to \$79.8 billion in 2006;
- U.S. taxpayers reporting transfers to and from foreign trusts, as well as receipts of certain foreign gifts, have increased dramatically;
- According to the latest estimates from the Department of State, over seven million U.S. citizens live abroad. In the last 10 years, 4.7 million U.S. citizens have renewed their passports at U.S. Embassies and Consulates indicating long-term residence and employment overseas; and
- Outsourcing of both management and service jobs to low wage countries continues with an estimated 3.3 million U.S. jobs expected to move to China and India by 2015.

Given the increasing globalization of individual and business taxpayers, the IRS must improve its identification and coverage of international issues on returns of domestic taxpayers and increase examination coverage of all international tax returns. The IRS will accomplish this by enhancing the international technical expertise of the workforce, hiring additional economists and international finance experts, and increasing issue focus and specialization. Some of the key tax issues arising from businesses operating worldwide include:

- Transfer pricing;
- Foreign tax credit generators;
- Abusive transactions involving hybrid instruments;
- Foreign earnings repatriation;
- Valuation issues;
- Transfers of property (tangible and intangible); and
- Potential tax shelters.

The additional International Examiners will address approximately 3,572 international issues in FY 2010, 4,286 in FY 2011 and 5,357 in FY 2012. This component of the initiative will generate additional revenue of \$27.3 million in FY 2010, \$342.9 million in FY 2011, and \$612.0 million in FY 2012.

*Increase Coverage of Smaller International Businesses and Individuals
(+\$18.0 million / +113 FTE)*

The second component of this initiative requests additional International RAs and Tax Compliance Officers (TCOs) to increase the IRS coverage of the Foreign Resident Compliance Program (FRC). The FRC addresses:

- U.S. citizens and residents who reside overseas or in U.S. Territories;
- Businesses with assets of less than \$10 million that maintain books and records overseas;
- Nonresident aliens and corporations;
- Expatriates who have given up their citizenship; and
- Employees of foreign governments and international organizations in the U.S.

The tax issues arising with these international taxpayers include:

- Withholding and income tax on foreign athletes and entertainers;
- Taxation of expatriates;
- Tax issues arising from foreign tax credits;
- Noncompliance with tax treaty provisions;
- U.S. territory self-employment tax and tax credits;
- Foreign earned income exclusion;
- High-income nonfilers;

- U.S. businesses with permanent establishments in foreign jurisdiction;
- Penalties associated with the failure to file required international forms; and
- Employees of foreign governments and international organizations.

In FY 2010, additional RAs will increase the IRS ability to examine an additional 775 individual returns and 475 business returns in the FRC program. Additional specially trained TCOs will increase IRS coverage of U.S. and nonresident alien individuals engaged in international transactions. In FY 2010, the additional TCOs will examine 1,500 additional individual returns. The additional revenue expected for FY 2010, FY 2011 and FY 2012 respectively is \$19.1 million, \$31.9 million and \$44.1 million.

*Increase Reporting Compliance of Domestic Taxpayers with Offshore Activity
(+\$16.1 million / +109 FTE)*

The third component of this initiative focuses on domestic taxpayers with offshore activity. Financial privacy laws in certain foreign jurisdictions pose a significant hurdle to IRS compliance efforts. These jurisdictions deliberately attract foreign businesses with government policies that minimize or mitigate taxes. The IRS is particularly concerned about offshore secrecy jurisdictions that:

- Offer the instant formation and management of foreign trusts, international business companies (IBC), and other special purpose entities;
- Lack transparency as they offer banking and financial secrecy by law and by custom (enforced by civil and criminal penalties including incarceration);
- Shield the beneficial owner of an entity, transaction or asset; and
- Do not exchange tax information with the United States.

A few offshore secrecy jurisdictions have Tax Information Exchange Agreements (TIEA) in place as a means for the U.S. to receive information. However, the IRS cannot take full advantage of a TIEA in situations where the U.S. person's identity is unknown. In addition, even where the U.S. is able to secure information about a U.S. taxpayer, the TIEA do not provide for assistance with the collection of U.S. taxes from foreign-based assets.

To take advantage of TIEA while addressing offshore activities, the IRS plans to establish two new domestic taxpayer offshore activity groups to fill gaps in geographic areas. The additional specially trained RAs will uncover use of offshore credit cards, disguised corporate ownership, and brokering activities.

In the first year, the additional FTE will generate an estimated 1,069 additional examinations with revenue of \$37.5 million. Additional examinations expected in FY 2011 and FY 2012 are 1,136 and 1,145, respectively. The additional revenue generated for FY 2011 and FY 2012 is \$54.7 million and \$58.3 million, respectively.

The IRS needs additional FTE in the Excise Tax program to address the cascading tax on foreign insurance companies. This work is estimated to contain over 3,000 insurance

entities. Other areas of focus include the foreign airlines ticket tax, foreign-based fuel refineries with contracts with U.S. suppliers, and imported heavy truck issues with Canada and Mexico.

The additional FTE in the Excise Tax program will generate an estimated 402 additional closures in FY 2010 with revenue of \$1.6 million. Additional closures expected in FY 2011 and FY 2012 are 422 and 426, respectively. The additional revenue generated for FY 2011 and FY 2012 is \$2.7 million and \$3.3 million, respectively.

This initiative also will fund the anticipated growth of collection activities resulting from increases in small and large business examination assessments, foreign investment transactions, and withholding compliance for nonresident aliens with independent personal service income. This additional examination activity will require additional Revenue Officers (RO) in collection.

In FY 2010, the ROs, Tax Specialists, and Tax Examiners will resolve approximately 1,075 additional Tax Delinquency Investigations (TDI) and an additional 1,941 Tax Delinquency Accounts (TDA) generating additional revenue of \$8.3 million. Additional TDA resolutions of an estimated 2,004 and 2,067 are expected in FY 2011 and FY 2012, respectively, and additional TDI resolutions of 1,110 and 1,145 are expected in FY 2011 and FY 2012. The additional potential revenue generated for FY 2011 and FY 2012 is \$14.4 million and \$18.9 million, respectively.

*Further National Law Enforcement and Counterterrorism Objectives
(+\$5.4 million / +10 FTE)*

The fourth component of this initiative will allow the IRS to double the number of Criminal Investigation (CI) attachés, placing seven assistant CI attachés in established foreign posts of duty in Ottawa, Bogota, Mexico City, Barbados, Hong Kong, London, and Frankfurt, and will establish three new foreign posts of duty in Beijing, China; San Jose, Costa Rica; and Sydney, Australia. CI attachés will aggressively combat abusive foreign tax schemes and other tax evasion schemes. Further, they are an important component in supporting the Department of the Treasury's objective of "Pre-empted and neutralized threats to the international financial system and enhanced U.S. national security."

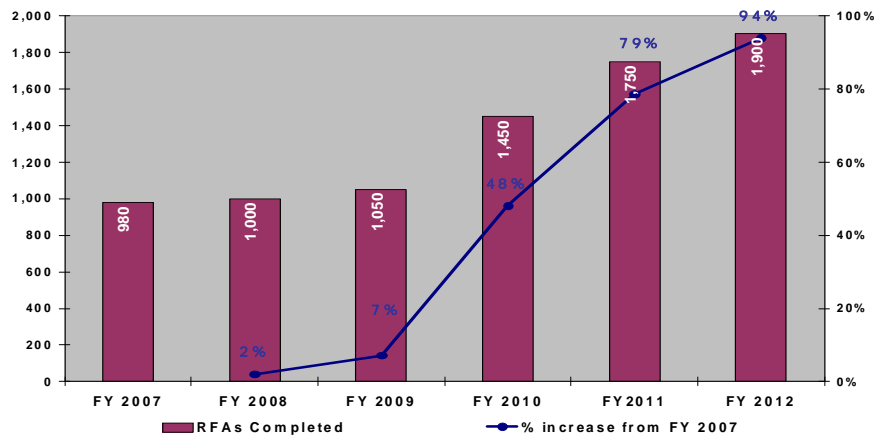
By their very nature, counterterrorism investigations involving terrorist financing have many overseas components. The attachés are crucial in processing requests for assistance involving these overseas components. These cases generally involve fundraising that originates in the US and then the money is moved offshore through various layers, including parallel banking systems such as "hawalas" through multiple countries. The attachés work in supporting these counterterrorism investigations preempts and neutralize threats to US national security by identifying and seizing funds and assets bound for terrorist organizations.

As an example, CI's most important contribution to the national effort to combat terrorism occurred when it was tasked with taking the lead in the Treasury-directed effort to identify and trace assets of the former Iraqi regime for repatriation to the Iraqi people.

Criminal Investigation Special Agents operating in Iraq, Jordan, the United Kingdom, Syria, Denmark, Switzerland, and Qatar identified over \$6 billion in assets outside Iraq that were subsequently frozen. Of these assets, more than \$1.9 billion have been repatriated to date.

The IRS expects to reduce significantly the turn around time and the backlog of Requests For Assistance (RFA) on international issues. Increasing the number of CI attachés in foreign posts directly supports the IRS efforts to combat international tax evasion schemes and terrorism by responding to RFAs in a timely manner.

Requests for Assistance (RFA) Completion



In addition to contributions made to tax administration efforts, CI attachés have contributed to the success of the IRS asset forfeiture program. One of the most effective means of dismantling criminal enterprises is the seizure and forfeiture of their assets. Criminal Investigation attachés facilitated the seizure of \$150.0 Million in assets in FY 2007 and \$19.5 million assets in FY 2008. During FY 2008, CI attachés were also instrumental in the facilitation and administration of over \$266.0 million in pending asset seizures and forfeitures resulting from prior year investigations. These monies have not yet been forfeited back to the United States due to ongoing case issues.

A significant positive effect on tax compliance exists when the media reports successful criminal enforcement actions. The study, “IRS Criminal Investigation—Measuring the Marginal Monetary Effect of Criminal Investigation Convictions,” dated May 24, 2006 by Professor Jeffrey A. Dubin of the California Institute of Technology, concluded that every dollar spent on criminal tax enforcement results in an additional \$60 of revenue.

Expand International Presence in Tax-Exempt and Government Sectors (+\$2.4 million / +16 FTE)

The fifth component of this initiative allows the IRS to expand its international presence in the tax-exempt and government sectors. The IRS will:

- Discover and investigate offshore tax shelters used by pension plans;
- Identify and investigate the diversion of exempt assets to offshore corporations or individuals for non-charitable purposes;
- Increase the coverage of government entities located in U.S. possessions and improve the reporting requirement of Form 1042; *Annual Withholding Tax Return for U.S. Source Income of Foreign Persons*;
- Provide education and outreach to federal agencies in U.S. possessions; and
- Develop regulations to respond to the growing divergence between the tax laws of the U.S. and its territories or possessions.

Historically, the IRS has had a low enforcement presence in international tax compliance for tax-exempt and government entities. This initiative would result in approximately 250 new international tax audits of tax-exempt and government entities annually, significantly increasing coverage in this emerging area. By providing additional coverage of targeted compliance risks, these efforts ensure tax expenditures relating to tax-exempt and government entities are spent in accordance with their public purpose.

Increase Withholding Compliance Regarding Foreign Person's U.S. Source Income (+\$3.9 million / +40 FTE)

The sixth component of this initiative requests additional funding and FTE to process approximately 6.2 million paper and electronic Forms such as 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding* and Forms 1042-T, *Annual Summary and Transmittal of Forms 1042-S*.

The most efficient and effective tool that the IRS can use to ensure compliance is automatic matching of these payments to annual income tax return data. The Forms 1042-S can be used to determine whether tax is owed on U.S. source income flowing to an offshore locality by determining the identity of the recipients. The matching program will reconcile the Forms 1042 and 1042-T with the Forms 1042-S to ensure the information on these forms agrees.

A recent GAO report recommended a systematic analysis of the Forms 1042-S to target enforcement efforts, assess the Treasury's exposure, and help policymakers decide whether changes need to be made to improve determinations of tax benefits. ("Challenges in Ensuring Offshore Tax Compliance." GAO-07-823T. May 2007. Washington, DC Government Accountability Office).

Expand Research and Workload Identification (RWI) (\$0.5 million/ 2 FTE)

The seventh component of this initiative will increase staffing to allow RWI to take full advantage of the new complex e-filing data. RWI will build advanced models and filter algorithms in an environment that allows the IRS to assess risk at the individual taxpayer level. This will include subsidiaries, controlled foreign corporations, disregarded entities, partnerships, and trust vehicles.

Other Direct Costs

The IRS Appeals division (\$3.9 million/ 22 FTE) will address international transactions on large, complex business returns as well as returns from smaller corporations and individuals with significant international activity. The IRS will need additional Appeals Officers to work the increased number of international issues. In addition, Appeals requires additional International Specialists, Economists, Financial Products Specialists, and Tax Computation Specialists.

The IRS Office of Chief Counsel (\$14.7 million/ 97 FTE) will provide legal advice and assistance. This is a result of expected increases in examination and litigation activities involving highly complex and abusive international transactions, Advanced Pricing Agreements (APA), and the need for assistance with Competent Authority. In addition, emerging issues and transactions of interest continue to increase requiring further Counsel involvement.

Counsel workload continues to increase in the following areas:

- Assisting Issue Management Teams (IMT) address complex and highly structured abusive transactions including the Foreign Tax Generators;
- Addressing the increasing number of emerging issues and transactions of interest;
- Developing issues along with the audit team in transactions such as Hedge Funds and Cost Sharing transactions;
- Providing published guidance and involvement in the compliance initiative due to the increase in the number and complexity of global transactions;
- Developing a closer relationship with treaty partners;
- Joining the Office of Tax Shelter Analysis in reviewing and categorizing disclosures relating to reportable transactions filed by taxpayers and material advisors;
- Contributing to transfer pricing compliance with Large and Mid-Size Business (LMSB) field and Competent Authority personnel through the Advance Pricing Agreement Program;
- Supporting the Aggressive Tax Planning (ATP) Design Team under Organization for Economic Cooperation and Development (OECD) Working Party 8; and
- Participating with the Joint International Tax Shelter Information Centre.

In FY 2010, the additional FTE will allow Counsel to close more cases to help narrow the tax gap as shown in the following chart.

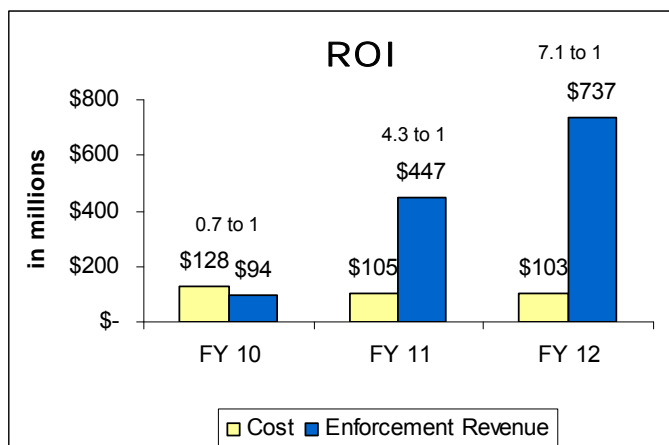
Projected Counsel Closures

Program	Advanced Case Resolution	Published Guidance	Enforcement Advice and Assistance	Tax Court Litigation	Treaties, Legislation, Congressional & Executive Correspondence	Training and Public Outreach
Initiative Projected Closures Increases	15 APA	33	595	525	124	16,700 hours

The Taxpayer Advocate office (\$0.2 million and 2 FTE) will address the expected increase in workload arising from this initiative.

Expected Benefits

In FY 2012, when the new hires reach full performance level, the IRS expects that this initiative will generate \$737 million of additional annual enforcement revenue.



Improve Reporting Compliance of Small Business/Self Employed (SB/SE) Taxpayers
+\$94,215,000 / +755 FTE

Initiative Summary

This initiative requests an increase of \$94.2 million and 755 FTE to address and improve compliance among small business and self-employed taxpayers in the tax gap element of reporting compliance. Additional enforcement revenue of \$567.2 million per year (yielding an ROI of 7.8 to 1) will be produced once new hires reach full potential in FY 2012 by increasing examinations of businesses and high-income and specialty program returns and by increasing audits involving flow-through entities.

The overall gross tax gap is estimated at \$345 billion, reflecting a noncompliance rate of 16.3 percent. Of that amount, 75 percent, or \$257 billion, is attributable to small business taxpayers. Underreporting is estimated at \$285 billion and constitutes nearly 83 percent of the tax gap. This initiative will maintain the balanced coverage approach of all taxpayer segments with a focus on effectively addressing high-risk tax gap areas.

Initiative Detail

Underreporting Compliance (+\$82.6 million / +670 FTE)

The Underreporting Compliance portion of the tax gap reflects the underreporting of income and the overstatement of deductions on returns filed timely. This portion of the tax gap is comprised of four major components: individual income tax, employment tax, corporate income tax, and estate and excise taxes. Overall underreporting of individual income tax and employment tax constitutes over 70 percent of the gross tax gap. Individual income tax underreporting totals \$197 billion, \$109 billion of which is attributed to understated net business income.

Another \$56 billion represents underreported non-business income such as wages, tips, interests, dividends, and capital gains. Employment tax accounts for an additional \$54 billion of the underreporting tax gap with \$39 billion representing self-employment tax.

In FY 2010, this investment will increase staff resources by 390 Revenue Agents (RAs), 110 Tax Compliance Officers (TCOs), 80 Specialty Field Examination attorneys, RAs and TCOs, and 90 Correspondence Examination Customer Service Representatives.

Field Examination

The RAs will continue to focus on high priority segments of the tax gap such as Abusive Tax Avoidance Transactions (ATAT), structured transactions, and corporate and high-income examinations involving flow-through entities (e.g. trusts, partnerships, and S corporations). The ATAT program will continue to identify new schemes and examine complex listed transactions such as in the Global Settlement Initiative, which has so far resulted in almost \$7 billion in tax assessments. Updated processes for selection of cases

also allow for the grouping of taxpayers with similar tax filing behavior and permits focusing on priority elements of the tax gap and selecting the best cases for examination.

Recognizing that tax return preparers are a critical component of tax administration, an IRS return preparer strategy is being developed to identify and address egregious preparers. The IRS will implement a fully coordinated preparer penalty program, consider initiation of preparer projects, and refer practitioners to the Office of Professional Responsibility when appropriate.

The RAs and TCOs will examine an additional 13,000 individual income tax returns (Individual Master File closures - IMF) and 1,700 business income tax returns (Business Master File closures - BMF) in FY 2010 with additional revenue of \$47.5 million. Once new hires reach full potential in FY 2012, this investment is projected to produce an additional 19,000 individual return audits and 2,400 business return audits, potentially generating \$301.5 million in increased revenue.

Individual returns are expected to grow by 5 percent from FY 2008 through FY 2011. Despite this growth, the IRS estimates that with the addition of Field Examination resources, the current audit coverage rate of approximately 1 percent for individual returns can be maintained.

Specialty Tax Programs

Specialty Programs addresses the tax gap by examining tax returns and addressing compliance issues in the Employment, Excise, and Estate and Gift tax programs. In the Employment Tax program, a full Employment Tax National Research Program (NRP) will be undertaken to determine national employment tax compliance levels.

Excise tax referrals from the Large and Midsize Business (LMSB) have been a compliance concern in certain abstracts including foreign insurance, ozone depleting chemicals, and air transportation taxes for corporate aircraft. Excise Tax RAs (25 FTE) will conduct approximately 1,100 new examinations in FY 2010 with an additional revenue of \$3.9 million. Once new hires reach full potential in FY 2012, this investment will produce an additional 1,300 return audits, generating \$8.3 million in increased revenue.

Employment Tax RAs and TCOs (30 FTE) will conduct approximately 4,000 more tax audits in FY 2010 with an additional revenue of \$4.2 million. Once new hires reach full potential in FY 2012, this investment is projected to produce an additional 4,700 return audits, potentially generating \$9.2 million in increased revenue.

In the Estate tax area, there has been erosion in the Estate tax audit rate because filing volumes have not declined as expected. Therefore, the 28 percent coverage rate for estates over \$5 million is projected to slip to 22 percent in FY 2009 and FY 2010.

Estate and Gift attorneys (25 FTE) will conduct approximately 300 audits in FY 2010 with additional revenue of \$9.4 million. Once new hires reach full potential in FY 2012, this investment is projected to produce an additional 350 return audits, generating \$17.2 million in increased revenue.

Correspondence Examination

The Correspondence Examination program addresses the tax gap through increased enforcement presence in priority segments and balanced coverage. The additional 90 FTE will examine approximately 21,000 more cases in FY 2010 with an estimated \$89.6 million of additional revenue. Once new hires reach full potential in FY 2012, this investment is projected to produce an additional 26,000 individual return audits, generating \$220.5 million in increased revenue.

Campus Compliance Services (+\$1.7 million / +20 FTE)

The Compliance Services Collection Operation (CSCO) addresses significant areas of the nonfiling tax gap. This initiative will increase the number of large Taxpayer Delinquency Investigations and business nonfilers investigations closed. The additional 20 FTE will allow the CSCO program to close an additional 115,000 Return Delinquencies and 52,000 BMF Substitute For Returns (6020b) cases in FY 2010 with an estimated \$5.0 million in additional revenue. Once new hires reach full potential in FY 2012, this investment is projected to produce an additional 126,000 Return Delinquencies and 57,000 6020b closures, generating \$10.5 million in increased revenue.

Other Direct Costs

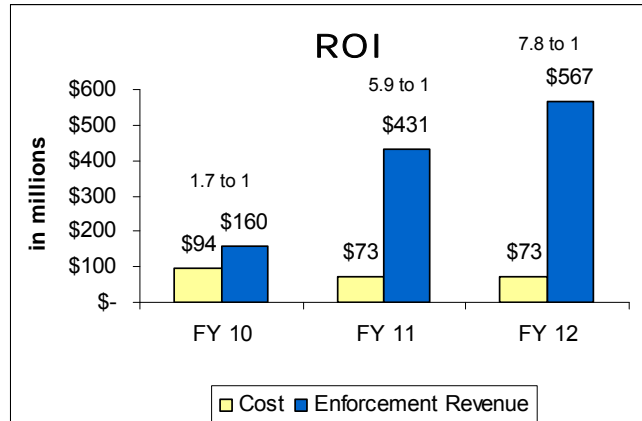
The IRS Appeals division (\$5.2 million and 30 FTE) will process additional cases generated from increased examination and collection program staffing.

The IRS Office of Chief Counsel (\$4.4 million and 32 FTE) will provide legal advice and assistance to Field Examination at the audit stage of cases involving abusive tax avoidance transactions, corporate and high-income examinations involving pass-through entities, and structured transactions. Taxpayers have increasingly used offshore tax havens to hide their income. Counsel will provide legal advice and assistance to Examination at the audit stage of cases involving overseas transactions covered by current law and treaty provisions, as well as emerging tax evasion transactions. These cases are often technically complex and, therefore, require the dedication of additional Counsel resources. Counsel will litigate those cases that are not resolved at the audit or appeals stages.

Funding for the Taxpayer Advocate Service (\$0.3 million and 3 FTE) will be applied to examination programs to ensure the IRS follows appropriate procedures and does not create unnecessary burdens or compromise taxpayer rights.

Expected Benefits

This request will produce \$567.2 million in additional annual enforcement revenue once new hires reach full potential in FY 2012.



Expand Document Matching for Business Taxpayers
+\$26,237,000 / +300 FTE

Initiative Summary

This initiative requests an increase of \$26.2 million and 300 FTE to increase the coverage of the IRS Automated Underreporter (AUR) program. Matching third-party information such as W-2s and 1099s against tax returns is critical to ensure compliance. This initiative will increase the coverage of the document matching program to reduce the number of taxpayers who misreport their income. This request will generate \$386.5 million in additional revenue once new hires reach full potential in FY 2012 (an ROI of 17.0 to 1).

Initiative Detail

The IRS requests \$22.1 million and 266 FTE for the IRS Automated Underreporter (AUR) program. The 266 FTE will reconcile the Forms 1099 with taxpayer returns and help to address the remaining 7.5 million taxpayers whose returns may have misreported income. The additional staff will follow up any discrepancies with taxpayers and decrease the tax gap, increase voluntary compliance, and reduce the number of taxpayers who underreport income in future tax years. The objective of the AUR program is to minimize revenue loss through document matching of taxpayer account information. About 12 million taxpayers may currently misreport their income based on third-party information returns. Of those, the individual and small business AUR programs process approximately 4.5 million taxpayer cases, leaving an unaddressed 7.5 million taxpayers whose returns may have misreported income.

Historical results are being analyzed to identify productive inventory segments and increased emphasis is being placed on targeting egregious repeat offenders. This initiative also will help decrease the tax gap, increase voluntary compliance, and reduce the number of taxpayers who underreport income in future tax years.

The AUR program will reconcile approximately 261,000 additional tax returns in FY 2010, generating approximately \$191.8 million in additional revenue. Once new hires reach full potential in FY 2012, this investment is projected to produce an additional 550,000 individual return audits, generating \$386.5 million in increased revenue.

Other Direct Costs

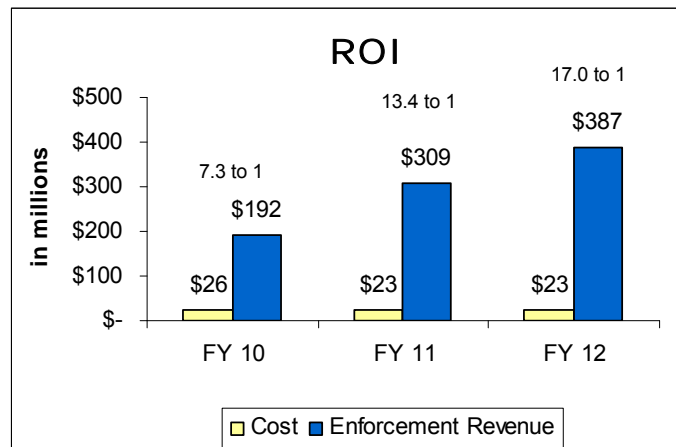
The IRS Appeals division (\$1.4 million and 8 FTE) will process additional cases that will be referred by the AUR document-matching program.

IRS Counsel (\$1.0 million and 10 FTE) will provide increased legal advice and assistance in litigating the increased number of cases and related published guidance.

Taxpayer Advocate Service (\$1.7 million and 16 FTE) will assure that the IRS has followed appropriate procedures and it has neither created an unnecessary burden nor compromised taxpayer rights.

Expected Benefits

The AUR program has one of the highest returns on investment ratios of all compliance programs. By FY 2012, the return on investment is expected to reach 17.0 to 1. This initiative will generate \$386.5 million in additional annual enforcement revenue once the new hires reach full potential in FY 2012.



Address Nonfiling/Underpayment and Collection Coverage

+\$83,644,000 / +491 FTE

Initiative Summary

This initiative requests an increase of \$83.6 million and 491 FTE to address the tax gap elements of non-filing and underpayment as well as fund the costs of building two additional Automated Collection System (ACS) sites. Over \$359.4 million of additional revenue per year (yielding a return on investment of 5.6 to 1) will be produced once new hires reach full potential in FY 2012.

The additional staff will provide an increased focus on improving voluntary compliance and decreasing non-filing, as well as augment collection coverage. This investment will increase staff resources in field collection by 300 Revenue Officers (ROs). Automated Collection System (ACS) campus compliance staff resources will increase by 120 Customer Service Representatives (CSRs) and 30 support positions.

From FY 2005 to FY 2008, available workload for Collection increased 14 percent while Collection staffing decreased 7 percent. Additionally, nearly half of available workload is generated by balance due and delinquent return first notices, the volume of which is predicated on taxpayer behavior and influenced by economic and societal issues, factors not within IRS control.

The IRS achieved a 27.2 percent increase in Collection efficiency from FY 2005 to FY 2008, thus keeping collection coverage stable. Despite the increased efficiency, the increasing workload did not allow the IRS to expand the impact of coverage in the tax gap. This initiative will position Collection to broaden its overall coverage and more effectively address the tax gap.

Initiative Detail

Nonfiling/Underpayment (+\$53.6 million / +450 FTE)

Nonfiling comprises 8 percent or \$27 billion of the tax gap. In recent years, nonfilers with high incomes and higher amounts of net tax due have dominated the nonfiler population. Through tax year 2005, repeat nonfilers accounted for 47 percent of the nonfiling problem. Reducing repeated nonfiling could significantly lower the nonfiler inventory and addressing those with high incomes could appreciably impact the tax gap.

Revenue Officers (ROs) and Campus Compliance employees use an array of techniques to address nonfiling, including the creation of compliance assessments based on available internal and third-party information. Payment Compliance represents 10 percent, or \$33 billion, of the tax gap.

Potentially Collectible Inventory (PCI) increased from \$81 billion in 2004 to \$113 billion in 2008. New PCI compliance assessments increased from \$14 billion in 2004 to \$26 billion in 2008.

Field Collection

This initiative will maximize collection efforts on key compliance assessments focused on improving voluntary compliance and decreasing nonfiling. It will also augment Collection coverage. The additional Field Collection staff will produce an estimated 5,700 additional tax delinquency accounts (TDA) and 2,900 additional tax delinquency investigations (TDI) in FY 2010. This will generate \$69.5 million in additional revenue.

At full potential in FY 2012, new hires will produce an additional 12,000 TDAs and 6,000 TDIs. This will generate \$154.6 million in additional revenue.

Automated Collection System (ACS)

The additional ACS staff will produce approximately 40,000 tax delinquency accounts and 10,900 tax delinquency investigations in FY 2010. This will yield approximately \$96.5 million in revenue.

Once new hires reach full potential in FY 2012, this investment will produce an additional 41,000 TDAs and 11,100 TDIs, which represents an additional \$204.8 million in revenue.

Build Two Automated Collection System (ACS) Sites (+ \$13.8 / 0 FTE)

This initiative funds the build out of two new Automated Collection System (ACS) sites, one in Small Business/Self-Employed (SBSE) and one in Wage & investment (W&I), to address the growing value of the inventory of collection cases.

Underpayment represents 9.6%, or \$33 billion, of the gross tax gap estimated at \$345 billion. Previous ACS initiatives have automated and streamlined collection processes, but there still is a substantial inventory of outstanding tax balance cases. Adding two ACS sites will increase compliance coverage of unpaid assessments. The following charts show the value of ACS inventories in SB/SE and W&I, and the increases over the last three fiscal years.

Dollars in billions

	Year-End Sept 2006	Year-End Sept 2007	Year-End Sept 2008
ACS Inventory Value	\$17.70	\$19.40	\$21.90

As indicated in the following chart, the IRS has increased coverage of the nonfiler case inventory each year since 2005. The number of outstanding nonfiler cases that remain adversely affects the nonfiling component of the tax gap calculated at \$27 billion and erodes voluntary compliance accomplishments.

Nonfiler Inventory				
Tax Year	Business Unit	Available Cases (in millions)	Cases Selected (in millions)	% of Available Cases Worked
2007*	W&I	4.0	2.0	50.0%
	SB/SE	2.3	1.6	69.6%
	Total	6.3	3.6	57.0%
2006	W&I	5.6	1.7	30.4%
	SB/SE	2.8	1.5	53.6%
	Total	8.4	3.2	38.1%
2005	W&I	5.4	1.2	22.2%
	SB/SE	2.5	1.3	52.0%
	Total	7.9	2.5	31.7%

* TY 2007 case inventory was affected by the Economic Stimulus Program

ACS is primarily a telephone operation, and therefore, adding more trained telephone assistors will deliver faster taxpayer service, reduce inventory backlogs, and increase case resolutions.

Tax Liens (+\$9.6 million / 0 FTE)

The IRS requests \$9.6 million for the Tax Lien program. Filing fees for tax liens and releases that the IRS must pay have increased at a rate well above inflation increases. Annual filing fee increases have ranged from 9 to 31 percent over the past five years. Fees associated with the filing of liens and releases are set by each filing location and can increase at any time without prior notification.

To cover these increases, in recent years the IRS has used 50 percent carryover funds user fees. Fully funding the Tax Lien program is critical to supporting enforcement efforts to improve compliance, which is one of the key components of the IRS strategy to narrow the tax gap.

IT Requirements (+\$0.9 million / 0 FTE)

IRS requests \$0.9 million to enhance the Reasonable Cause Assistant (RCA) system, which is an automated decision support tool. RCA's current design enables employees to make penalty determinations for both Individual Master File (IMF) Failure to File and Failure to Pay and Business Master File (BMF) Failure to Deposit (FTD). The additional

resources will allow the IRS to expand the system to include Business Master File (BMF), Failure to File (FTF), and Failure to Pay (FTP) functionality.

It also will enhance the Collection Field Centralized Case Processing by streamlining the penalty approval and abatement request processes. Additionally, it will support corrective actions identified by TIGTA to include more accurate abatement documentation.

Other Direct Costs

The IRS Appeals division (\$2.8 million and 18 FTE) will address filing and payment compliance by supporting the increased coverage of taxpayers who fail to file returns or who underpay their tax liability. These additional FTE are necessary if IRS is to adjudicate the 2,750 additional cases that will be generated through this initiative.

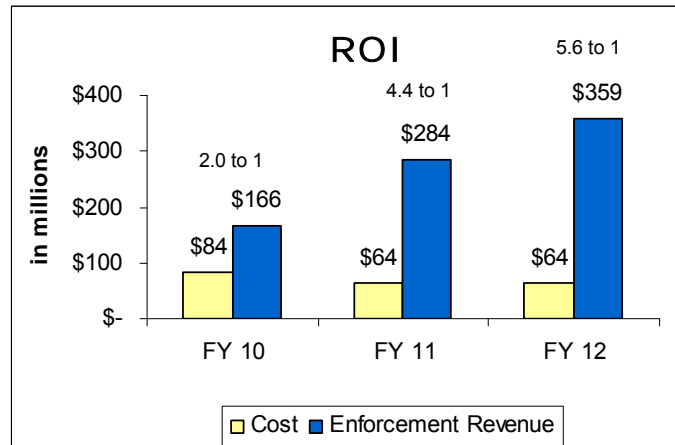
Appeals initiative resources will support Collection efforts in key areas such as improving voluntary compliance and decreasing nonfiling. These staff will support Small Business/Self Employed's (SB/SE's) increased coverage of potentially collectible inventory (PCI) by increasing the ability to address priority collection cases. IRS also will be able to protect \$111.2 million in revenue through the resolution of cases in the Collection Due Process (CDP), Collection Appeals Program (CAP), and Trust Fund Recovery Penalty (TFRP) areas.

The IRS Office of Chief Counsel (\$2.1 million and 15 FTE) will provide legal advice and assistance in litigating the increased number of cases and support for additional tax shelter litigation and published guidance.

The Taxpayer Advocate Service (\$0.8 million and 8 FTE) will ensure the IRS follows appropriate procedures and does not create unnecessary burdens or compromise taxpayer rights.

Expected Benefits

Once the new hires reach full potential in FY 2012, they will produce an additional 12,000 Tax Delinquency Accounts (TDA) and 6,000 additional Tax Delinquency Investigations (TDI) in Field Collection; an additional 41,000 TDAs and 11,100 TDIs in the Automated Collection System program; and will generate \$359.4 million in additional revenue.



Address IT Security and Material Weakness

+\$90,000,000 / +36 FTE

Initiative Summary

This initiative requests an increase of \$90.0 million and 36 FTE to improve IT security. This initiative will:

- Ensure the integrity of the tax system and maintain taxpayer confidence;
- Allow the IRS to improve the privacy and security of taxpayer information;
- Segregate securely the development, testing, and production environments for IT systems;
- Provide an enterprise solution to deploy end-to-end audit log collection, storage, and reporting; and
- Implement the Federal Information Security Management Act (FISMA) security compliance controls on all enterprise-wide Windows and UNIX computing assets.

Initiative Detail

Enhanced Enterprise Security Risk Management Tools (EESRMT)

(+\$24 million / +10 FTE)

This security project will enhance the privacy and security of taxpayer information by providing a set of advanced security tools that support security situational awareness, vulnerability analysis, security compliance, network forensics, resiliency, and security auditing. This initiative will enhance the IRS ability to deliver secure internet based services to taxpayers, stakeholders, and IRS employees. With the evolving sophistication of the threats and the increasing number of internet-based phishing and malware attacks against government information systems, the IRS needs to upgrade and strengthen its security infrastructure.

This project supports the areas of Disaster Recovery (DR), Security Governance of Risk Management, Network Security Tools and the Computer Security Material Weakness (CSMW) Plan. In the Disaster Recovery area, this initiative will reduce the time required to resume critical business processes after a disaster by deploying new technologies that specifically focus on operational resiliency, redundancy, storage, optimization, availability and recovery.

The EESRMT will implement the Agency Security Program Plan that will be Federal Information Security Management Act (FISMA) compliant. The security program plan will conduct agency Security Awareness Summits; provide Security Professional Development, Training and Formal Certification, perform Security Strategy Development, and meet NIST 800-100 requirements; and implement a Security Enterprise Risk Management (SERM) General Support System (GSS) infrastructure to house all risk management solutions, compliance tools, monitoring, auditing, and security development and testing. Tools will be

acquired to address new Federal security mandates and to aggressively resolve the agency long-standing Security Material Weaknesses.

Enhance IT Systems Resiliency (+\$9 million / +5 FTE)

The IRS Enhanced IT Systems Resiliency will mitigate risks to the most critical business processes by leveraging the latest technologies to enhance existing IT systems disaster recovery and systems resiliency capabilities. These technologies will allow business applications to meet Recovery Time and Recovery Point Objectives (RTO/RPO).

The deployment of these technologies will ensure that RTO/RPO can be achieved so that mission-critical systems can be restored within expected timeframes.

Enterprise Security Risk Management (ESRM) Security Governance Project Management Office (PMO) (+\$5 million / +5 FTE)

To support these projects, a Security Governance PMO will be expanded and formalized within the Strategic Planning, Investment and Governance program to perform project governance; manage project activities through the Enterprise Life Cycle (ELC); perform Capital Planning & Investment Control (CPIC) reporting for these new investments; and manage certification & accreditation documentation. The PMO also will conduct appropriate health assessments for security projects to ensure that projects stay within cost, schedule, and performance as well as adhere to reporting requirements of the appropriate governance boards.

Network Infrastructure Security Tools (+\$10 million / 0 FTE)

The Network Infrastructure Security Tools that support the enhanced enterprise security situational awareness, vulnerability assessment, security compliance, and forensics analysis effort will deploy the capability to centrally and automatically detect and forensically triage malicious code infections of workstations and servers that bypass existing security infrastructure components. It will provide significantly enhanced capabilities to assess the real-time security situational awareness and enterprise security risk posture of the operational production environment.

This effort also supports implementation of a set of automated tools to support vulnerability management, security compliance, and security controls testing, that will be in full compliance with the OMB Security Content Automation Protocol (SCAP) requirements. This will allow the IRS to capture, analyze, correlate and archive security information at the enterprise level across multiple systems.

This complex task will provide the advanced capability necessary to support the safe expansion of existing business tax compliance capabilities and the protection of sensitive taxpayer data. The IRS also will leverage these automated tools to support quality enhancements to the certification and accreditation process for all IRS applications and systems. A fully automated solution will provide the IRS with an opportunity to ensure consistency, and most importantly, to gain efficiencies with managing the security posture of its many systems and applications. The tools not only effectively reduce costs and time

required to meet requirements for certification and accreditation, but also offer additional opportunities to mitigate information security risks by improving risk management and ultimately the security posture of the IRS.

Harden Software Applications and Network Infrastructure Security
(+\$45.0 million / +10 FTE)

The IRS will resolve long standing IT material weaknesses by resolving the fundamental flaws in the IT infrastructure and capabilities in the following areas:

- Develop separate development, test, and production environments to properly segregate and secure application development and deployment;
- Deploy a security infrastructure to support audit controls over high-volume data extracts;
- Centralize IT assets to ensure asset inventories are accurate and that consistent management and security practices are applied to all applications and IT assets across the IRS;
- Prohibit the connectivity of rogue or unauthorized users and systems to the network;
- Deploy tools to enhance the monitoring of high-volume, sensitive data extracts as required by OMB Memorandum 06-16, “Protection of Sensitive Agency Information”;
- Implement an enterprise-wide solution to provide encrypted electronic transmission of federal tax data outside of the IRS; and
- Centralize and simplify authentication and access control to reduce the overall risk of unauthorized access to systems and bring the IRS inline with other federal government agencies and Department of the Treasury mandates.

The IRS has had computer security material weaknesses for over a decade. The IRS is increasingly reliant on IT systems to deliver improved electronic services to taxpayers and drive internal productivity enhancements. As threats to IRS systems grow in number and sophistication, and security requirements continue to increase, the IRS must harden the IT infrastructure for the critical applications, systems, and underlying information that support tax administration.

The fact that all production and development systems are connected to the same enterprise network is a key contributor to the Government Accountability Office (GAO) repeat findings on several security weaknesses, including elevated systems access and security configuration control. The current environment also limits the IRS capability to conduct comprehensive security testing prior to new application deployment. The proposed enhancements will allow the IRS to implement the logical separation of networked systems and applications used for development and testing (regardless of their physical or geographical location) from the production network carrying mission essential traffic and data.

OMB Memorandum 06-16 requires that agencies properly safeguard information assets. In response to this memorandum, the IRS will procure and deploy a suite of secure front-end tools to enhance security and audit controls over high-volume, sensitive data extracts.

The legacy decentralization control, management, operations and maintenance of IT assets across the enterprise is another contributing factor in the IRS current material weakness. To address accountability, control and security issues associated with the current-state, the IRS is centralizing all IT resources into the corporate Modernized & Information Technology Services (MITS) support organization. The centralization all IRS IT assets under MITS will:

- Enable the IRS to maintain accurate and complete inventories;
- Ensure consistent processes are applied across all applications; and
- Ensure systems are securely operated and maintained.

Significant risk reduction in this area of asset management will be realized through the implementation of centralized IT asset control under the MITS organization. Full implementation of these capabilities is expected in 2011.

Enterprise Single Sign-on (ESSO) (+\$15.0 million / +10 FTE)

This project will provide an integrated and unified approach to enterprise single sign-on that is compliant and fully interoperable with recent requirements and mandates (including HSPD-12, and Federal Desktop Core Configuration FDCC). The goal of this investment is to provide users with the ability to access IRS applications and network resources using a single, secure login. Upon a single sign-on, users will be authenticated to all network resources and all facility physical security access control system applications that are a part of the enterprise infrastructure network. The FY 2010 resources for this project will provide for logical systems integration, engineering, software development and procurement of supporting hardware platforms to host the ESSO solution set, including facility security access control system software and hardware.

This project will help remedy the Computer Security Material Weakness (CSMW) in the area of Network Access Controls and Application/Systems Access Controls. The ESSO investment directly supports the correction of these weaknesses by providing access management across the enterprise. The tool will centralize authentication and access control.

Currently, the IRS makes use of a large collection of disparate user identification and authentication mechanisms in order to gain access to the enterprise network infrastructure, IRS logical applications and access to physical facilities. This situation introduces high costs as system developers must implement custom security code for each network application, resulting in a variety of scalability and maintenance problems. Users are currently required to develop and remember a large number of user IDs and passwords, and the new Federal Desktop Core Configuration (FDCC) guidance requires IRS users to make use of longer length passwords.

Transition planning and detailed implementation strategies will be developed and refined in FY 2009, and pilot efforts will address the complex issues associated with the development of the Enterprise Single Sign-on solution set. Initial implementation in FY 2010 will focus on the IRS mission essential applications and systems supporting tax

administration to include: network logon, web portals, integration with Active Directory, ID management and also the facility physical security access control systems at the major IRS facility locations (such as the headquarters complex, computing centers and submission processing centers). The initial implementation will provide a “reduced sign-on” capability to IRS. Full implementation in the out-years will expand the ESSO solution set to an increasing number of IRS applications and facilities until the final goal of a unified framework for security authentication (single sign-on) is achieved.

Separate Development, Test, and Production Environments (+\$15 million / 0 FTE)

Consistent with OMB and Treasury guidance, this initiative will provide segregated environments to improve IRS capabilities and enhance security. This will provide an industry best practice suite of tools and technologies and will enable the IRS to develop a more robust, thoroughly tested and managed capability. It will enhance the security of the operational environment and offer security and separation from the development environment. These segregated capabilities will help the IRS to meet both assurance and governance requirements.

Tools to Enhance Security Controls of Sensitive Data Extracts (+\$9 million / 0 FTE)

The IRS is addressing OMB Memorandum 06-16 by improving its capability to log, track and manage data extracts from critical databases, systems and applications that contain sensitive information. A data leak prevention capability will be implemented to reduce the risk of data loss and disclosure. Enhancements will be made to provide the ability to manage sensitive data extracts and ensure that they are erased once they are no longer needed. The capability will allow disclosure incidents to be logged and analyzed and will integrate with the enterprise-wide audit solution.

Centralized IT Asset Control (+\$6 million / 0 FTE)

This effort will include the engineering and delivery of the centralized environment and authoritative IT asset inventory. The design and deployment will be prioritized and focused by utilizing cross-organizational work groups to evaluate, consolidate and prioritize enterprise-wide processes and data needs/requirements.

Security Audit Trails (+\$18.0 million / +10 FTE)

Treasury Inspector General for Tax Administration (TIGTA) and GAO reviews identified systemic security audit vulnerabilities in the current IRS information infrastructure. The IRS addressed these issues by establishing the Security Audit Trails program. This program will maintain an enterprise-wide comprehensive audit trail capability that records user activities, applications, and system processes. Relevant data will be captured and tools will be made available to allow reviewers to detect and respond to potential harm. In the Audit Trails area, this initiative will enhance audit trail collection and retrieval capabilities, significantly improving the IRS ability to process, store, review, and report computer system auditable events.

The Extended Audit Data Collection, Retrieval requirement for availability and access to system audit data is challenging and requires maintaining six years of online data and a seventh year for “near line data.” The business functions that support tax compliance efforts and avoid unauthorized access to sensitive data are critical IRS drivers for these requirements.

At the same time, there are serious constraints on funding, space, power and other resources for existing computer facilities to accommodate such a large volume of protected system audit data online. This effort will provide a technical solution to leverage existing capabilities and integrate them by using protected/secure storage and retrieval capabilities.

The project will meet these goals by implementing upgrades to existing systems and will provide the capability for all FISMA Systems to be compliant with the established audit standards through a rolling release strategy.

A prototype for IRS Operating Software platforms/applications will be deployed utilizing the tools. In addition, individual application audit plans will be developed and made available as a reusable process across the enterprise. Subsequent releases of Security Audit Trails will allow for additional audit plans to be developed and implemented.

Evaluations of all current processing audit collection environments will be conducted to determine whether to upgrade, retire, or replace. In addition, the current Security Audit and Analysis System (SAAS) will be enhanced to handle the additional workload and meet the material weakness closure criteria. The ultimate goal is to integrate the final products into an end-to-end framework to allow IRS security analysts and TIGTA to better access and control the data for investigative purposes.

Security Compliance Posture Monitoring and Reporting (+\$3.0 million / +6 FTE)

The objective of the Security Compliance Posture Monitoring and Reporting (SCPMaR) project is to provide the IRS with the real-time capability to monitor, measure, and report on the effectiveness of technical security controls enterprise-wide.

The solution will provide the following six core functional and operational capabilities:

- Monitoring and measuring security configurations;
- Managing security configurations throughout the system life cycle;
- Standardizing the use of NIST defined Security Content Automation Protocol (SCAP);
- Automating security compliance assessments and reporting;
- Facilitating risk management processes by verifying that systems operate within established security configuration baselines; and
- Supporting change and baseline control processes by documenting security configuration baselines and accepted deviations.

Production deployment will be geographically staged at major IRS sites (e.g. Enterprise Computing Center (ECCs), Campuses) and their associated posts of duty. At each computing site, users will be trained and computing assets integrated into the solution.

Expected Benefits

Investments in IT security will protect privacy and security of taxpayer information and the integrity of IRS systems by:

- Improving the capability to perform enterprise security situational awareness, network-based digital forensics, and vulnerability and compliance reporting. Centralization of the response effort and a reduction of the requirement for manual intervention will improve IRS efficiency and effectiveness. The advanced environment will support safe expansion of existing business tax compliance capabilities and will better protect data.
- Integrating automated tools into enterprise security risk management activities and the certification and accreditation process. This integration will improve efficiency and ensure risk-based decisions are consistently applied across the IRS.
- Deploying new technologies that specifically focus on operational resiliency, redundancy, storage, optimization, availability and recovery. This will enhance the IRS ability to resume critical business processes within stated business recovery objectives after a disaster event.
- Enhancing audit trail collection and retrieval capabilities. Treasury Inspector General for Tax Administration (TIGTA) and GAO reviews identified systemic security audit vulnerabilities in the current IRS information infrastructure. These reviews allow the IRS to identify enhancements to its audit trail collection and capabilities. These enhancements will improve the IRS ability to process, store, review, and report of computer system auditable events.
- Maintaining security and surety of critical Personal Identifiable Information on IRS systems.
- Protecting IT system operability and sustainability from attack (inside or outside) by specifically improving the capability to process, store, review, and report on computer system auditable events.
- Maintaining operable, secure and trusted IT systems by including the capability to track and identify attackers and conduct meaningful damage assessment.
- Providing significantly enhanced audit trail capabilities to identify occurrence of unauthorized activities, and inappropriate system configurations.
- Detecting unlawful, unauthorized, or inappropriate activities on IRS systems that may result in the compromise of financial information and fraudulent transactions, such as unauthorized payments. As IRS systems process higher percentages of taxpayer transactions, improved monitoring is required to ensure the integrity of IRS systems.
- Automating security configuration assessments on all Windows and UNIX based computing assets.
- Automating processes to manage system security configuration baselines and track accepted risks/deviations throughout each system's life cycle. This will

- allow the IRS to better manage security configurations of systems and reduce the overall risk of the IRS computing assets.
- Enhancing the redundancy and resiliency capabilities of the most critical IRS systems. These systems support tax processing and enable IRS to annually process over 235 million tax returns, issue \$300 billion in refunds, and collect \$2.7 trillion in revenue. Specifically, this funding would enhance disaster recovery capabilities for the IRS 18 mainframes, 5000+ servers and 260+ applications supporting mission critical tax administration processes including several key Critical Infrastructure Protection (CIP) assets that have been designated by the Department of the Treasury as those IRS systems that are essential to our Nation's national security, economic stability and continuity of the U.S. Government.

Implement Return Review Program (RRP)

+\$18,100,000 / +10 FTE

Initiative Summary

This initiative requests an increase of \$18.1 million and 10 FTE to fund the development and deployment of the first release of the Return Review Program (RRP) system. RRP delivers an integrated and unified system, enhancing IRS capabilities to detect, resolve, and prevent criminal and civil tax noncompliance.

RRP will provide a flexible and scalable system to support a cross-functional approach to coordinate and address criminal and civil tax noncompliance. In addition, RRP allows analysis and support of case processing needs of both compliance and criminal investigative programs in criminal prosecution, revenue protection, accounts management, and taxpayer communications. The first release of the RRP System will replace the Electronic Fraud Detection System (EFDS) system.

The current EFDS platform is obsolete and presents system limitations making it difficult to maintain, upgrade, or operate beyond 2011. Fundamental technology and design limitations also render it incapable of supporting any significant business changes. Without a system replacement investment, the IRS is vulnerable to future system failure resulting in the potential inability to detect \$1-1.5 billion in fraudulent refunds each year.

Initiative Detail

RRP implementation will occur in three releases, and this initiative funds Release 1. Release 1 establishes the new Pre Refund business model and replaces the current EFDS platform, and will integrate the four current EFDS applications into a single web-based application.

Release 2 will provide connectivity to IRS systems to support workflow, expand the user base and compare new taxpayer data. Release 3 will update Refund Crimes detection models, instruments (queries, scoring templates, and algorithms) and rules.

Expected Benefits

With the implementation of RRP, the IRS will:

- Increase fraud detection, resolution and prevention;
- Improve case tracking, analysis, and reporting;
- Improve tracking, analysis, and reporting of performance measures;
- Decrease the number of non-fraudulent refund claims frozen by IRS;
- Coordinate fraud/error detection across the IRS; and
- Replace the current EFDS platform by 2012.

Continue Development of Business Systems Modernization

+\$22,607,000 / 0 FTE

Initiative Summary

This initiative requests an additional \$22.6 million in BSM for the continued development of the new taxpayer account database and the Modernized e-File platform. The IRS depends on the core tax administration systems to deliver its mission, and they require ongoing, long-term commitment to ensure that IRS maintains its world-class tax administration systems. This increase will result in a BSM request of \$253.7 million.

Initiative Detail

The additional \$22.6 million would be applied to the Customer Account Data Engine and Modernized e-File programs and activities described below.

Customer Account Data Engine

The IRS will continue the development of the Customer Account Data Engine, the new taxpayer account database that will serve as the central repository of tax account information for all individual taxpayers. In FY 2009, the IRS shifted its focus from concurrent development of a database and associated applications to a strategy that focuses on completion of the core taxpayer account database (Customer Account Data Engine). This approach will allow the IRS to accelerate data conversion to the new database while also addressing security, financial material weaknesses, and long-term architectural planning concerns. Thus, the Customer Account Data Engine, which includes AMS and elements of the previous CADE plan, is an integrated plan to deliver new capabilities in the coming years. This plan includes accelerating consolidation of the Individual MasterFile (IMF) and current CADE architectures, migration of IMF data into a daily processing architecture, and incorporation of enhanced security protocols and financial management controls.

The Customer Account Data Engine will improve the IRS capability to respond quickly to changing business needs and accelerate business process changes. The complete data model and sole authority taxpayer account database is a critical step toward significantly enhanced compliance and service programs. It will also foster better collaboration through improved data exchange between the IRS and other Federal and State agencies. The Customer Account Data Engine will improve taxpayer service and tax compliance by making accurate and timely tax data available to taxpayers and the IRS and by providing faster refunds for all individual taxpayers.

FY 2010 activities include continued development and integrated daily processing, data conversion to the new relational database, development and testing of applications to enhance viewing of database extracts, incorporation of tax law changes in the current CADE application, and stand-up of a program office. While the primary focus will be on database completion, targeted application development will begin on a common penalty and interest module to assure accurate and consistent calculations across applications and

to allow faster implementation of calculation changes, and modification of taxpayer notice processing.

Modernized e-File (MeF)

The IRS will continue development and deployment of the MeF web-based platform. MeF allows electronic filing tax and provides a single point of transmission for the electronic submission of federal corporate, non-profit, and partnership returns and the associated state returns for a limited number of states. MeF stores tax return data in a modernized Tax Return Database allowing IRS employees to see an entire tax return online.

The IRS is implementing the Form 1040, *U.S. Individual Income Tax Return*, onto the MeF platform in three phases.

Phase I began in FY 2007 with deployment scheduled in January 2010. Phase I consists of the Form 1040 and 21 of the most common forms and schedules used by 61 percent of the e-File population such as *Itemized Deductions*, Schedule B, *Interest and Ordinary Dividends*, and Schedule D, *Capital Gains and Losses*.

Phase II began in FY 2009 and is scheduled to be implemented in January 2011. This Phase will enhance the deployment of disaster recovery capability delivered in Phase I and include tax law changes and continued code optimization.

Phase III will begin in FY 2010 and is scheduled to deploy in January 2012. This phase will complete the implementation of the 1040 family of forms. After Phase III implementation, all Form 1040 taxpayers will be able to file electronically.

Once forms are migrated to the MeF platform, tax preparers and taxpayers will realize the following benefits:

- Extensive business rule validation and error checking to ensure the accuracy of the tax return
- Sophisticated math error validation checking to increase the likelihood that the tax return will be successfully processed
- Explanations for rejected returns
- Ability to submit all necessary supporting documentation with the tax return
- Faster response times to the external community.

The IRS benefits from the continued migration of forms from the legacy e-File applications to MeF. MeF allows retirement of legacy e-File applications; eliminates the need to match paper tax return-related documents with e-filed tax returns; makes tax return data needed for compliance purposes available sooner to front-line enforcement staff; and includes tools and help-desk capabilities to provide more timely information to taxpayers on the status of their return.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Internal Revenue Service	FY 2008 Enacted ¹	FY 2009 ARRA	FY 2009 President's Budget	Congressional	FY 2009 Enacted Level	Proposed Reprogram.	FY 2009	FY 2010 Request Level	% Change FY 2009 to FY 2010
				Action including Rescission			Proposed Operating Level		
FTE	92,415		92,379	1,830	94,209	0	94,209	95,081	0.9%
Object Classification:									
11.1 Full-Time Permanent Positions	\$5,551,676	\$0	\$5,711,664	\$80,883	\$5,792,547	\$0	\$5,792,547	\$6,094,684	5.2%
11.3 Other than Full-Time Permanent Positions	393,358	0	433,088	20,189	453,277	0	453,277	422,984	-6.7%
11.5 Other Personnel Compensation	253,517	1,000	272,744	250	272,994	0	272,994	287,172	5.2%
11.8 Special Personal Services Payments	18,721	0	17,726	0	17,726	0	17,726	18,164	2.5%
11.9 Personnel Compensation (Total)	\$6,217,272	\$1,000	\$6,435,222	\$101,322	\$6,536,544	\$0	\$6,536,544	\$6,823,004	4.4%
12.0 Personnel Benefits	1,543,743	0	1,624,404	25,881	1,650,285	0	1,650,285	1,788,144	8.4%
13.0 Benefits to Former Personnel	56,501	0	53,839	0	53,839	0	53,839	56,137	4.3%
21.0 Travel	223,501	0	250,003	3,070	253,073	0	253,073	260,693	3.0%
22.0 Transportation of Things	34,663	0	34,702	0	34,702	0	34,702	34,611	-0.3%
23.1 Rental Payments to GSA	610,203	0	653,829	0	653,829	0	653,829	668,154	2.2%
23.2 Rent Payments to Others	699	0	510	0	510	0	510	538	5.5%
23.3 Communications, Utilities, & Misc	485,088	2,000	414,628	0	414,628	0	414,628	453,214	9.3%
24.0 Printing & Reproduction	77,428	2,000	69,333	151	69,484	0	69,484	70,495	1.5%
25.1 Advisory & Assistance Services	159,337	0	150,077	1,309	151,386	0	151,386	190,158	25.6%
25.2 Other Services	712,226	73,000	720,388	20,269	740,657	0	740,657	740,872	0.0%
25.3 Purchase of Goods & Services from Govt. Account	162,496	0	104,981	52	105,033	0	105,033	120,050	14.3%
25.4 Operation & Maintenance of Facilities	162,385	0	181,503	0	181,503	0	181,503	185,552	2.2%
25.5 Research & Development Contracts	5,016	0	7,620	0	7,620	0	7,620	10,799	41.7%
25.6 Medical Care	12,582	0	10,764	0	10,764	0	10,764	11,187	3.9%
25.7 Operation & Maintenance of Equipment	77,090	0	79,745	0	79,745	0	79,745	81,485	2.2%
25.8 Subsistence & Support of Persons	6,649	0	6,910	0	6,910	0	6,910	7,063	2.2%
26.0 Supplies and Materials	77,221	2,000	73,384	0	73,384	0	73,384	71,892	-2.0%
31.0 Equipment	394,277	0	423,039	0	423,039	0	423,039	472,711	11.7%
32.0 Lands and Structures	55,724	0	48,139	0	48,139	0	48,139	48,682	1.1%
33.0 Investments & Loans	0	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	13,040	0	12,502	9,035	21,537	0	21,537	22,606	5.0%
42.0 Insurance Claims & Indemn	2,370	0	1,114	0	1,114	0	1,114	2,866	157.3%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	5,008	0	4,873	0	4,873	0	4,873	5,087	4.4%
Total Budget Authority	\$11,094,519	\$80,000	\$11,361,509	\$161,089	\$11,522,598	\$0	\$11,522,598	\$12,126,000	5.2%
Appropriations:									
Taxpayer Services	\$2,191,085	\$0	\$2,150,000	\$143,000	\$2,293,000	\$0	\$2,293,000	\$2,269,830	-1.0%
Enforcement	4,780,000	0	5,117,267	0	5,117,267	0	5,117,267	5,504,000	7.6%
Operations Support	3,841,109	0	3,856,172	10,839	3,867,011	0	3,867,011	4,082,984	5.6%
Business Systems Modernization	267,090	0	222,664	7,250	229,914	0	229,914	253,674	10.3%
Health Insurance Tax Credit Administration	15,235	80,000	15,406	0	15,406	0	15,406	15,512	0.7%
Total Budget Authority	\$11,094,519	\$80,000	\$11,361,509	\$161,089	\$11,522,598	\$0	\$11,522,598	\$12,126,000	5.2%

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.

2.3 – Appropriation Detail Table

Dollars in Thousands

Internal Revenue Service										
Resources Available for Obligation	FY 2008 Obligations		FY 2008 Enacted ¹		FY 2009 Enacted ²		FY 2010 Request		% Change FY 2009 to FY 2010	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Taxpayer Services	31,487	2,173,764	31,949	\$2,191,085	32,652	\$2,293,000	31,217	\$2,269,830	0.00%	-1.01%
Enforcement	46,431	4,777,120	47,596	4,780,000	48,939	5,117,267	51,200	5,504,000	4.62%	7.56%
Operations Support	12,079	3,767,583	12,495	3,841,109	12,270	3,867,011	12,316	4,082,984	0.37%	5.59%
Business Systems Modernization	347	170,576	358	267,090	333	229,914	333	253,674	0.00%	10.33%
Health Insurance Tax Credit Administration	10	15,223	17	15,235	15	15,406	15	15,512	0.00%	0.69%
Subtotal New Appropriated Resources	90,354	\$10,904,266	92,415	\$11,094,519	94,209	\$11,522,598	95,081	\$12,126,000	0.93%	5.24%
Other Resources:										
Recoveries		4,646		4,646						
Offsetting Collections - Reimbursable	1,038	140,207	1,038	140,207	1,077	143,612	1,088	147,101	1.02%	2.43%
Available multi-year/no-year funds		137,450		137,450		193,210		155,358		-19.59%
50% Carryover		19,061		19,061						
Transfers In/Out	293	18,137	293	18,137						
Mandatory Appropriations - User Fees		246,946		246,946		175,700		167,700		-4.55%
Subtotal Other Resources	1,331	\$566,447	1,331	\$566,447	1,077	\$512,522	1,088	\$470,159	1.02%	-8.27%
Total Resources Available for Obligation	91,685	\$11,470,713	93,746	\$11,660,966	95,286	\$12,035,120	96,169	\$12,596,159	0.93%	4.66%

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

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

2B – Appropriation Language and Explanation of Changes

Appropriations Language	Explanation of Changes
<p style="text-align: center;">DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE</p> <p>TAXPAYER SERVICES</p> <p>For necessary expenses of the Internal Revenue Service to provide taxpayer services, including pre-filing assistance and education, filing and account services, taxpayer advocacy services, and other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, [\$2,293,000,000]<i>\$2,269,830,000</i>, of which not less than \$5,100,000 shall be for the Tax Counseling for the Elderly Program, of which not less than \$9,500,000 shall be available for low-income taxpayer clinic grants, [of which not less than \$8,000,000, to remain available until September 30, 2010, shall be available for a Community Volunteer Income Tax Assistance matching grants demonstration program for tax return preparation assistance, and of which not less than \$193,000,000 shall be available for operating expenses of the Taxpayer Advocate Service]<i>of which not more than \$8,000,000, to remain available until September 30, 2011, shall be available for Community Volunteer Tax Assistance matching grants.</i> (Department of the Treasury Appropriations Act, 2009.)</p> <p>ENFORCEMENT (including transfer of funds)</p> <p>For necessary expenses <i>for tax enforcement activities</i> 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]<i>for the</i> purchase (for police-type use, not to exceed 850) and hire passenger motor vehicles (31 U.S.C. 1343(b)), and to provide other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, [\$5,117,267,000]<i>\$4,904,000,000</i>, of which not less than [\$57,252,000]<i>\$59,206,000</i> shall be for the Interagency Crime and Drug Enforcement</p>	<p>The IRS supports adequate funding for the Taxpayer Advocate Service. However, specifying the funding level in law prevents the Commissioner from proposing an operating plan that allocates resources in the best interest of taxpayers.</p> <p>The Budget Request for the Enforcement account is \$5,504,000,000 including a program integrity allocation increase.</p> <p>In 2006, the IRS and the tax administrations of Australia, Canada, China, France, Germany, India, Japan, South Korea, and the United Kingdom established the Leeds Castle Group. This group meets</p>

program; *and of which not to exceed \$126,500 shall be for official reception and representation expenses associated with hosting the Leeds Castle Meeting in the United States during 2010: Provided, That up to \$10,000,000 may be transferred as necessary from this account to "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. In addition to amounts made available above, \$600,000,000 shall become available for enhanced tax enforcement activities. (Department of the Treasury Appropriations Act, 2009.)*

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 other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner; [\$3,867,011,000]*\$4,082,984,000*, of which up to \$75,000,000 shall remain available until September 30, [2010]*2011*, for information technology support; of which not to exceed \$1,000,000 shall remain available until September 30, [2011]*2012*, for research; of which not [less than \$2,000,000]*to exceed \$1,750,000* shall be for the Internal Revenue Service Oversight Board; [and]of which not to exceed \$25,000 shall be for official reception and representation; *and of which \$290,000,000 shall be made available to support enhanced tax enforcement activities: Provided, That of the amounts provided under this heading, such sums as are necessary shall be available to fully support tax enforcement and*

annually to consider and discuss issues of global and national tax administration in their respective countries. In 2010 it is the IRS turn to host the meeting of the Leeds Castle Group. The IRS has never hosted it before. This meeting will consist primarily of foreign dignitaries and involve a great deal of protocol. This one-year request to spend \$126,500 is necessary to build the relationships with these foreign governments, to further issues of global tax administration and to fulfill the IRS obligations to the other international tax organizations.

enhanced tax enforcement activities. (Department of the Treasury Appropriations Act, 2009.)

BUSINESS SYSTEMS MODERNIZATION

For necessary expenses of the Internal Revenue Service's business systems modernization program, [\$229,914,000]~~\$229,914,000~~ *\$253,674,000*, to remain available until September 30, [2011]~~2011~~ *2012*, 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[, and such Committees approve,] 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] *received* by the Government Accountability Office; and (6) complies with the acquisition rules, requirements, guidelines, and systems acquisition management practices of the Federal Government.

(Department of the Treasury Appropriations Act, 2009.)

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), [\$15,406,000]~~\$15,406,000~~ *\$15,512,000*.

(Department of the Treasury Appropriations Act, 2009.)

ADMINISTRATIVE PROVISIONS - INTERNAL REVENUE SERVICE

(including transfer of funds)

Sec. 101. 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 [approval] *notification* of the Committees on Appropriations.

Sec. 102. 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. 103. The Internal Revenue Service shall institute and enforce policies and procedures that will safeguard the confidentiality of taxpayer information.

[Sec. 104. Funds made available by this or any other Act to the Internal Revenue Service shall be available for improved facilities and increased staffing to provide sufficient and effective 1-800 help line service for taxpayers. The Commissioner shall continue to make the improvement of the Internal Revenue Service 1-800 help line service a priority and allocate resources necessary to increase phone lines and staff to improve the Internal Revenue Service 1-800 help line service.]

[Sec. 105. Of the funds made available by this Act to the Internal Revenue Service, not less than \$6,997,000,000 shall be available only for tax enforcement. In addition, of the funds made available by this Act to the Internal Revenue Service, and subject to the same terms and conditions, \$490,000,000 shall be available for enhanced tax law enforcement.]

[Sec. 106. None of the funds made available in this Act may be used to enter into, renew, extend, administer, implement, enforce, or provide oversight of any qualified tax collection contract (as defined in section 6306 of the Internal Revenue Code of 1986).] *(Department of the Treasury Appropriations Act, 2009.)*

The Budget request includes additional resources for enhanced tax enforcement through a program integrity allocation adjustment. This is addressed by the appropriations language.

2C – 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. Among other proposals, 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 noncompliance. A specific proposal 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.”

Section 3 – Budget and Performance Plan

Taxpayer Services

Appropriation Description

The Taxpayer Services appropriation provides funding for taxpayer service activities and programs. This includes printing forms and publications, processing tax returns and related documents, offering filing and account services, ensuring the availability of taxpayer assistance, and providing taxpayer advocacy services.

The Taxpayer Services Budget Request for FY 2010 is \$2,269,830,000 in direct appropriations and 31,217 FTE. This is a decrease of \$23,170,000 or 1.0 percent and 1,435 FTE less than the FY 2009 enacted level of \$2,293,000,000 and 32,652 FTE. Congress provided direct funding to the Secretary of the Treasury for IRS implementation efforts on the Recovery Act tax provisions. These funds are not reflected in the IRS Taxpayer Services account.

2.1 – Budget Adjustments Table

Dollars in Thousands

	FTE ¹	Amount
FY 2009 Enacted	32,652	\$2,293,000
Changes to Base:		
Maintaining Current Levels		\$60,195
Pay Annualization		20,135
Pay Inflation Adjustment		38,828
Non-Pay Inflation Adjustment		2,463
Government-wide Reduction for Productivity Improvements		(1,231)
GAO Audit Reimbursement Pursuant to P.L. 110-323		
Efficiencies/Savings	(1,504)	(\$90,918)
Increase e-File Savings	(182)	(8,227)
Non-Recur Stimulus Savings	(1,322)	(67,900)
Non-Recur FY09 Reduction Adjustment/Correspondence Inventory		(13,439)
Non-Recur Pension Plan		(1,352)
Reinvestment		\$2,025
Submission Processing Consolidation (Andover)		2,025
Subtotal Changes to Base	(1,504)	(\$28,698)
Total FY 2010 Base	31,148	\$2,264,302
Program Changes:		
Enforcement Initiatives	69	\$5,528
Reduce the Tax Gap Attributable to International Activities	42	3,124
Improve Reporting Compliance of SB/SE Taxpayers	3	267
Expand Document Matching for Business Taxpayers	16	1,425
Address Nonfiling/Underpayment and Collection Coverage	8	712
Subtotal FY 2010 Program Changes	69	\$5,528
Total FY 2010 President's Budget Request	31,217	\$2,269,830

¹ Includes Technical FTE adjustments made since February 2008.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Taxpayer Services	FY 2008 Enacted ¹	FY 2009 ARRA	FY 2009 President's Budget	Congressional	FY 2009 Enacted Level	Proposed Reprogram.	FY 2009	FY 2010 Request Level	% Change FY 2009 to FY 2010
				Action including Rescission			Proposed Operating Level		
FTE	31,949		30,822	1,830	32,652		32,652	31,217	-4.4%
Object Classification:									
11.1 Full-Time Permanent Positions	\$1,235,929	\$0	\$1,206,453	\$80,883	\$1,287,336	\$0	\$1,287,336	\$1,281,991	-0.4%
11.3 Other than Full-Time Permanent Positions	296,190	0	320,840	20,189	341,029	0	341,029	309,849	-9.1%
11.5 Other Personnel Compensation	89,700	0	84,003	250	84,253	0	84,253	88,518	5.1%
11.8 Special Personal Services Payments	\$0	0	0	0	0	0	0	0	0.0%
11.9 Personnel Compensation (Total)	\$1,621,819	\$0	\$1,611,296	\$101,322	\$1,712,618	\$0	\$1,712,618	\$1,680,358	-1.9%
12.0 Personnel Benefits	321,329	0	318,294	25,881	344,175	0	344,175	350,315	1.8%
13.0 Benefits to Former Personnel	9,218	0	5,307	0	5,307	0	5,307	7,362	38.7%
21.0 Travel	33,999	0	28,866	3,070	31,936	0	31,936	31,763	-0.5%
22.0 Transportation of Things	6,034	0	6,501	0	6,501	0	6,501	6,541	0.6%
23.1 Rental Payments to GSA	0	0	0	0	0	0	0	0	0.0%
23.2 Rent Payments to Others	45	0	45	0	45	0	45	45	0.0%
23.3 Communications, Utilities, & Misc	3,735	0	4,612	0	4,612	0	4,612	3,709	-19.6%
24.0 Printing & Reproduction	9,901	0	8,948	151	9,099	0	9,099	9,009	-1.0%
25.1 Advisory & Assistance Services	40,029	0	24,477	1,309	25,786	0	25,786	28,951	12.3%
25.2 Other Services	46,865	0	100,428	2,180	102,608	0	102,608	100,853	-1.7%
25.3 Purchase of Goods & Services from Govt. Account	66,953	0	14,409	52	14,461	0	14,461	13,968	-3.4%
25.4 Operation & Maintenance of Facilities	53	0	94	0	94	0	94	95	1.1%
25.5 Research & Development Contracts	0	0	0	0	0	0	0	0	0.0%
25.6 Medical Care	0	0	0	0	0	0	0	0	0.0%
25.7 Operation & Maintenance of Equipment	0	0	671	0	671	0	671	675	0.6%
25.8 Subsistence & Support of Persons	1,081	0	1,485	0	1,485	0	1,485	1,494	0.6%
26.0 Supplies and Materials	15,563	0	11,601	0	11,601	0	11,601	11,432	-1.5%
31.0 Equipment	1,076	0	570	0	570	0	570	578	1.4%
32.0 Lands and Structures	263	0	0	0	0	0	0	0	0.0%
33.0 Investments & Loans	0	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	13,040	0	12,315	9,035	21,350	0	21,350	22,601	5.9%
42.0 Insurance Claims & Indemn	82	0	81	0	81	0	81	81	0.0%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	0	0	0	0	0	0	0	0	0.0%
Total Budget Authority	\$2,191,085	\$0	\$2,150,000	\$143,000	\$2,293,000	\$0	\$2,293,000	\$2,269,830	-1.0%
Budget Activities:									
Pre-filing Taxpayer Assistance & Education	\$645,253	\$0	\$617,326	\$43,674	\$661,000	\$0	\$661,000	\$676,063	2.3%
Filing & Account Services	1,545,832	0	1,532,674	99,326	1,632,000	0	1,632,000	1,593,767	-2.3%
Total Budget Authority	\$2,191,085	\$0	\$2,150,000	\$143,000	\$2,293,000	\$0	\$2,293,000	\$2,269,830	-1.0%

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.

2.3 – Appropriation Detail Table

Dollars in Thousands

Taxpayer Services										
Resources Available for Obligation	FY 2008 Obligations		FY 2008 Enacted ¹		FY 2009 Enacted ²		FY 2010 Request		% Change FY 2009 to FY 2010	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Pre-Filing Taxpayer Assistance and Education	5,995	\$628,286	6,030	\$645,253	6,169	\$661,000	6,149	\$676,063	-0.32%	2.28%
Filing and Account Services	25,492	1,545,478	25,919	1,545,832	26,483	1,632,000	25,068	1,593,767	-5.34%	-2.34%
Subtotal New Appropriated Resources	31,487	\$2,173,764	31,949	\$2,191,085	32,652	\$2,293,000	31,217	\$2,269,830	-4.39%	-1.01%
Other Resources:										
Recoveries		794		794						
Offsetting Collections - Reimbursable	799	36,811	799	36,811	833	37,890	839	39,000	0.72%	2.93%
Available multi-year/no-year funds		6,286		6,286		14,137				-
50% Carryover										
Transfers In/Out	293	22,500	293	22,500						
Mandatory Appropriations - User Fees		151,936		151,936		127,000		127,000		0.00%
Subtotal Other Resources	1,092	\$218,327	1,092	\$218,327	833	\$179,027	839	\$166,000	0.72%	-7.28%
Total Resources Available for Obligation	32,579	\$2,392,091	33,041	\$2,409,412	33,485	\$2,472,027	32,056	\$2,435,830	-4.27%	-1.46%

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

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

3A – Pre-Filing Taxpayer Assistance and Education (\$676,063,000 in direct appropriation, 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. This includes the following program activities:

- *Pre-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, websites, broadcasting, and advertising.
- *Media and Publications* develops and produces notices, forms, and publications for printed and electronic tax materials; and provides media production services to taxpayers.
- *Taxpayer Advocacy* provides advocate services to taxpayers by identifying the underlying causes of taxpayer problems and participating in the development of systematic and/or procedural remedies.
- *Account Management and 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* provides advocate services to taxpayers to resolve taxpayers' problems through prompt identification, referral, and settlement.

- *National Distribution Center* processes orders for IRS forms and publications received from individual taxpayers, tax practitioners, and IRS tax return preparation partners.

3.2.1 – Budget and Performance Plan

Dollars in Thousands

Pre-Filing Taxpayer Assistance & Education Budget Activity					
Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	\$559,249	\$573,685	\$628,286	\$661,000	\$676,063
Reimbursable Resources	1,038	843	774	796	819
Mandatory Appropriations - User Fees		1,201	12,827	18,700	18,700
Total Resources	\$560,287	\$575,729	\$641,887	\$680,496	\$695,582

Budget Activity Total	\$560,287	\$575,729	\$641,887	\$680,496	\$695,582
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Pre-Filing Taxpayer Assistance & Education Budget Activity					
Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Timeliness of Critical Filing Season Tax Products to the Public (Ot)	83.0%	83.5%	92.4%	92.0%	93.0%
Timeliness of Critical Other Tax Products to the Public (Ot)	61.2%	84.0%	89.5%	89.0%	90.0%
Taxpayer Self Assistance Rate (E) (L)	46.8%	49.5%	66.8%	64.7%	57.3%
Percent of Eligible Taxpayers Who File for EITC (Oe)	*	*	*	75-80%	75-80%

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

*The methodology for estimating the eligibility rate is being revised. Data not available.

Description of Performance

Improved service options for taxpayers and simplification of the tax process are key objectives under the IRS Strategic Goal to *improve service to make voluntary compliance easier*. Helping taxpayers understand their tax reporting and payment obligations remains a vital part of maintaining public confidence in administering the tax laws. The IRS enhanced its outreach and educational services through partnerships with the public to increase understanding and compliance with the tax law. Free tax seminars were offered to groups of people sharing common tax interests.

In addition, developing and maintaining relationships with IRS stakeholders and partners in tax administration has become a key strategy in developing and distributing tax information to IRS customers. By augmenting and opening these avenues of communication, the IRS is able to identify and respond quickly to emerging issues in tax compliance and to provide education and outreach to a wider population of taxpayers to improve compliance.

The IRS collaborates with organizations such as state taxing authorities and volunteer groups to serve taxpayer needs. Through its approximately 12,000 Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites, the IRS provided free tax assistance to the elderly, disabled, and limited English proficient individuals and families. More than 78,000 volunteers located at these sites filed more than 3.5 million returns, a 33 percent increase over FY 2007.

Despite late enactment of tax legislation modifying the Alternative Minimum Tax (AMT) and implementation of the *Economic Stimulus Act of 2008* (Stimulus) over 92 percent of the critical filing season tax products and 89.5 percent of critical other (business) tax products were delivered to the public on time in FY 2008. In addition, the FY 2008 taxpayer self-assistance rate was 66.8 percent, exceeding the target by 30 percent. The implementation of improvements to the IRS website also contributed to the increase in usage. The IRS also continues efforts to simplify its tax forms and publications to make them more user-friendly, with the ultimate goal to provide all of its published products in electronic format.

The IRS also reached out to those taxpayers eligible for the Earned Income Tax Credit (EITC), implementing a vigorous multi-dimensional outreach strategy that included:

- Creating EITC products and services designed to target underserved groups such as rural taxpayers, childless workers, and limited English proficient filers;
- Conducting a second EITC Awareness Day that generated extensive national and local media coverage designed to expand education of the public on EITC and increase the participation of eligible taxpayers; and
- Increasing free EITC return preparation by 25 percent and as a result, electronic filing of EITC returns increased by almost 18 percent over 2007.

The IRS launched its new Facilitated Self-Assistance Research Project (FSRP) in FY 2008. The project allows taxpayers to access IRS.gov at Taxpayer Assistance Centers. Approximately 2,400 customers used FSRP at the 15 pilot sites. An additional 35 sites will be launched during FY 2009.

Through its Low Income Taxpayer Clinic (LITC) grant program, the IRS awarded matching grants of up to \$100,000 per year to develop, expand or maintain low-income taxpayer clinics. In FY 2008, the IRS awarded nine million dollars in LITC grants to over 150 organizations in 50 states, the District of Columbia, Puerto Rico, and Guam.

The IRS continued to improve service through automation, outreach, and taxpayer education. Changes to the AMT and passage of the Stimulus program required the IRS to develop new web applications, including Stimulus calculators and “Where’s My Stimulus Payment?” to provide timely information to taxpayers.

The IRS launched an electronic Publication 17, *Your Federal Income Tax*, on IRS.gov; and implemented “My IRS Account,” a self-service internet application that allows taxpayers access to information about their past filings. In FY 2008, taxpayers used IRS.gov in record numbers to get current information:

- Over 2.2 billion web pages were viewed, an increase of 63 percent;
- Over 38.7 million taxpayers used “Where’s My Stimulus Payment?” to check on the status of their payment;
- More than 39.2 million taxpayers used “Where’s My Refund?,” an increase of 22 percent; and
- Over 317,000 taxpayers used the new Spanish version of “Where’s my Refund?”

3A – Filing and Account Services (\$1,593,767,000 in direct appropriation, 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. 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 revenue, processes information documents, and issues refunds and tax notices.
- *Account Management and Assistance* – Electronic Correspondence Assistance provides education and assistance to taxpayers through telephone, paper, and internet correspondence to resolve account and notice inquiries.
- *Electronic Products and Services Support (EPSS)* provides centralized operations and support capabilities for the IRS suite of electronic products. EPSS includes e-help desk, technology support, and operations support.
- *Electronic Tax Administration (ETA)* markets and administers electronic tax administration products and services.
- *Pre-Refund* provides coordination support for the pre-refund activities to ensure timely issuance of refunds and credits that are legally due to taxpayers. The pre-refund activity is now a part of the ETA office.
- *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.

3.2.2 – Budget and Performance Plan

Dollars in Thousands

Filing and Account Services					
Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	\$1,568,209	\$1,559,779	\$1,545,478	\$1,632,000	\$1,593,767
Reimbursable Resources	24,242	20,081	36,037	37,094	38,181
Mandatory Appropriations - User Fees		63,458	139,109	108,300	108,300
Total Resources	\$1,592,451	\$1,643,318	\$1,720,624	\$1,777,394	\$1,740,248

Budget Activity Total	\$1,592,451	\$1,643,318	\$1,720,624	\$1,777,394	\$1,740,248
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Filing and Account Services Measures	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Percent Individual Returns Processed Electronically (Oe) (L)	54.1%	57.1%	57.6%	64.0%	67.3%
Percent of Business Returns Processed Electronically (Oe) (L)	16.6%	19.1%	19.4%	21.6%	23.4%
Customer Accuracy - Tax Law Phones (Ot)	90.9%	91.2%	91.2%	91.0%	91.2%
Customer Accuracy - Customer Accounts (Phones) (Ot)	93.2%	93.4%	93.7%	93.5%	93.7%
Customer Contacts Resolved per Staff year (E)	7,414	7,648	12,634	10,386	8,919
Customer Service Representative (CSR) Level of Service (Oe) (L)	82.0%	82.1%	52.8%	70.0%	71.2%
Refund Timeliness - Individual (paper) (Ot)	99.3%	98.9%	99.1%	98.4%	98.4%

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

Description of Performance

The 2008 filing season was challenging because of late enactment of the AMT legislation and implementation of the Stimulus program. Despite these challenges, the IRS delivered another successful filing season. During the 2008 filing season, the IRS:

- Processed 155.6 million individual returns, an increase of 11 percent, including returns filed solely to claim a Stimulus payment;
- Issued 107.6 million refunds totaling \$369 billion;
- Answered over 40.4 million calls, an increase of 21 percent, due to a large number of taxpayer inquiries about their Stimulus checks;
- Completed 52 million automated calls, an increase of more than 123 percent;
- Maintained account and tax law accuracy rates of greater than 90 percent;
- Expanded partnerships with nonprofit and community organizations, opened approximately 12,000 free tax preparation sites nationwide;
- Prepared 3.5 million returns for low-income and elderly taxpayers at free tax preparation sites, an increase of 33 percent; and
- Prepared over 575,000 returns at IRS Taxpayer Assistance Centers (TACs), a 42 percent increase over last year.

The IRS saw an increase in electronic filing over 2007. During the 2008 filing season:

- A total of 89.6 million individual returns were filed electronically, an increase of 12 percent;
- Exclusive of those who filed solely to claim a Stimulus payment, individual returns filed electronically surpassed 63 percent;
- Business returns filed electronically reached 19.4 percent;

- Home-computer filing increased to 26.8 million returns, a 20 percent increase over 2007; and
- Tax professional use of e-filing increased to 61.8 million returns, an increase of 8 percent over 2007.

Over 4.7 million tax returns were prepared and submitted through the IRS Free File in FY 2008, a 23 percent increase over FY 2007. Free File continues to be a popular option for taxpayers who qualify. A recent survey showed 96 percent of those who used the program found it easy to use, 98 percent said they would recommend Free File to a friend or family member, and 95 percent said they would use it again.

Enforcement

Appropriation Description

The Enforcement appropriation provides funding for 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 underreporting of tax obligations; securing of unfiled tax returns; and collecting unpaid accounts.

The Enforcement Budget Request for FY 2010 is \$5,504,000,000 in direct appropriations and 51,200 FTE. This is an increase of \$386,733,000 or 7.6 percent and 2,261 FTE over the FY 2009 enacted level of \$5,117,267,000 and 48,939 FTE. The 7.6 percent increase from the FY 2009 enacted level includes funding to support tax enforcement activities funded by an allocation adjustment.

2.1 – Budget Adjustments Table

Dollars in Thousands

	FTE ¹	Amount
FY 2009 Enacted	48,939	\$5,117,267
Changes to Base:		
Maintaining Current Levels		\$133,815
Pay Annualization		46,489
Pay Inflation Adjustment		85,486
Non-Pay Inflation Adjustment		3,680
Government-wide Reduction for Productivity Improvements		(1,840)
GAO Audit Reimbursement Pursuant to P.L. 110-323		
Subtotal Changes to Base		\$133,815
Total FY 2010 Base	48,939	\$5,251,082
Program Changes:		
Enforcement Initiatives	2,261	\$252,918
Reduce the Tax Gap Attributable to International Activities	742	104,113
Improve Reporting Compliance of SB/SE Taxpayers	752	75,114
Expand Document Matching for Business Taxpayers	284	17,955
Address Nonfiling/Underpayment and Collection Coverage	483	55,736
Subtotal FY 2010 Program Changes	2,261	\$252,918
Total FY 2010 President's Budget Request	51,200	\$5,504,000

¹ Includes Technical FTE adjustments made since February 2008.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Enforcement	FY 2008	FY 2009	FY 2009	Congressional	FY 2009	Proposed	FY 2009	FY 2010	% Change
	Enacted ¹	ARRA	President's Budget	Action including Rescission	Enacted Level	Reprogram.	Operating Level	Request Level	FY 2009 to FY 2010
FTE	47,596		48,939		48,939		48,939	51,200	4.6%
Object Classification:									
11.1 Full-Time Permanent Positions	\$3,306,610	\$0	\$3,490,824	\$0	\$3,490,824	\$0	\$3,490,824	\$3,732,481	6.9%
11.3 Other than Full-Time Permanent Positions	83,216	0	89,150	0	89,150	0	89,150	89,273	0.1%
11.5 Other Personnel Compensation	127,562	0	156,069	0	156,069	0	156,069	166,157	6.5%
11.8 Special Personal Services Payments	18,721	0	17,726	0	17,726	0	17,726	18,164	2.5%
11.9 Personnel Compensation (Total)	\$3,536,109	\$0	\$3,753,769	\$0	\$3,753,769	\$0	\$3,753,769	\$4,006,075	6.7%
12.0 Personnel Benefits	909,663	0	987,447	0	987,447	0	987,447	1,092,263	10.6%
13.0 Benefits to Former Personnel	210	0	0	0	0	0	0	0	0.0%
21.0 Travel	143,233	0	184,360	0	184,360	0	184,360	190,851	3.5%
22.0 Transportation of Things	7,107	0	6,731	0	6,731	0	6,731	6,792	0.9%
23.1 Rental Payments to GSA	0	0	0	0	0	0	0	0	0.0%
23.2 Rent Payments to Others	461	0	459	0	459	0	459	486	5.9%
23.3 Communications, Utilities, & Misc	6,217	0	4,808	0	4,808	0	4,808	3,978	-17.3%
24.0 Printing & Reproduction	6,456	0	5,589	0	5,589	0	5,589	6,432	15.1%
25.1 Advisory & Assistance Services	29,017	0	32,486	0	32,486	0	32,486	33,770	4.0%
25.2 Other Services	53,754	0	64,849	0	64,849	0	64,849	84,121	29.7%
25.3 Purchase of Goods & Services from Govt. Account	39,281	0	26,734	0	26,734	0	26,734	27,914	4.4%
25.4 Operation & Maintenance of Facilities	163	0	78	0	78	0	78	194	148.7%
25.5 Research & Development Contracts	2,908	0	2,960	0	2,960	0	2,960	2,974	0.5%
25.6 Medical Care	77	0	0	0	0	0	0	77	-
25.7 Operation & Maintenance of Equipment	1,541	0	1,745	0	1,745	0	1,745	2,048	17.4%
25.8 Subsistence & Support of Persons	4,286	0	4,121	0	4,121	0	4,121	4,313	4.7%
26.0 Supplies and Materials	27,722	0	30,761	0	30,761	0	30,761	29,053	-5.6%
31.0 Equipment	4,904	0	4,999	0	4,999	0	4,999	5,506	10.1%
32.0 Lands and Structures	0	0	0	0	0	0	0	0	0.0%
33.0 Investments & Loans	0	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	0	0	187	0	187	0	187	5	-97.3%
42.0 Insurance Claims & Indemn	1,883	0	311	0	311	0	311	2,061	562.7%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	5,008	0	4,873	0	4,873	0	4,873	5,087	4.4%
Total Budget Authority	\$4,780,000	\$0	\$5,117,267	\$0	\$5,117,267	\$0	\$5,117,267	\$5,504,000	7.6%
Budget Activities:									
Investigation	\$592,906	\$0	\$603,466	0	\$603,466	\$0	\$603,466	\$637,694	5.7%
Enforcement	4,037,812	0	4,363,826	0	4,363,826	0	4,363,826	4,706,350	7.8%
Regulatory	149,282	0	149,975	0	149,975	0	149,975	159,956	6.7%
Total Budget Authority	\$4,780,000	\$0	\$5,117,267	\$0	\$5,117,267	\$0	\$5,117,267	\$5,504,000	7.6%

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.

2.3 – Appropriation Detail Table

Dollars in Thousands

Enforcement										
Resources Available for Obligation	FY 2008 Obligations		FY 2008 Enacted ¹		FY 2009 Enacted		FY 2010 Request		% Change FY 2009 to FY 2010	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Investigations	4,162	\$601,436	4,279	\$592,906	4,241	\$603,466	4,251	\$637,694	0.24%	5.67%
Exam and Collections	41,094	4,030,648	42,098	4,037,812	43,472	4,363,826	45,695	4,706,350	5.11%	7.85%
Regulatory	1,175	145,036	1,219	149,282	1,226	149,975	1,254	159,956	2.28%	6.66%
Subtotal New Appropriated Resources	46,431	\$4,777,120	47,596	\$4,780,000	48,939	\$5,117,267	51,200	\$5,504,000	4.62%	7.56%
Other Resources:										
Recoveries		1		1						
Offsetting Collections - Reimbursable	124	58,141	124	58,141	127	59,454	130	60,797	2.36%	2.26%
Available multi-year/no-year funds		5,731		5,731		4,382		358		-91.83%
50% Carryover										
Transfers In/Out		137		137						
Mandatory Appropriations - User Fees		12,847		12,847		15,800		7,800		0.00%
Subtotal Other Resources	124	\$76,857	124	\$76,857	127	\$79,636	130	\$68,955	2.36%	-13.41%
Total Resources Available for Obligation	46,555	\$4,853,977	47,720	\$4,856,857	49,066	\$5,196,903	51,330	\$5,572,955	4.61%	7.24%

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

3A – Investigations \$637,694,000 in direct appropriation and an estimated \$51,553,000 from reimbursable programs): This budget activity funds the IRS Criminal Investigation (CI) programs that explore potential criminal violations of tax laws, enforce criminal statutes relating to violations of tax laws, and recommend prosecution as warranted. This includes the following program activities:

- *General Management and Administration* supports the headquarters management activities of strategic planning, communications, finance, and human resources for CI activities.
- *Criminal Investigations* supports the enforcement of criminal statutes relating to violations of internal revenue laws and other financial crimes. CI investigates cases of suspected intent to defraud that involve 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.
- *Criminal Tax Legal Support* provides staffing, training, and direct support to Counsel and CI.

3.2.3 – Budget and Performance Plan

Dollars in Thousands

Investigations Budget Activity					
Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	\$599,878	\$573,469	\$601,436	\$603,466	\$637,694
Reimbursable Resources	33,306	32,441	49,404	50,467	51,553
Mandatory Appropriations - User Fees					
Total Resources	\$633,184	\$605,910	\$650,840	\$653,933	\$689,247

Budget Activity Total	\$633,184	\$605,910	\$650,840	\$653,933	\$689,247
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Investigations Budget Activity					
Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Criminal Investigations Completed (Ot) (L)	4,157	4,269	4,044	3,900	3,900
Number of Convictions (Oe) (L)	2,019	2,155	2,144	2,135	2,135
Conviction Rate (Oe) (L)	91.5%	90.2%	92.3%	92.0%	92.0%
Conviction Efficiency Rate (\$) (E) (L)	\$328,750	\$301,788	\$315,751	\$317,100	\$321,400

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

Description of Performance

Enforcement of criminal statutes is an integral component of IRS efforts to enhance voluntary compliance and to enforce the tax laws. The IRS vigorously investigates egregious tax, money laundering, and other financial crimes that adversely affect tax administration.

Improved case development and selection methods, coupled with heightened fraud awareness, resulted in successful prosecution of taxpayers involved in significant abusive tax schemes, high-income nonfiler, employment tax evasion cases, and other flagrant forms of tax evasion. Using its unique statutory jurisdiction and financial expertise, the IRS made significant contributions to important national law enforcement priorities.

Performance levels for the criminal investigation program remained high in FY 2008 as the IRS:

- Completed 4,044 criminal investigations;
- Achieved a conviction rate of 92.3 percent;
- Maintained a Department of Justice acceptance rate of 93.6 percent and a U.S. Attorney acceptance rate of 89.2 percent, which compares favorably with other federal law enforcement agencies;
- Obtained 2,144 convictions, which exceeded the FY 2008 target;
- Automated the Questionable Refund Program (QRP) processes, which produced a 16 percent labor savings through centralization, and reduced the 10 Fraud Detection Centers to three centers;
- Identified through the QRP process more than 337,000 potentially fraudulent returns that claimed more than \$1.7 billion in total refunds;
- Stopped more than \$1.5 billion in fraudulent claims with an average refund of \$5,303 through the QRP process; and

- Initiated 230 QRP investigations.

3A – Exam and Collections (\$4,706,350,000 in direct appropriation, an estimated \$8,783,000 from reimbursable programs, and an estimated \$7,800,000 from user fees):

This budget activity funds programs that enforce tax laws through examination and collection programs that ensure proper payment and tax reporting. This 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 IRS collection activities by initiating contact and collecting delinquent taxpayer liabilities through written notices and other means.
- *Automated Collections and Support* supports the IRS centralized Automated Collection System (ACS) by initiating contact and collecting 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 interest of the federal government in delinquent tax liability situations.
- *Tax Reporting Compliance – Document Matching* supports 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* initiates written correspondence with taxpayers related to tax issues arising from claims on their tax return.
- *Tax Reporting Compliance – Field Exam* compares taxpayer income levels and corresponding tax liabilities to ensure accuracy of taxpayer returns.
- *Fraud/Bank Secrecy Act* enforces the anti-money laundering provisions of the *Bank Secrecy Act of 1970* (BSA), and the *USA Patriot Act of 2001*. It examines non-bank financial institutions for compliance with these laws, receives and processes more than 15 million financial reports annually, 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.
- *Appeals* provides an administrative review process that provides a channel for impartial case settlement before a case is docketed in a court of law.
- *Litigation* provides legal support for the IRS in litigation of cases, including interpretation of the tax law.
- *Specialty Programs – Exams* examines federal tax returns of businesses and individuals responsible for the filing and payment of employment, excise, estate, and gift taxes. This specialty program also oversees IRS international exam programs involving U.S. citizens residing abroad, non-resident aliens, expatriates,

- and examinations involving other international issues (e.g. Foreign Tax Credit and Foreign Earned Income Exclusion).
- *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 and Foreign Earned Income Exclusion).
 - *Unit General Management and Administration* provides staffing, training, and direct support for headquarters management activities of strategic planning, communication and liaison, finance, human resources, EEO and diversity, business system planning, and embedded training.
 - *Whistleblower* provides staffing, training, and direct support to process, assess, and analyze tips from individuals who identify tax problems in the course of their daily personal business, regardless of where encountered (including the workplace).
 - *Communications and Liaison* coordinates local government and liaison relationships; manages congressional, state, and national stakeholder relationships and issues; coordinates crosscutting issues including audit management and legislative implementation; manages national media contacts and local media relationships; and ensures IRS-wide compliance with disclosure and privacy laws.

3.2.4 – Budget and Performance Plan

Dollars in Thousands

Exam and Collections	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Resource Level	Obligations	Obligations	Obligations	Enacted	Request
Appropriated Resources	\$3,925,839	\$3,932,874	\$4,030,648	\$4,363,826	\$4,706,350
Reimbursable Resources	9,851	8,764	8,302	8,539	8,783
Mandatory Appropriations - User Fees		5,452	12,679	15,800	7,800
Total Resources	\$3,935,690	\$3,947,090	\$4,051,629	\$4,388,165	\$4,722,933

Budget Activity Total	\$3,935,690	\$3,947,090	\$4,051,629	\$4,388,165	\$4,722,933
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Exam and Collections Budget Activity Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Examination Coverage - Individual (Oe) (L)	1.0%	1.0%	1.01%	1.0%	1.0%
Field Exam Embedded Quality (Oe) (L)	85.9%	85.9%	86.0%	87.0%	87.1%
Office Exam Embedded Quality (Oe) (L)	88.2%	89.4%	90.0%	90.0%	90.9%
Examination Quality (LMSB) - Industry (Oe) (L)	85.0%	87.0%	88.0%	88.0%	89.0%
Examination Quality (LMSB) - Coordinated Industry (Oe) (L)	96.0%	96.0%	97.0%	96.0%	96.0%
Examination Coverage - Business (Oe) (L)	7.3%	6.8%	6.1%	5.8%	5.1%
AUR Efficiency (E) (L)	1,832	1,956	1,982	1,855	1,894
AUR Coverage (E) (L)	2.4%	2.5%	2.55%	2.5%	3.1%
Examination Efficiency - Individual (E) (L)	128	137	138	132	130
Collection Coverage - Units (Ot) (L)	54.0%	54.0%	55.2%	54.4%	54.6%
Collection Efficiency - Units (E) (L)	1,677	1,828	1,926	1,872	1,776
Field Collection Embedded Quality (Ot) (L)	84.2%	84.0%	79.0%	80.0%	83.0%
Automated Collection System (ACS) Accuracy (Oe)	91.0%	92.9%	95.3%	92.0%	93.5%

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

Description of Performance

Targeting the tax gap remained a top IRS priority for FY 2008 and will continue to be a top IRS priority in the future. In FY 2008 total enforcement revenue was \$56.4 billion, a 65 percent increase over 2002. The improvements in enforcement performance resulted primarily from the focus on corrosive activities of corporate and high-income violators of the tax code. Targeting these high-risk categories improves IRS efficiency, reduces the burden on compliant taxpayers, and focuses enforcement presence where it is most needed.

In FY 2008, the IRS enhanced analytics in critical programs, improved workload identification and selection methods, and implemented systems that target high-risk cases. The IRS made improvements over FY 2007 in key program areas. Specifically, the IRS:

- Increased high-income taxpayer audits almost 16 percent;
- Increased small business audits 3 percent;
- Audited over 9,400 large corporations for the fifth consecutive year, a significant achievement given the size (assets greater than \$10 million) and complexity of the corporate entities;
- Increased collection case closures 1.4 percent;
- Increased tax-exempt and government entities compliance contacts 6 percent; and

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

The IRS also continued reengineering the examination and collection processes to expand coverage, reduce processing time, and increase yield. The IRS implemented technological enhancements to legacy systems to augment productivity and efficiency gains. Significant improvements made in FY 2008 include:

- Expansion of the Reasonable Cause Assistant (RCA) for collection field employees to improve the accuracy and consistency of penalty-relief determinations for individual and business taxpayers. RCA expedites the reasonable cause determination process by creating an automated request and approval process.
- An upgrade to the Issue Management System (IMS) that provides a central repository for issue identification and tracking. The upgrade allows data collection for use in the development and evaluation of performance measures. The upgrade supported more than 5,000 revenue agents.
- Productivity increases in the AUR notice process that produced a 26 percent increase in assessments from \$5.1 billion to \$6.4 billion, and a 21 percent increase in assessment dollars per case compared to last year.
- Enhancement of the identification and predictability of productive assessments in the Correspondence Examination Program (CEP), which contributed to a 41 percent increase in assessments to \$2.6 billion.
- Implementation of an Industry Issue Focus (IIF) process that places compliance issues into three tiers based on strategic impact and importance to respond to changes in business practices that create compliance risks resulting in \$6.7 billion in additional taxable income not previously reported; for Top Tier issue cases currently under examination, there is potential for an additional \$4.6 billion in unreported taxable income.

3A – Regulatory (*\$159,956,000 in direct appropriation 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; support for taxpayers in the areas of pre-filing agreements, determination letters, and advance pricing agreements. This includes the following program activities:

- *Tax Law Interpretation and Published 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.

- *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 including attorneys, Certified Public Accountants (CPAs), enrolled agents, enrolled actuaries and appraisers, and other professionals.

3.2.5 – Budget and Performance Plan

Dollars in Thousands

Regulatory					
Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	\$150,115	\$146,213	\$145,036	\$149,975	\$159,956
Reimbursable Resources	151	255	435	448	461
Mandatory Appropriations - User Fees			168		
Total Resources	\$150,266	\$146,468	\$145,639	\$150,423	\$160,417
Budget Activity Total					
	\$150,266	\$146,468	\$145,639	\$150,423	\$160,417
Regulatory Budget Activity Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
TE/GE Determination Case Closures (Ot)	108,462	109,408	100,050	94,000	126,000

Key: Ot - Output/Workload Measure

Description of Performance

The IRS faced ongoing challenges in assisting tax-exempt and government entities in complying with complicated rules for maintaining their special tax status. It continues to ensure that charitable organizations are not used for non-charitable or illegal purposes, including financing terrorist activities. The IRS continues to help pension plans, exempt organizations, and government entities comply with tax law. In FY 2008 the IRS:

- Launched an e-Postcard (Form 990N) for small tax-exempt organizations to file an annual information notice electronically;
- Redesigned the form used by tax-exempt entities to report information about their operations;
- Increased tax-exempt and government entities examinations by 3 percent, and compliance contacts 6 percent;
- Developed a pre-screening process to identify employee plan applications that have deficiencies to enable the taxpayer to fix items timely; and
- Increased small employer awareness of pension plan correction programs through new “fix-it” guides and an educational workshop.

Operations Support

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 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 the IRS information systems.

The Operations Support Budget request for FY 2010 is \$4,082,984,000 in direct appropriations and 12,316 FTE. This is an increase of \$215,973,000 or 5.6 percent and 46 FTE over the FY 2009 enacted level of \$3,867,011,000 and 12,270 FTE. The increase of 5.6 percent from the FY 2009 enacted level includes support funding for enhanced enforcement activities.

Support of Information Technology (IT) to the Taxpayer Services and Enforcement Programs

The IRS information technology (IT) infrastructure as well as staffing, equipment, and related costs necessary to maintain and manage current information systems are critical to the support of the taxpayer services and enforcement programs. Technology is the critical link that allows the IRS to do its job quickly and efficiently. The core purpose of the IRS Modernization & Information Technology Services (MITS) organization is to provide and maintain the best technology available in serving the taxpaying public and to manage and upgrade this technology to support the IRS administration of the tax laws as carefully and proficiently as possible. Improvement to the IT infrastructure includes procuring and replacing desktop computers, automated call distributor hardware, mission critical servers, and wide area and local area network routers and switches.

The MITS organization provides IT and telecommunications services to support the operation, maintenance, and enhancement of current IT systems and develops new information technology systems and products through the business systems modernization process. The IRS is in the midst of a multi-year effort to move its technology systems and operations from antiquated legacy systems to modernized IT systems equal to those of their counterparts in both the public and private sectors. The MITS organization supports every facet and phase of tax administration and provides the tools necessary to taxpayers to communicate and conduct transactions with the IRS. MITS core activities include the following programs, procedures, and actions:

- Maintaining and updating the IT systems essential to meeting the needs of each filing season;
- Managing existing information technology and developing new IT systems;

- Developing an IT service management model;
- Defining and meeting systems availability service levels;
- Implementing seat management (desktop) business process reengineering;
- Consolidating and standardizing work request processes;
- Sustaining a viable infrastructure program; and
- Administering a comprehensive approach to customer relationship management.

IRS business programs rely heavily on IT 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 and business units as well as operations support functions, including the toll-free access to tax information.

2.1 – Budget Adjustments Table

Dollars in Thousands

	FTE ¹	Amount
FY 2009 Enacted	12,270	\$3,867,011
Changes to Base:		
Maintaining Current Levels		\$61,060
Pay Annualization		13,005
Pay Inflation Adjustment		23,816
Non-Pay Inflation Adjustment		24,829
Government-wide Reduction for Productivity Improvements		(10,590)
GAO Audit Reimbursement Pursuant to P.L. 110-323		10,000
Efficiencies/Savings		(\$27,207)
Increase e-File Savings		(133)
Non-Recur Savings		(27,074)
Reinvestment		\$306
Submission Processing Consolidation (Andover)		306
Subtotal Changes to Base		\$34,159
Total FY 2010 Base	12,270	\$3,901,170
Program Changes:		
Enforcement Initiatives		\$73,714
Reduce the Tax Gap Attributable to International Activities		20,827
Improve Reporting Compliance of SB/SE Taxpayers		18,834
Expand Document Matching for Business Taxpayers		6,857
Address Nonfiling/Underpayment and Collection Coverage		27,196
Infrastructure Initiatives	46	\$108,100
Address IT Security and Material Weakness	36	90,000
Implement Return Review Program (RRP)	10	18,100
Subtotal FY 2010 Program Changes	46	\$181,814
Total FY 2010 President's Budget Request	12,316	\$4,082,984

¹ Includes Technical FTE adjustments made since February 2008.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Operations Support	FY 2008 Enacted ¹	FY 2009 ARRA	FY 2009 President's Budget	Congressional	FY 2009 Enacted Level	Proposed Reprogram.	FY 2009	FY 2010 Request Level	% Change FY 2009 to FY 2010
				Action including Rescission			Proposed Operating Level		
FTE	12,495		12,270		12,270		12,270	12,316	0.4%
Object Classification:									
11.1 Full-Time Permanent Positions	\$970,952	\$0	\$978,431	\$0	\$978,431	\$0	\$978,431	\$1,044,177	6.7%
11.3 Other than Full-Time Permanent Positions	13,207	0	22,332	0	22,332	0	22,332	23,007	3.0%
11.5 Other Personnel Compensation	35,673	0	32,073	0	32,073	0	32,073	31,770	-0.9%
11.8 Special Personal Services Payments	0	0	0	0	0	0	0	0	0.0%
11.9 Personnel Compensation (Total)	\$1,019,832	\$0	\$1,032,836	\$0	\$1,032,836	\$0	\$1,032,836	\$1,098,954	6.4%
12.0 Personnel Benefits	304,229	0	309,867	0	309,867	0	309,867	335,790	8.4%
13.0 Benefits to Former Personnel	47,073	0	48,532	0	48,532	0	48,532	48,775	0.5%
21.0 Travel	46,121	0	36,627	0	36,627	0	36,627	37,928	3.6%
22.0 Transportation of Things	21,522	0	21,470	0	21,470	0	21,470	21,278	-0.9%
23.1 Rental Payments to GSA	610,005	0	653,627	0	653,627	0	653,627	668,154	-
23.2 Rent Payments to Others	193	0	6	0	6	0	6	7	16.7%
23.3 Communications, Utilities, & Misc	475,136	0	405,208	0	405,208	0	405,208	445,527	10.0%
24.0 Printing & Reproduction	61,071	0	54,796	0	54,796	0	54,796	55,054	0.5%
25.1 Advisory & Assistance Services	90,291	0	93,114	0	93,114	0	93,114	127,437	36.9%
25.2 Other Services	441,600	0	427,449	10,839	438,288	0	438,288	416,456	-5.0%
25.3 Purchase of Goods & Services from Govt. Account	56,262	0	63,838	0	63,838	0	63,838	78,168	22.4%
25.4 Operation & Maintenance of Facilities	162,169	0	181,331	0	181,331	0	181,331	185,263	2.2%
25.5 Research & Development Contracts	2,108	0	4,660	0	4,660	0	4,660	7,825	67.9%
25.6 Medical Care	12,505	0	10,764	0	10,764	0	10,764	11,110	3.2%
25.7 Operation & Maintenance of Equipment	68,268	0	70,048	0	70,048	0	70,048	68,184	-2.7%
25.8 Subsistence & Support of Persons	1,282	0	1,304	0	1,304	0	1,304	1,256	-3.7%
26.0 Supplies and Materials	33,929	0	31,014	0	31,014	0	31,014	31,399	1.2%
31.0 Equipment	331,647	0	360,820	0	360,820	0	360,820	395,013	9.5%
32.0 Lands and Structures	55,461	0	48,139	0	48,139	0	48,139	48,682	1.1%
33.0 Investments & Loans	0	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	0	0	0	0	0	0	0	0	0.0%
42.0 Insurance Claims & Indemn	405	0	722	0	722	0	722	724	0.3%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	0	0	0	0	0	0	0	0	0.0%
Total Budget Authority	\$3,841,109	\$0	\$3,856,172	\$10,839	\$3,867,011	\$0	\$3,867,011	\$4,082,984	5.6%
Budget Activities:									
Infrastructure	\$826,313	\$0	\$883,325	0	\$883,325	\$0	\$883,325	\$900,852	2.0%
Shared Services & Support	1,291,296	0	1,243,703	10,839	1,254,542	0	1,254,542	1,296,629	3.4%
Information Services	1,723,500	0	1,729,144	0	1,729,144	0	1,729,144	1,885,503	9.0%
Total Budget Authority	\$3,841,109	\$0	\$3,856,172	\$10,839	\$3,867,011	\$0	\$3,867,011	\$4,082,984	5.6%

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.

2.3 – Appropriation Detail Table

Dollars in Thousands

Operations Support										
Resources Available for Obligation	FY 2008 Obligations		FY 2008 Enacted ¹		FY 2009 Enacted		FY 2010 Request		% Change FY 2009 to FY 2010	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Infrastructure		\$809,039		\$826,313		\$883,325		\$900,852		1.98%
Shared Services and Support	5,572	1,279,800	6,068	1,291,296	5,977	1,254,542	5,977	1,296,629	0.00%	3.35%
Information Services	6,507	1,678,744	6,427	1,723,500	6,293	1,729,144	6,339	1,885,503	0.73%	9.04%
Subtotal New Appropriated Resources	12,079	\$3,767,583	12,495	\$3,841,109	12,270	\$3,867,011	12,316	\$4,082,984	0.37%	5.59%
Other Resources:										
Recoveries		595		595						
Offsetting Collections - Reimbursable	115	45,255	115	45,255	117	46,268	119	47,304	1.71%	2.24%
Available multi-year/no-year funds		43,039		43,039		67,808		61,000		-10.04%
50% Carryover		19,061		19,061						
Transfers In/Out		(4,500)		(4,500)						
Mandatory Appropriations - User Fees		82,163		82,163		32,900		32,900		0.00%
Subtotal Other Resources	115	\$185,613	115	\$185,613	117	\$146,976	119	\$141,204	1.71%	-3.93%
Total Resources Available for Obligation	12,194	\$3,953,196	12,610	\$4,026,722	12,387	\$4,013,987	12,435	\$4,224,188	0.39%	5.24%

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

3A – Infrastructure (\$900,852,000 in direct appropriation, 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. This includes the following program activities:

- *Building Delegation* oversees and manages the IRS GSA-delegated buildings, including cleaning, maintenance, utilities, protection, administrative, and recurring and one-time repair costs.
- *Rent* provides resources for all IRS rent needs.
- *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.

3.2.6 – Budget and Performance Plan

Dollars in Thousands

Infrastructure					
Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	\$837,320	\$808,254	\$809,039	\$883,325	\$900,852
Reimbursable Resources	103	121	149	152	155
Mandatory Appropriations - User Fees			13,049	16,100	16,100
Total Resources	\$837,423	\$808,375	\$822,237	\$899,577	\$917,107
Budget Activity Total	\$837,423	\$808,375	\$822,237	\$899,577	\$917,107

Description of Performance

The IRS continued to achieve cost savings in FY 2008 with its aggressive rent management strategy. These savings, coupled with those of previous years, have helped offset the increased costs associated with infrastructure improvement initiatives such as the Philadelphia Consolidation.

Rent costs, including the cost of facility security, decreased over 1 percent from \$666.6 million in FY 2007 to \$659.6 million in FY 2008. The IRS achieved rent savings by identifying and completing 26 space reduction projects, releasing a cumulative total of 515,783 square feet. These projects have annualized savings estimated at \$9.6 million.

Additionally, the IRS and GSA continued a delegated leasing initiative designed to save commission fees and to achieve negotiated lease savings.

3A – Shared Services and Support (\$1,296,629,000 in direct appropriation and an estimated \$32,228,000 from reimbursable programs): This budget activity funds policy and 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 employee benefits programs. This includes the following program activities:

- *National Headquarters Management and 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 IRS and builds partner relationships with key stakeholders (e.g. Congress, GAO, OMB). 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. It also includes official reception and representation expenses.
- *Real Estate & Facilities Management* provides services and supplies required to manage IRS facilities.
- *Procurement* supports the procurement function of the IRS.

- *EEO & Diversity Field Operations* plans and manages the IRS EEO and Diversity Program.
- *Communications and 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 IRS-wide compliance with disclosure and privacy laws.
- *Employee Support Services* plans and manages financial services, including relocation, travel, imprest fund, purchase cards, corporate express, and employee clearances.
- *Treasury Complaint Mega Centers* plan and manage the Treasury Complaint Centers.
- *Shared Support not provided by Agency-Wide Shared Services (AWSS)* provides resources for shared cross-functional support such as copiers, postage meters, shredders, courier services, and post office boxes.
- *Printing and Postage – Media and Publications* provides operating divisions with printing and postage, including shipping of taxpayer and internal use materials.
- *Statistics of Income* provides resources for researching annual income, financial, and tax data from tax returns filed by individuals, corporations, and tax-exempt organizations.
- *Research* provides resources for market-based research to identify compliance issues, for conducting tests of treatments to address noncompliance, and for the implementation of successful treatments of taxpayer non-compliant behavior.
- *Security* protects employees, facilities and assets, and the confidentiality of taxpayer information.
- *Benefit Payments* provides resources to fund Workers' Compensation benefits and Unemployment Compensation for federal employee payments.
- *Shared Services* provides additional services such as Public Transit Subsidy and Career Counselor Contract.

3.2.7 – Budget and Performance Plan

Dollars in Thousands

Shared Services and Support					
Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	\$1,154,616	\$1,154,724	\$1,279,800	\$1,254,542	\$1,296,629
Reimbursable Resources	17,836	13,649	30,796	31,504	32,228
Mandatory Appropriations - User Fees			19,114		
Total Resources	\$1,172,452	\$1,168,373	\$1,329,710	\$1,286,046	\$1,328,857
Budget Activity Total	\$1,172,452	\$1,168,373	\$1,329,710	\$1,286,046	\$1,328,857

Description of Performance

Through support activities including management and administration of human resources, security, and research, the IRS continues to provide shared services to all IRS programs.

Two tenets of the IRS succession planning strategy are to grow future leaders and to ensure adequate bench strength to lead the current organization. In FY 2008, the IRS:

- Opened the Leadership Succession Review process (LSR) to bargaining unit employees to identify those individuals with potential to become leaders; and
- Initiated a leadership-coaching pilot designed to serve and support the current cadre of managers. An analysis of the Employee Engagement Survey results for 2007 and 2008 indicates that coaching benefits both managers and employees and strengthens the workgroup.

In FY 2008, the IRS established a *Workforce of Tomorrow* task force to implement short and long- term improvements in the areas of retaining people, attracting the best candidates, enhancing the role of IRS managers, and growing future leaders.

The IRS actively ensures the security of its infrastructure and IT systems. The IRS collects a tremendous amount of sensitive information, and protecting this information is vital to maintaining the public trust. Public trust encourages voluntary compliance with the tax law and enables the IRS to conduct business effectively.

The IRS protects taxpayer personally identifiable information, including social security numbers. In FY 2008, to protect the tax administration systems from unauthorized access, disruption, and modification the IRS:

- Established the Office of Online Fraud Detection and Prevention to address increasing and evolving online threats that affect the IRS and taxpayers;
- Continued risk assessments of business processes to address identity protection; and analyzed the use of social security numbers for reduction and elimination where possible;

- Updated the IRS Identity Protection Strategy, a comprehensive strategy to protect personal information and provide services to identity theft victims;
- Completed a corrective action plan to address IT Security Training, systems auditing, access controls, system security configuration control, and IT systems disaster recovery; and
- Established agency-wide security policies and standards.

In FY 2008, the IRS expanded its ongoing research studies of filing, payment and reporting compliance, including the National Research Program, to provide a comprehensive picture of overall taxpayer compliance 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 workload selection models to reduce audits of compliant taxpayers and ultimately help the IRS achieve high rates of return from its enforcement programs. Launched in 2007 and continued in 2008, the reporting compliance study for individual taxpayers will provide updated and more accurate audit selection tools. It is the first of an ongoing series of studies using a multi-year rolling methodology. The study examined more than 13,000 randomly selected tax year 2006 individual audits. Similar sample sizes will be used in subsequent tax years. This new method will allow the IRS to combine results over rolling three-year periods to make annual updates to its voluntary compliance estimates after the initial three annual studies. As part of its continuing effort to measure the burden associated with meeting federal tax obligations, the IRS surveyed both individual and self-employed taxpayers to measure time and expense in meeting filing requirements for small-business taxpayers who file both income and employment tax returns. Results of the surveys will be used to develop updated burden estimate models for release in FY 2009.

3A – Information Services (*\$1,885,503,000 in direct appropriation, 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. Under this budget activity staff develops and maintains the millions of lines of programming code that support all aspects and phases of tax-processing. They are responsible for operating and administering the hardware infrastructure of mainframes, servers, personal computers, networks, and a variety of management information systems.

ITS is responsible for everything dealing with information systems and technology, ranging from cyber security and networks to applications development and end user equipment and services. This includes the following program activities:

- *Customer Relationship and Service Delivery Management* provides services in an integrative manner to improve service delivery processes to seek performance improvement.
- *Security Services* ensures effective security policies and programs to safeguard taxpayer records, business processes, and IT systems. The program establishes a

governance process to perform vulnerability assessments and provide service-wide mission assurance as well as security support to IRS systems modernization. Security management provides executive direction for enterprise-wide IT security policy development and implementation, operations, and services.

- *Tier B* provides support to single-owner, small-to medium-sized investment projects using core data to support specialized functions.
- *National Headquarters (NHQ) ADP Management* provides for the management and oversight of investments in IT for the Chief of Staff and Research, Analysis and Statistics (RAS). The program enables NHQ to manage and leverage IT solutions that are responsive to IRS-wide management, tax compliance, enforcement strategic and tactical research projects.
- *MITs Executive Oversight* provides support to the immediate office of the Chief Technology 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 IT solutions that are responsive to customer business priorities and effectively meet functional and operational needs.
- *Application 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 IT 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 and banks) 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 execution of 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.
- *End User Equipment and Services* maintains the IRS automated business processes at headquarters and field sites by providing technical systems support and applications software support to end users, legacy operations maintenance, 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.
- *MITS Management* provides the management and oversight of investments in IT, human capital investment, and other MITS operational priorities.
 - *IT Security Certification and Accreditation* provides design and operations of security controls and the technical mechanism used by the IRS systems/applications as part of the system security plan, system risk assessment, and IT contingency plan. It also supports security testing/evaluation as part of the certification process, including time preparing system documentation, interviewing with contractors, and responding to information requests.
 - *IT Operational Security* oversees Federal Information Security Management Act (FISMA) reporting, including preparing for, conducting, and reporting National Institute of Standards and Technology (NIST) 800-26 self-assessments and annual testing of controls.
 - *IT Security Training* provides training for FISMA reporting purposes.
 - *IT Homeland Security Presidential Directive-12* oversees the use of Personal Identity 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.
 - *IT Infrastructure* corporately funds the replacement of IRS IT infrastructure that has reached or surpassed its useful life cycle. The resources achieved through efficiencies in various parts of MITS are centralized to ensure that replacement of the IRS aging infrastructure is addressed corporately.
 - *Treasury Working Capital Fund* separates the telecommunications program budget required for paying Treasury billings for IRS corporate telecommunications services.
 - *Integrated Document Solutions Enterprise (IDSE) Campus Operations Most Efficient Organization (MEO)* captures savings resulting from IDSE MEO activities.

3.2.8 – Budget and Performance Plan

Dollars in Thousands

Information Services					
Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	\$1,510,449	\$1,551,603	\$1,678,744	\$1,729,144	\$1,885,503
Reimbursable Resources	3,330	14,006	14,310	14,612	14,921
Mandatory Appropriations - User Fees		66,678	50,000	16,800	16,800
Total Resources	\$1,513,779	\$1,632,287	\$1,743,054	\$1,760,556	\$1,917,224
Budget Activity Total	\$1,513,779	\$1,632,287	\$1,743,054	\$1,760,556	\$1,917,224

Description of Performance

In FY 2008, the IRS successfully implemented several initiatives that continue to improve the IT infrastructure that will lead to greater efficiency and productivity. In FY 2008, the IRS implemented governance and program controls and established the Program/Project Health Assessment.

The governance and program controls represent a consistent standardized governance approach to manage all IT investment projects. The IRS now maps its IT projects to a single comprehensive framework and applies best practices across the entire IT portfolio.

The Program/Project Health Assessment is a repeatable enterprise process to assess the condition of IT development, maintenance, and services projects to better equip IRS decision makers with information products and capabilities to achieve desired outcomes. This process examines the “health” of all IT projects both within the Business Systems Modernization (BSM) portfolio and across the entire IT portfolio IRS-wide. It provides independent, early warning indicators to IT managers and governance and control organizations concerning projects facing unusual challenges that can influence the filing season or other critical IRS functions.

A solid IRS IT workforce is critical in capitalizing on the potential customer service benefits presented by technology and the expansion of E-Government. The IRS continues to implement a large and highly complex modernization program with an aging IT workforce, and many of them are retirement-eligible. To address this issue, the IRS developed a human capital strategy that addresses hiring critical personnel, employee training, leadership development, and workforce retention.

In support of this strategy, the IRS has implemented several high priority initiatives in FY 2008. The IRS formed a team to identify challenges in the hiring process and established the Executive Hiring Council to coordinate recruitment actions and strategies for the Modernization and Information Technology Services organization. The IRS also improved its hiring for mission critical positions through automation, simplification of the application process, and the use of incentives.

The IRS successfully completed updates to security plans and certified and accredited each application and general support system. The IRS successfully completed security certification and accreditation for 100 percent of its IT systems. All FISMA 2008 reporting activities were completed and validated before the June 30, 2008 deadline.

The IRS implemented, as part of the Enterprise Disk Encryption project, the use of a new security technology product, Guardian Edge Removable Storage (GERS), to provide encryption protection of sensitive and personally identifiable information as mandated by OMB. GERS provides automatic encryption of all data written to removable storage devices, including flash drives, external hard drives, and CD/DVDs.

The IRS conducted Operation R.E.D. to focus employee awareness on existing policies and procedures regarding safeguarding of sensitive information. During this event, employees were given time to:

- **Review** their electronic files and paper holdings for sensitive information that is required to be secured;
- **Encrypt** (electronic) and/or **safeguard** (paper) all sensitive information that is required to be secured; and
- **Decide** whether information that they no longer have a need to know should be archived or destroyed.

Business Systems Modernization

Appropriation Description

The Business Systems Modernization (BSM) appropriation provides resources for the planning and capital asset acquisition of IT to modernize the IRS business systems.

The BSM Budget request for FY 2010 is \$253,674,000 in direct appropriations and 333 FTE. This is an increase of \$23,760,000 or 10.3 percent over the FY 2009 enacted level of \$229,914,000 and 333 FTE.

2.1 – Budget Adjustments Table

Dollars in Thousands

	FTE ¹	Amount
FY 2009 Enacted	333	\$229,914
Changes to Base:		
Maintaining Current Levels		\$1,153
Pay Annualization		412
Pay Inflation Adjustment		741
Subtotal Changes to Base		\$1,153
Total FY 2010 Base	333	\$231,067
Program Changes:		
Business Systems Modernization		\$22,607
Total FY 2010 President's Budget Request	333	\$253,674

¹ Includes Technical FTE adjustments made since February 2008.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Business Systems Modernization	FY 2008 Enacted	FY 2009 ARRA	FY 2009 President's Budget	Congressional	FY 2009 Enacted Level	Proposed Reprogram.	FY 2009 Proposed Operating Level	FY 2010 Request Level	% Change FY 2009 to FY 2010
				Action including Rescission					
FTE	358		333		333		333	333	0.0%
Object Classification:									
11.1 Full-Time Permanent Positions	\$35,790	\$0	\$33,621	\$0	\$33,621	\$0	\$33,621	\$33,672	0.2%
11.3 Other than Full-Time Permanent Positions	745	0	766	0	766	0	766	855	11.6%
11.5 Other Personnel Compensation	559	0	575	0	575	0	575	703	22.3%
11.8 Special Personal Services Payments	0	0	0	0	0	0	0	0	0.0%
11.9 Personnel Compensation (Total)	\$37,094	\$0	\$34,962	\$0	\$34,962	\$0	\$34,962	\$35,230	0.8%
12.0 Personnel Benefits	8,151	0	8,444	0	8,444	0	8,444	9,416	11.5%
13.0 Benefits to Former Personnel	0	0	0	0	0	0	0	0	0.0%
21.0 Travel	0	0	0	0	0	0	0	0	0.0%
22.0 Transportation of Things	0	0	0	0	0	0	0	0	0.0%
23.1 Rental Payments to GSA	0	0	0	0	0	0	0	0	0.0%
23.2 Rent Payments to Others	0	0	0	0	0	0	0	0	0.0%
23.3 Communications, Utilities, & Misc	0	0	0	0	0	0	0	0	0.0%
24.0 Printing & Reproduction	0	0	0	0	0	0	0	0	0.0%
25.1 Advisory & Assistance Services	0	0	0	0	0	0	0	0	0.0%
25.2 Other Services	157,914	0	115,327	7,250	122,577	0	122,577	126,836	3.5%
25.3 Purchase of Goods & Services from Govt. Account	0	0	0	0	0	0	0	0	0.0%
25.4 Operation & Maintenance of Facilities	0	0	0	0	0	0	0	0	0.0%
25.5 Research & Development Contracts	0	0	0	0	0	0	0	0	0.0%
25.6 Medical Care	0	0	0	0	0	0	0	0	0.0%
25.7 Operation & Maintenance of Equipment	7,281	0	7,281	0	7,281	0	7,281	10,578	45.3%
25.8 Subsistence & Support of Persons	0	0	0	0	0	0	0	0	0.0%
26.0 Supplies and Materials	0	0	0	0	0	0	0	0	0.0%
31.0 Equipment	56,650	0	56,650	0	56,650	0	56,650	71,614	26.4%
32.0 Lands and Structures	0	0	0	0	0	0	0	0	0.0%
33.0 Investments & Loans	0	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	0	0	0	0	0	0	0	0	0.0%
42.0 Insurance Claims & Indemn	0	0	0	0	0	0	0	0	0.0%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	0	0	0	0	0	0	0	0	0.0%
Total Budget Authority	\$267,090	\$0	\$222,664	\$7,250	\$229,914	\$0	\$229,914	\$253,674	10.3%
Budget Activities:									
IT Investments	\$267,090	\$0	\$222,664	\$7,250	\$229,914	\$0	\$229,914	\$253,674	10.3%
Total Budget Authority	\$267,090	\$0	\$222,664	\$7,250	\$229,914	\$0	\$229,914	\$253,674	10.3%

2.3 – Appropriation Detail Table

Dollars in Thousands

Business Systems Modernization										% Change	
Resources Available for Obligation	FY 2008 Obligations		FY 2008 Enacted		FY 2009 Enacted		FY 2010 Request		FY 2009 to FY 2010		
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	
New Appropriated Resources:											
Business Systems Modernization	347	\$170,576	358	\$267,090	333	\$229,914	333	\$253,674	0.00%	10.33%	
Subtotal New Appropriated Resources	347	\$170,576	358	\$267,090	333	\$229,914	333	\$253,674	0.00%	10.33%	
Other Resources:											
Recoveries		3,256		3,256							
Offsetting Collections - Reimbursable											
Available multi-year/no-year funds		82,394		82,394		106,883		94,000		-12.05%	
50% Carryover											
Transfers In/Out											
Mandatory Appropriations - User Fees											
Subtotal Other Resources		\$85,650		\$85,650		\$106,883		\$94,000		-12.05%	
Total Resources Available for Obligation	347	\$256,226	358	\$352,740	333	\$336,797	333	\$347,674	0.00%	3.23%	

3A – Business Systems Modernization (\$253,674,000 in direct appropriation): This budget activity funds the planning and capital asset acquisition of IT to modernize the IRS business systems, including labor and related contractual costs. The IRS BSM program is required to submit an annual expenditure plan that justifies the projects for which resources are requested.

The IRS depends on the core tax administration systems to deliver its mission, and they require ongoing, long-term commitment to ensure that IRS maintains its world-class tax administration systems. The FY 2010 BSM request of \$253.7 million funds the projects listed in the table below.

Project	FY 2010 Request
Customer Account Data Engine	\$85.7
Modernized e-File	\$50.0
Core Infrastructure	\$32.0
Architecture, Integration and Management	\$35.0
Management Reserve	\$5.0
Labor	\$46.0
Total	\$253.7

The \$253.7 million BSM request funds the programs and activities described below.

**FY 2010 Business Systems Modernization
(Dollars in Millions)**

Project	Business Systems Modernization Initiatives	FY2008 Enacted	FY 2009 Enacted	FY 2010 Request
Customer Account Data Engine	FY 2010 funding will allow IRS to execute plan to accelerate the CADE data conversion, and derive business benefits in accordance with recent replanning efforts. Budget also includes funding for continued tax law changes and increased focus on enhancing the overall security posture.	58.500	78.100	85.654
Accounts Management Services	Shift in strategy calls for an integrated approach to modernizing IRS's core tax account database, so line items for AMS will no longer be broken out separately, but rather will be included under Customer Account Data Engine.	28.983	0.000	0.000
Modernized e-File	FY 2010 plan calls for completion of 122 additional forms that will expand the reach of MeF to 93.7 million taxpayers, or 99% of the e-File population. Because of the size and scale of this release, investment in infrastructure and disaster recovery capabilities are needed to appropriately manage operational risk.	55.802	25.000	50.000
Core Infrastructure	Provide services in architecture, engineering and deployment of standardized, consolidated, virtual and secure modernized development environments (DTE) and shared infrastructure components (EUP, RUP, Security) of the production environments. Additional funds in FY 2009 provide for enhanced security posture, harden the environment, and support disaster recovery capabilities.	39.150	43.250	32.000
Architecture, Integration, and Management	Provide system engineering management capabilities including IRS systems strategy, architecture, and engineering capabilities across IT Infrastructure, Business Applications, Data Management and IT Security. Provide project integration and management processes and tools including governance, enterprise lifecycle support, tiered program management, business rules and requirements, transition management, cost estimation, configuration/change management and risk management.	35.100	35.000	35.000
Management Reserve		4.310	3.358	5.020
Subtotal Capital Investments		221.845	184.708	207.674
BSM Labor		45.245	45.206	46.000
Total BSM Appropriation		267.090	229.914	253.674

Customer Account Data Engine

The IRS requests \$85.7 million to continue the development of the Customer Account Data Engine, the new taxpayer account database that will serve as the central repository of tax account information for all individual taxpayers. In FY 2009, the IRS shifted its focus from concurrent development of a database and associated applications to a strategy that focuses on completion of the core taxpayer account database (Customer Account Data Engine). This approach will allow the IRS to accelerate data conversion to the new database while also addressing security, financial material weaknesses, and long-term architectural planning concerns. Thus, the Customer Account Data Engine, which includes AMS and elements of the previous CADE plan, is an integrated plan to deliver new capabilities in the coming years. This plan includes accelerating consolidation of the Individual MasterFile (IMF) and current CADE architectures, migration of IMF data into a daily processing architecture, and incorporation of enhanced security protocols and financial management controls.

The Customer Account Data Engine will improve the IRS capability to respond quickly to changing business needs and accelerate business process changes. The complete data model and sole authority taxpayer account database is a critical step toward significantly enhanced compliance and service programs. It will also foster better collaboration through improved data exchange between the IRS and other Federal and State agencies. The Customer Account Data Engine will improve taxpayer service and tax compliance by making accurate and timely tax data available to taxpayers and the IRS and by providing faster refunds for all individual taxpayers.

The IRS approach to modernization will fully leverage the successful development efforts of the last several years. FY 2010 activities include continued development and integrated daily processing, data conversion to the new relational database, development and testing of applications to enhance viewing of database extracts, incorporation of tax law changes in the current CADE application, and stand-up of a program office. While the primary focus will be on database completion, targeted application development will begin on a common penalty and interest module to assure accurate and consistent calculations across applications and to allow faster implementation of calculation changes, and modification of taxpayer notice processing.

Modernized e-File (MeF)

The IRS requests \$50 million to continue development and deployment of the MeF web-based platform. MeF allows electronic filing tax and provides a single point of transmission for the electronic submission of federal corporate, non-profit, and partnership returns and the associated state returns for a limited number of states. MeF stores tax return data in a modernized Tax Return Database allowing IRS employees to see an entire tax return online.

The following forms have been migrated onto the modernized platform:

- Form 1120, *U.S. Corporation Income Tax Return*, Form 1120-S, *U.S. Income Tax Return for an S corporation* (2007);
- Form 990, *Return of Organization Exempt from Income Tax* (2007);
- Form 1065, *U.S. Return of Partnership Income* (2007); and
- Form 1120-F, *U.S. Income Tax Return of a Foreign Corporation* along with the Non-Profit e-Postcard (990N) (2008).

The IRS is implementing the Form 1040, *U.S. Individual Income Tax Return*, onto the MeF platform in three phases.

Phase I began in FY 2007 with deployment scheduled in January 2010. Phase I consists of the Form 1040 and 21 of the most common forms and schedules used by 61 percent of the e-File population such as *Itemized Deductions*, *Schedule B, Interest and Ordinary Dividends*, and *Schedule D, Capital Gains and Losses*. Phase I also includes enhancements to infrastructure and disaster recovery and development of the interfaces for all three 1040 phases.

Phase II began in FY 2009 and is scheduled to be implemented in January 2011. This Phase will enhance the deployment of disaster recovery capability delivered in Phase I and include tax law changes and continued code optimization.

Phase III will begin in FY 2010 and is scheduled to deploy in January 2012. This phase will complete the implementation of the 1040 family of forms. After Phase III implementation, all Form 1040 taxpayers will be able to file electronically.

Once forms are migrated to the MeF platform, tax preparers and taxpayers will realize the following benefits:

- Extensive business rule validation and error checking to ensure the accuracy of the tax return;
- Sophisticated math error validation checking to increase the likelihood that the tax return will be successfully processed;
- Explanations for rejected returns;
- Ability to submit all necessary supporting documentation with the tax return; and
- Faster response times to the external community.

The IRS benefits from the continued migration of forms from the legacy e-File applications to MeF. MeF allows retirement of legacy e-File applications; eliminates the need to match paper tax return-related documents with e-filed tax returns; makes tax return data needed for compliance purposes available sooner to front-line enforcement staff; and includes tools and help-desk capabilities to provide more timely information to taxpayers on the status of their return.

Core Infrastructure

The IRS requests \$32 million to provide a complete environment (hardware, software, and management) for developing, testing, deploying, operating, and monitoring both customer and internal applications in support of the IRS shift in business practices. This includes standardizing telecommunication services, security, and operations management as well as updating the access portals. This will allow the IRS to develop infrastructure and common business service solutions that are usable across multiple major projects.

Core infrastructure consists of two programs, Infrastructure Shared Services and Development, Integration and Testing Environment (DITE).

Infrastructure Shared Services (ISS) provides services in designing, engineering and deploying a standardized, consolidated, virtual and secure modernized production environment for BSM projects. ISS provides integrated engineering and architectural services including systems engineering program management, configuration management, performance engineering, capacity planning, infrastructure requirements, security engineering, and transition management support. In FY 2010, ISS will focus on common business services, security, and infrastructure enhancements that affect the modernization projects, while continuing to support efforts to enhance availability and portal improvements begun in FY 2009. The ISS also will address the increase in electronic documents, online transactions, and online tax filers on the modernized infrastructure environments.

Identification and development of common infrastructure, security, and application integration services (i.e., audit, security, case management, and authentication) reduces delivery time, application development, and operations and maintenance costs. Using ISS, BSM projects avoid developing costly customized solutions for each required interface to data, other application services, and security components.

Development, Integration, and Testing Environment (DITE) provides the standardized systems development environments and associated engineering services to support BSM projects. In addition, DITE addresses the expanded scope associated with the integration of BSM projects into the current production environment. It uses streamlined processes and standard tools that allow development and testing in a controlled environment to ensure projects work effectively and seamlessly in the modernized production environment. DITE consists of a Virtual Development Environment (VDE) and an Enterprise Integration and Test Environment (EITE). The VDE provides a software development environment that enables geographically disbursed developers to access standardized tools, information, and services. The EITE provides the structured, production-like integration and testing environment to test end-to-end system capabilities before release into production.

Architecture, Integration, and Management (AI&M)

The IRS requests \$35 million to provide continued support to the AI&M program. This program provides engineering management capabilities essential to delivering a program of the magnitude, nature, and complexity of BSM and delivers essential IRS systems strategy, architecture, and engineering capabilities to the major modernization projects across all technology platforms: IT Infrastructure, Business Applications, Data Management, and IT Security. AI&M translates enterprise and project objectives into targeted, actionable investments to provide the necessary enterprise technical framework and direction for cohesive and successful modernization. Major AI&M components are:

Business Application Architecture and Integration (BAAI) delivers the BSM systems architecture, engineering, and integration tasks, intersecting more than 500 production systems and 100 active IT projects. BAAI produces the principles, strategies, and standards to guide the construction and delivery of coherent and integrated enterprise systems. Key FY 2010 deliverables include the Enterprise Target Architecture and Integration Roadmap, Enterprise Transition Strategy, Release Architecture, As-Built Architecture, Enterprise Standards Profile, Service Oriented Architecture Roadmap, and Segment Architectures.

Data Management delivers several essential elements of the IRS Data Strategy Roadmap and implements common repositories for use by all IRS applications. The Data Management Strategy defines an enterprise-wide data environment to more easily and efficiently organize, identify, share, reuse and correlate data that enables the IRS compliance functions to consume information and maximize the value to the agency.

The BSM projects included in the FY 2010 Data Strategy Roadmap are building out the tax return store; prototyping the metadata program; and expanding users for the Integrated Production Model, in which data from different data stores (accounts, tax returns, and information returns) will be combined in a single environment. These new data management capabilities allow reuse of services for BSM projects so information is readily shared. The FY 2010 Enterprise Data Strategy will focus on increasing data security and closing the gap on key capabilities needed by the IRS compliance functions, such as deeper integration of data and better case selection.

IT Security is implementing automation to allow proactive cyber security evaluation and instrumentation of applications, projects and system compliance with internal and external security and privacy standards, policies, and related federal directives (e.g., FISMA, NIST, DHS, OMB, GAO, and Treasury). It also designs and implements remediation plans to ensure that the project or system passes the security test and evaluation processes. Other planned FY 2010 deliverables include “defense-in-depth” improvements through, updated infrastructure engineering security standards, IRS Enterprise Architecture Security and Privacy Guidance updates, and refinements to the IRS Security Domain Segment Architecture.

Business Integration (BI) processes and standards allow the IRS to define, manage, and successfully deliver its Information Technology portfolio. BI activities include Integration Planning and Operations Improvement, Modernization Vision and Strategy, Cost Estimation, and Transition Management. BI will expand implementation of Information Technology Infrastructure Library (ITIL) standards to the change management, configuration management and release management process areas.

BI also will provide an integrated IT portfolio assessment of organizational capacity for delivering BSM capabilities. This IT portfolio assessment is critical to ensure the technical impact of BSM program decisions to the current production environment are fully understood and considered. Engineering analyses and resource estimates are integral to ensuring organizational capacity needs are incorporated into both plans and budgets to deliver an integrated portfolio, including maintaining current operations, delivering filing season, addressing significant legislative initiatives, and supporting BSM initiatives.

Business Rules and Requirements Management (BRRM) improves the conduct of business analysis, process redesign, business rules harvesting and management, and business requirements definition. BRRM standards and expertise allow the IRS to incorporate engineering industry best practices into the Enterprise Life Cycle for consistent systems development processes, apply business rules methods, tools and processes to BSM projects, and develop enterprise policy and standards for business rules management. BRRM provides project planning and management, business process redesign, rules and requirements development, business modeling, and baseline management and solution development support.

Management Processes (MP) provides management disciplines leading to consistent quality, managed risk, increased stakeholder satisfaction, and delivery of modernized business systems within established cost and schedule parameters. The IRS is continually working to strengthen its management processes through the development and deployment of processes and procedures such as Earned Value Management (EVM) and Enterprise Life Cycle (ELC). The dynamic nature of modernization drives BSM to continually assess its operation and implement continuous improvements.

Program Management (PM) oversees contractor activities, sustains improvements to program performance, and ensures delivery of taxpayer benefit through delivery of projects on time, on budget, and at or above quality targets. PM provides financial

planning and risk management, including the use of a common risk, issue and action item management process tool.

Federally Funded Research & Development Center (FFRDC) provides national experts in systems engineering, architectural design and development, security, and other technical disciplines that are critical to modernization success. The Center's broad visibility, deep domain knowledge, and objectivity provide an independent voice to executive management staff and provide management guidance on difficult issues. Key services include support of institutionalizing and maturing processes and risk mitigation.

Management Reserve

The IRS requests \$5.0 million to fund the management reserve to cover unanticipated cost adjustments for the BSM projects.

BSM Labor

The IRS requests \$46 million to fund the base FY 2009 staffing level for BSM labor (\$44.8 million) and FY 2010 inflation costs (\$1.2 million).

3.2.9 – Budget and Performance Plan

Dollars in Thousands

Business Systems Modernization					
Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	\$113,702	\$158,758	\$170,576	\$229,914	\$253,674
Reimbursable Resources					
Mandatory Appropriations - User Fees					
Total Resources	\$113,702	\$158,758	\$170,576	\$229,914	\$253,674

Budget Activity Total	\$113,702	\$158,758	\$170,576	\$229,914	\$253,674
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Business Systems Modernization Budget Activity Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Percent of BSM Projects within +/- 10% Cost Variance (E)	*	*	92.0%	90.0%	90.0%
Percent of BSM Projects within +/- 10% Schedule Variance (E)	*	*	92.0%	90.0%	90.0%

Key: E - Efficiency Measure

* Prior to FY 2008, Cost and Schedule Variance was reported separately for each project. In FY 2008, these measures were changed to reflect an overall percentage of all major BSM projects that were within the +/- 10% threshold. In FY 2009, MITS is changing the methodology to include all major BSM and Non-BSM projects. If approved, reporting will begin in FY 2010.

Description of Performance

The IRS must manage its resources, businesses, and technology systems optimally to effectively and efficiently support its service and enforcement mission. Of the major BSM project releases completed in FY 2008, 92 percent were within the +/- 10 percent cost and project schedule variance goal. Significant modernization accomplishments for FY 2008 include the Customer Account Data Engine (CADE), the Modernized e-File system (MeF), improved Account Management Services (AMS) capabilities, and the IRS Data Access Strategy.

The CADE release was delivered on time for the filing season and processed 30.6 million returns, a substantial increase from the 2007 posting of 11.2 million returns. It also issued over 28.9 million refunds, totaling more than \$44.1 billion, exclusive of Stimulus payments. CADE settles daily, allowing it to process refunds on average five days faster than the legacy system. It also updates taxpayer account information immediately for customer service personnel, rather than weekly updates in the legacy system.

The MeF added new capabilities and delivered forms 1120F (Foreign Corporation) and 990N (Exempt Organization) at the start of the 2008 Filing Season. In FY 2008, new functionality enabled MeF to accept over 3.7 million returns, which is a 55 percent increase over last year. MeF offers 100 percent data capture that is available to IRS customer service representatives online and in real-time.

AMS delivered new capabilities that include a new inventory and workflow that automates the assignment, research, resolution, and closure for entity and account transcripts; these are internally generated cases currently worked in a paper-based manual process. This enables authorized users to resolve taxpayer issues more efficiently and improve the overall taxpayer experience.

Health Insurance Tax Credit Administration

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 Coverage Tax Credit (HCTC) included in Public Law 107-210, the *Trade Adjustment Assistance Act* (Trade Act of 2002).

The IRS administers the enrollment, payment, and compliance components of this credit. The Department of Labor, state workforce agencies, and the Pension Benefit Guaranty Corporation (PBGC) are responsible for determining potentially eligible HCTC taxpayers. This credit was significantly expanded by the *American Recovery and Reinvestment Act of 2009* (Public Law 111-5).

The HITCA Budget request for FY 2010 is \$15,512,000 in direct appropriation and 15 FTE. This is an increase of \$106,000 or .69 percent over the FY 2009 enacted level of \$15,406,000 and 15 FTE. This amount does not include \$80,000,000 of funding provided by *American Recovery and Reinvestment Act of 2009* (Public Law 111-5).

2.1 – Budget Adjustments Table

Dollars in Thousands

	FTE ¹	Amount
FY 2009 Enacted	15	\$15,406
Changes to Base:		
Maintaining Current Levels		\$106
Pay Annualization		13
Pay Inflation Adjustment		23
Non-Pay Inflation Adjustment		141
Government-wide Reduction for Productivity Improvements		(71)
Subtotal Changes to Base		\$106
Total FY 2010 Base	15	\$15,512
Program Changes:		
Subtotal FY 2010 Program Changes		
Total FY 2010 President's Budget Request	15	\$15,512

¹ Includes Technical FTE adjustments made since February 2008.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Health Insurance Tax Credit Administration	FY 2008 Enacted	FY 2009 ARRA	FY 2009 President's Budget	Congressional	FY 2009 Enacted Level	Proposed Reprogram.	FY 2009 Proposed Operating Level	FY 2010 Request Level	% Change FY 2009 to FY 2010
				Action including Rescission					
FTE	17		15		15		15	15	0.0%
Object Classification:									
11.1 Full-Time Permanent Positions	\$2,395	\$0	\$2,335	\$0	\$2,335	\$0	\$2,335	\$2,363	1.2%
11.3 Other than Full-Time Permanent Positions	0	0	0	0	0	0	0	0	0.0%
11.5 Other Personnel Compensation	23	1,000	24	0	24	0	24	24	0.0%
11.8 Special Personal Services Payments	0	0	0	0	0	0	0	0	0.0%
11.9 Personnel Compensation (Total)	\$2,418	\$1,000	\$2,359	\$0	\$2,359	\$0	\$2,359	\$2,387	1.2%
12.0 Personnel Benefits	371	0	352	0	352	0	352	360	2.3%
13.0 Benefits to Former Personnel	0	0	0	0	0	0	0	0	0.0%
21.0 Travel	148	0	150	0	150	0	150	151	0.7%
22.0 Transportation of Things	0	0	0	0	0	0	0	0	0.0%
23.1 Rental Payments to GSA	198	0	202	0	202	0	202	0	-
23.2 Rent Payments to Others	0	0	0	0	0	0	0	0	0.0%
23.3 Communications, Utilities, & Misc	0	2,000	0	0	0	0	0	0	0.0%
24.0 Printing & Reproduction	0	2,000	0	0	0	0	0	0	0.0%
25.1 Advisory & Assistance Services	0	0	0	0	0	0	0	0	0.0%
25.2 Other Services	12,093	73,000	12,335	0	12,335	0	12,335	12,606	2.2%
25.3 Purchase of Goods & Services from Govt. Account	0	0	0	0	0	0	0	0	0.0%
25.4 Operation & Maintenance of Facilities	0	0	0	0	0	0	0	0	0.0%
25.5 Research & Development Contracts	0	0	0	0	0	0	0	0	0.0%
25.6 Medical Care	0	0	0	0	0	0	0	0	0.0%
25.7 Operation & Maintenance of Equipment	0	0	0	0	0	0	0	0	0.0%
25.8 Subsistence & Support of Persons	0	0	0	0	0	0	0	0	0.0%
26.0 Supplies and Materials	7	2,000	8	0	8	0	8	8	0.0%
31.0 Equipment	0	0	0	0	0	0	0	0	0.0%
32.0 Lands and Structures	0	0	0	0	0	0	0	0	0.0%
33.0 Investments & Loans	0	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	0	0	0	0	0	0	0	0	0.0%
42.0 Insurance Claims & Indemn	0	0	0	0	0	0	0	0	0.0%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	0	0	0	0	0	0	0	0	0.0%
Total Budget Authority	\$15,235	\$80,000	\$15,406	\$0	\$15,406	\$0	\$15,406	\$15,512	0.7%
Budget Activities:									
Health Insurance Tax Credit Administration	\$15,235	\$80,000	\$15,406	\$0	\$15,406	\$0	\$15,406	\$15,512	0.7%
Total Budget Authority	\$15,235	\$80,000	\$15,406	\$0	\$15,406	\$0	\$15,406	\$15,512	0.7%

2.3 – Appropriation Detail Table
Dollars in Thousands

Health Insurance Tax Credit Administration										% Change	
Resources Available for Obligation	FY 2008		FY 2008		FY 2009		FY 2010		FY 2009		
	Obligations		Enacted		Enacted		Request		to FY 2010		
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	
New Appropriated Resources:											
Health Insurance Tax Credit Administration	10	\$15,223	17	\$15,235	15	\$15,406	15	\$15,512	0.00%	0.69%	
Subtotal New Appropriated Resources	10	\$15,223	17	\$15,235	15	\$15,406	15	\$15,512	0.00%	0.69%	
Other Resources:											
Recoveries											
Offsetting Collections - Reimbursable											
Available multi-year/no-year funds											
50% Carryover											
Transfers In/Out											
Mandatory Appropriations - User Fees											
Subtotal Other Resources											
Total Resources Available for Obligation	10	\$15,223	17	\$15,235	15	\$15,406	15	\$15,512	0.00%	0.69%	

3A – Health Insurance Tax Credit Administration (\$15,512,000 in direct appropriation): The HITCA budget activity funds costs to administer a refundable tax credit which was created by the Trade Act of 2002 to purchase health insurance for eligible taxpayers. This activity maintains the administrative and direct support for the HITCA program office and the staff charged with managing the program for the IRS.

3.2.10 – Budget and Performance Plan

Dollars in Thousands

Health Insurance Tax Credit Administration					
Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Enacted	FY 2010 Request
Appropriated Resources	\$19,993	\$14,850	\$15,223	\$15,406	\$15,512
Reimbursable Resources					
Mandatory Appropriations - User Fees					
Total Resources	\$19,993	\$14,850	\$15,223	\$15,406	\$15,512

Budget Activity Total	\$19,993	\$14,850	\$15,223	\$15,406	\$15,512
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Health Insurance Tax Credit Administration Budget Activity Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Target	FY 2010¹ Target
Cost per Taxpayer Served (\$) (E)	\$13.71	\$14.90	\$16.94	\$17.00	Baseline
Sign-up Time (days) - Customer Engagement (Ot)	98.7	93.3	94.0	97.0	Baseline

Key: E - Efficiency Measure, Ot - Output/Workload Measure

¹As a result of the American Recovery and Reinvestment Act, a 400% increase in participation is expected. HCTC Program Office will baseline FY 2010 targets under the expanded population.

Description of Performance

The Department of Labor, state workforce agencies, and the Pension Benefit Guaranty Corporation are responsible for determining potentially eligible Health Coverage Tax Credit (HCTC) participants. The IRS administers the HCTC by working with health plan administrators to arrange direct payment of health plan premiums.

In FY 2008, the IRS processed approximately nine million HCTC eligibility records, made nearly 162,000 HCTC payments on behalf of taxpayers, handled almost 89,000 inbound HCTC telephone calls, and mailed several hundred thousand pieces of outbound correspondence. In addition, the IRS maintained an HCTC-program customer satisfaction level of nearly 91 percent.

Cost per participant served was \$16.94 in FY 2008, two dollars higher than the year-end target of \$14.25, which was heavily influenced by a 7 percent decrease in participants served. Sign-up time was 94 days, which was over 3 percent below the year-end target of 97 days (sign-up time is measured as the median number of days between the first program kit mailing and the first payment received from the participant).

In FY 2008, the IRS continued to seek ways to reduce the cost of HCTC administration beyond the achievements made since the program was introduced in 2003. As the program completes its sixth year, the IRS continues to identify technical and process improvements to enhance existing operations and to promote economies of scale that drive down costs. The IRS continues to explore new infrastructure configurations to ensure that its processing platform is as efficient as possible. In FY 2008, the IRS:

- Completed an evaluation of the existing HCTC infrastructure, architecture, and applications;
- Explored new data management, archiving and virtualization solutions; and

- Implemented a streamlined version of a payment processing solution, automated the returned funds process, and expanded the fax channels.

In addition, the IRS explored implementation of new self-service channels to provide taxpayers with more efficient self-service opportunities through web applications such as online registration and payment solutions.

Section 4 – Supporting Materials

4A – Human Capital Strategy

Introduction

With over 100,000 employees located nationwide, the IRS is the largest bureau of the Department of the Treasury. Over 73 percent of the IRS budget funds human capital costs.

The IRS workforce job satisfaction rate was 72 percent, higher than most other federal agencies, according to the Office of Personnel Management’s Federal Human Capital Survey. Management improvements such as leadership coaching, tuition assistance reimbursements, and continuing professional education have contributed to the job satisfaction rate.

FY 2010 Challenges

The IRS is taking action to ensure succession planning and an effective workforce for the future. Workforce and talent shortages are expected from the departures of employees eligible for retirement. Workforce renewal is a constant challenge requiring continued improvements to remain competitive with the private sector and other government entities. To achieve its performance goals, the IRS must attract and retain the “best and the brightest” and continue to be a “first choice” employer where talented people want to work and can excel in a culture of high performance and empowerment. The IRS is identifying current and future skill set gaps so strategies can be developed to retrain and reposition employees and attract and recruit employees with the required skills.

Strategic Alignment

In FY 2008, the IRS updated its Strategic Plan to identify the goals and objectives to guide the agency from FY 2009 through FY 2013. The plan guides the IRS work by emphasizing two overarching goals, improving service to taxpayers to make voluntary compliance easier and enforcing the law to ensure everyone meets their obligation to pay taxes. These goals are supported by a strategic foundation in the critical area of human capital management.

The IRS aligns human capital strategy with the IRS tax administration mission and goals and formulates its budget and Strategy Program Plans to address critical future challenges. In August 2008 the Commissioner established the *Workforce of Tomorrow* task force to address recruitment and retention issues so that the IRS has the necessary leadership and workforce to meet future challenges.

Mission Critical Occupation Attrition and Retirement Challenges

Specifically, the IRS needs to recruit and retain a multi-generational workforce. These “multi-generations” are characterized by very different needs within the workplace. Currently, the IRS is facing a 56 percent projected attrition rate for upper management, with 39 percent of the IRS executives already eligible to retire, and approximately 47 percent of the SES workforce eligible to retire by 2010. Ensuring leadership continuity continues to be one of the IRS key areas of focus.

Closing Competency Gaps in Mission Critical Occupations

Projected attrition and current hiring rates show that through 2018, IRS faces a shortfall of over three thousand leaders. The IRS will need to hire approximately one manager per day through 2018, to successfully contend with this shortfall and fill the growing gaps in leadership competencies. The IRS is striving to be a ‘first choice’ employer. Sustaining modernization efforts and significant organizational improvements depends on a maintaining a highly skilled leadership cadre. The IRS is addressing the projected gaps and challenges through leadership succession planning.

Leadership succession planning objectives will:

- Identify and develop leaders at all levels with the skills to consistently deliver the IRS mission and achieve the IRS Strategic Goals and Objectives;
- Support the IRS, Human Capital Office (HCO) and Business Unit Strategic Plans through leaders who promote employee engagement, customer satisfaction, and produce business results; and
- Focus on identifying and developing high-potential employees, early in their career, for all leader levels.

Also, the IRS has assessed the competencies needed by Revenue Agents assigned to the Small Business/Self-Employed program. This assessment reviewed both specific, technical training offered and on-the-job training provided at the workplace to ensure employees are mastering the necessary skills from entry-level to full performance levels. Additional competency assessments are needed in other mission critical occupations.

Major Human Capital Occupations/Functions Contracted

The Employment Operations and Compliance offices utilize contract workers to fill short-term needs during periods of extensive hiring, workload transition, and heavy volumes of workload. During FY 2009 contract workers will be used to supplement Employment Operations and Compliance staff in IRS employment offices. The IRS also utilizes contract workers to review and prepare personnel records and files for employees who are currently eligible to retire (more than 12,000) as well as those who will become eligible during the next year. This review detects potential errors that could impact an employee's retirement eligibility, insurance and beneficiary information. This upfront work allows the retirement specialists to provide a quicker response to employees requesting retirement estimates and retirement paperwork processing. Faster processing

of retirement paperwork ensures timely payments of retirement annuities. Contract workers will continue to work on this project in FY 2009.

Proposed Organizational Changes

To accomplish both short-term and long-term improvements, the *Workforce of Tomorrow* task force is focusing on six critical human capital areas:

- Valuing and retaining people;
- Planning a dynamic hiring strategy;
- Attracting the best candidates internally and externally;
- Streamlining hiring;
- Growing future leaders; and
- Enhancing the role of managers.

4B – Information Technology (IT) Strategy

The IRS Information Technology (IT) investment strategy, known as the Modernization Vision & Strategy (MV&S), drives IT investments based on strategic priorities for modernizing front-line tax administration for the Submission Processing, Manage Taxpayer Accounts, Customer Service, Reporting Compliance, Filing and Payment Compliance, Criminal Investigation (CI), Internal Management, and Chief Counsel business domains. The crosscutting service domains—Infrastructure, Security Services and Privacy, Data Strategy, and Common Business Services—address the infrastructure implications of the business domain investments and identify opportunities for leveraging common solutions, platforms, data sources, and system components across the enterprise. IRS updates the MV&S Five-Year Plan annually to reflect the full scope of tax administration functions as well as changing business priorities.

The IRS completed the first cycle of MV&S portfolio planning activities in FY 2006. MV&S also developed the Enterprise Transition Plan (ETP). The ETP is a five-year plan defining how existing and proposed investments align with the overall vision and strategy of the IRS Enterprise Architecture. It is updated annually and submitted to Treasury at the end of the fiscal year, ensuring decision-maker visibility into valuable information for organization-wide planning.

MV&S and the ETP:

- Facilitate ongoing collaboration between IT and business leadership;
- Leverage existing systems and investments;
- Emphasize the delivery of smaller, incremental releases; and
- Unify the portfolio-level view of investments.

The IRS will continue maturing the IT portfolio planning processes, aligning the IRS Strategic Plan with discrete investments, collectively supporting tax administration, strengthening technology infrastructure, and ensuring security and privacy.

In addition to the IT investment strategy, the IRS has an integrated governance and project control structure that organizes all IT projects into a tiered Project Management Office (PMO) structure for regular status reporting, review, and support. The newly implemented Enterprise Governance Model reflects industry best practices, assigning all projects to an appropriate governance body for oversight. The Enterprise Governance Model includes all IT projects regardless of dollar value or life cycle phase. This model empowers governance bodies to make project cost, schedule, and scope decisions for “at risk” projects requiring rigorous oversight. For projects with no identified problems or issues in a given reporting period, the model promotes accountability and decision-making at the program and project level, specifying the appropriate thresholds and governance bodies for elevating issues.

The established IT investment strategy, complemented by an integrated business/IT governance structure, ensures the appropriate selection of IT investments to support the mission and vision of the IRS and the Department of the Treasury.

4.1 – Summary of IT Resources Table

Dollars in Millions

Internal Revenue Service Table 4.1 FY 2010 Congressional Submission							
Information Technology Investments							
Major IT Investments / Funding Source	Budget Activity	FY 2007 & Earlier Enacted	FY 2008 Enacted	FY 2009 Enacted	% Change from FY08 to FY09	FY 2010 Request	% Change from FY09 to FY10
Appeals Automation Environment (AAE)	Information Services	38.774	13.741	14.784	7.6%	15.108	2.2%
Automated Collection System (ACS) - Major	Information Services	13.517	4.613	6.216	34.7%	16.142	159.7%
Business Master File	Information Services	64.171	13.121	13.291	1.3%	13.604	2.4%
Counsel Automated Systems Environment (CASE)	Information Services	55.534	27.501	27.500	0.0%	27.937	1.6%
Criminal Investigation Management Information System (CIMIS) - Major	Information Services	3.086	1.361	0.807	-40.7%	0.808	0.1%
IRS Enforcement 20-0913-0-1-999		0.800	0.815	0.561	-31.2%	0.561	0.0%
IRS Operations Support 20-0919-0-1-803		2.286	0.546	0.246	-54.9%	0.247	0.0%
Customer Account Data Engine (CADE)	Information Technology Investments	571.359	80.158	119.605	49.2%	105.173	-12.1%
IRS BSM 20-0921-0-1-803	Information Technology Investments	509.056	68.000	100.900	48.4%	102.154	1.2%
IRS Taxpayer Services 20-0912-0-1-803		10.895	2.320	2.340	0.9%	2.600	11.1%
IRS Operations Support 20-0919-0-1-803	Information Services	51.408	9.838	16.365	66.3%	0.419	-97.4%
e-Services	Information Services	85.813	15.090	13.880	-8.0%	14.005	0.9%
Electronic Fraud Detection System (EFDS)	Information Services	208.351	12.374	12.135	-1.9%	12.268	1.1%
IRS Operations Support 20-0919-0-1-803	Information Services	141.921	8.874	8.496	-4.3%	8.611	1.4%
IRS Operations Support (EITC) 20-09E9		66.430	3.500	3.639	4.0%	3.657	0.5%
Electronic Management System (EMS)	Information Services	192.208	6.848	5.704	-16.7%	5.760	1.0%
Enterprise Data Access Strategy (EDAS) (Formerly:Enterprise Data Warehouse)	Information Services	13.988	5.421	5.349	-1.3%	5.423	1.4%
IRS Operations Support (EITC) 20-09E9		0.000	0.000	0.000	0.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803		13.988	5.421	5.349	-1.3%	5.423	1.4%
Excise Files Information Retrieval System (ExFIRS) - Major	Information Services	0.471	0.000	0.480	0.0%	0.492	0.0%
Exise Tax e-File & Compliance (ETEC) - Major	All External Funding	7.927	0.000	0.000	0.0%	0.000	0.0%
Filing and Payment Compliance (F&PC) (Blended)	Information Technology Investments	112.609	5.709	5.535	-3.0%	0.000	-100.0%
IRS BSM 20-0921-0-1-803	Information Technology Investments	99.878	0.000	0.000	0.0%	0.000	0.0%
IRS Taxpayer Services 20-0912-0-1-803		0.662	0.240	0.244	1.7%	0.000	-100.0%
IRS Operations Support 20-0919-0-1-803	Information Services	12.069	5.469	5.291	-3.3%	0.000	-100.0%
Financial Management Information System (FMIS)	Information Services	8.331	5.619	3.437	-38.8%	3.499	1.8%
Implement RRP (incorporates EFDS replacement)	Information Services	0.000	0.000	0.000	0.0%	18.100	100.0%
Individual Master File (IMF)	Information Services	50.240	11.869	14.977	124.0%	15.280	4.3%
Operations Support (EITC)	Information Services	0.000	0.000	0.264	100.0%	0.270	2.3%
Operations Support Appropriation	Information Services	50.240	11.869	14.713	24.0%	15.010	2.0%

Continuation – 4.1 – Summary of IT Resources Table

Dollars in Millions

Information Technology Investments		FY 2007 & Earlier Enacted	FY 2008 Enacted	FY 2009 Enacted	% Change from FY08 to FY09	FY 2010 Request	% Change from FY09 to FY10
Major IT Investments / Funding Source	Budget Activity						
Information Returns Processing (IRP)	Information Services	32.880	7.115	7.860	10.5%	8.062	2.6%
Integrated Collection System (ICS)	Information Services	25.460	7.745	7.533	-2.7%	9.099	20.8%
Integrated Customer Communications Environment (ICCE)	Information Services	355.662	14.653	14.317	-2.3%	16.612	16.0%
Integrated Data Retrieval Systems (IDRS)	Information Services	96.600	15.741	19.079	21.2%	19.534	2.4%
Integrated Financial System/CORE Financial System (IFS)	IRS Business Systems Modernization	285.860	15.123	15.742	4.1%	15.857	0.7%
IRS BSM 20-0921-0-1-803	Information Technology Investments	0.000	0.000	0.000	0.0%	0.000	0.0%
IRS Taxpayer Services 20-0912-0-1-803		47.317	0.000	0.000	0.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	238.543	15.123	15.742	4.1%	15.857	0.7%
Integrated Submission and Remittance Processing System (ISRP)	Information Services	46.880	16.774	17.802	6.1%	17.937	0.8%
Interim Revenue Accounting Control System (IRACS) - BAC 99	Information Services	1.484	0.935	1.462	56.4%	1.494	2.2%
Modernized e-File (MeF)	Information Technology Investments	0.000	0.000	44.974	100.0%	70.796	57.4%
IRS BSM 20-0921-0-1-803	Information Technology Investments	0.000	0.000	30.500	100.0%	56.146	84.1%
IRS Taxpayer Services 20-0912-0-1-803		0.000	0.000	0.000	100.0%	0.000	0.0%
IRS Enforcement 20-0913-0-1-999		0.000	0.000	0.000	100.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	0.000	0.000	14.474	100.0%	14.650	1.2%
Reporting Compliance Case Management System (RCCMS) (Formerly TE/GE Reporting and Electronic Examination System (TREES))	Information Services	0.000	0.000	3.993	100.0%	4.030	0.9%
Service Center Recognition/Image Processing System (SCRIPS)	Information Services	59.316	15.539	16.700	7.5%	16.817	0.7%
Tax Return Database (TRDB) - BAC 99	Information Services	27.203	4.039	5.095	26.1%	5.208	2.2%
Travel Reimbursement and Accounting System (TRAS) - BAC 99	Information Services	2.949	1.350	0.000	-100.0%	0.000	0.0%
Web Currency and Banking Retrieval System (WebCBRS)	Information Services	0.000	0.000	8.490	100.0%	7.755	-8.7%
Web Requisition Tracking System /Integrated Procurement System (WebRTS/IPS)	Information Services	0.000	0.000	5.890	100.0%	5.920	0.5%
Subtotal, Major IT Investments 1/		2,360.673	302.439	412.637	458.051	452.720	2.629
Non-Major IT Investments 2/		950.851	697.891	559.427	-19.8%	656.693	17.4%
Infrastructure Investments		1,623.867	924.599	1,030.874	11.5%	1,043.908	1.3%
IRS Mainframes and Servers Services & Support (Formerly: IRS/Data Center Systems and Services (Consol))	Information Services	570.212	431.237	510.515	18.4%	510.980	0.1%
IRS/End User Systems and Services	Information Services	609.100	239.157	258.484	8.1%	266.487	3.1%
IRS/Telecommunications Systems Services	Information Services	444.555	254.205	261.875	3.0%	266.441	1.7%
Enterprise Architecture		8.633	4.654	4.793	3.0%	4.830	0.8%
Total IT Investments		4,944.024	1,929.583	2,007.731	4.0%	2,158.151	7.5%

4.2 – Program Assessment

Program Name: Tax Collection

OMB Major Findings/Recommendations

- The IRS has made strides in improving the overall efficiency of the Collection Program. However, the IRS must continue its efforts to improve its inventory delivery system to make greater progress toward achievement of its long-term performance goals.
- The IRS has taken various actions to improve the Collection Program's systemic capabilities to increase the number of accounts worked and revenue collected. The IRS must continue work that links specific program improvements to desired outcomes such as voluntary compliance.
- The IRS has made considerable improvements to its strategic planning process by linking its budget to expected levels of performance. The IRS must progress in developing IRS-wide plans for its key programs, including Collection, that include overall resource impacts and results in order to provide management with necessary information to make day-to-day decisions.

Bureau Actions Planned or Underway

- Allowing the Enhanced Inventory Delivery System (EIDS) to analyze and direct cases earlier in the Collection process by enabling it to route all Collection work generated after the first notice is issued.
- Improving Collection workload selection and delivery by developing newer more sophisticated decision analytics to route cases earlier and faster to the appropriate employees for resolution. The first new iteration of analytics will be programmed and functional in January 2009. The second phase will be a part of the Enhanced Inventory Delivery System (EIDS) project.
- Developing an IRS-wide Collection Program plan for 2009 that includes resources and results for all Collection activities, including a stronger link between program resources and outcomes. The Enterprise Collection Plan for FY 09 was completed, finalized, and approved in August, 2008. The plan includes FY 09 targets and projection for all major Collection work streams within SB/SE and W&I.

Program Name: Earned Income Tax Credit

OMB Major Findings/Recommendations

- 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.
- 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.
- 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

- IRS will require high-risk EITC applicants to pre-certify that the children claimed on their returns are really qualifying children under EITC. Incorrectly claimed qualifying children have been a major source of EITC error. High risk applicants will be identified through databases such as the Federal Case Registry (information on child custody) and by focusing on taxpayers with characteristics linked to high error rates in compliance studies (e.g., relatives other than parents who claim a child for EITC purposes).
- Improve program performance by conducting 500,000 examinations of EITC returns per year based on enhanced case selection systems. IRS will deliver its annual base EITC compliance programs including processing approximately 400,000 math errors, conducting 500,000 examinations and reviewing 350,000 underreporter cases to protect over \$2.6 billion annually, while also improving case scoring.
- Improve program performance by identifying paid tax return preparers with high EITC error rates and using education and enforcement procedures to improve their performance.

Program Name: Submission Processing

OMB Major Findings/Recommendations

- 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. Congress has not yet acted on the Administration's proposals to accelerate the increase in electronic filing.
- 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.
- 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

- IRS currently projects the annual electronic filing rate growth to range from 2.1 percent to 5.7 percent through FY 2012. At the current growth rate, the IRS projects the 80 percent electronic filing rate will not be achieved until sometime after 2015.
- The Small Business Burden Model (SBBM) survey is currently underway. The data from this survey will allow IRS to estimate taxpayer burden for income and employment tax compliance for small business and self employed taxpayers. These estimates will complement the estimates of income tax compliance burden for individual taxpayers (both wage and investment and self employed) using the Individual Taxpayer Burden Model. The extension period for partnership and fiduciary returns has been changed from 6 months to 5 months. This change requires these flow-through entities to file returns and provide K-1s to shareholders by September 15, providing the Form 1040 filers with the data they need to file an accurate return by October 15. Form 94X regulations were published. This series of forms (Form 941X, 943X, 944X, 945X, and 940X) simplify the process of amending employment tax forms by matching the adjustments to the period being adjusted.
- Employ technology and operational improvements to process returns and refunds more accurately and efficiently by providing a single electronic pipeline for capturing and processing data.

- Remittance Strategy - Paper Check Conversion (RS-PCC) successfully completed deployment to the Memphis Consolidated Campus in June 2008. As of October 2008, RS-PCC electronically processed over 250,000 payments, for a total of over \$551 million at the point of receipt in lieu of transshipping to Submission Processing Campuses. The RS-PCC project is currently working on RS-PCC Release 2 activities for deployment in early 2010.

Program Name: Taxpayer Service

OMB Major Findings/Recommendations

- 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.
- 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.
- 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

- An Estimated Wait Time pilot was deployed during the 2008 filing season, allowing approximately 60 percent of callers to receive an estimated wait time message. IRS is currently working on designing the optimum strategy of this feature in the future. Another recommended service investment is Contact Analytics. Full deployment of Contact Analytics is planned during FY 2009. The web-based application "Where's My Refund?" continues to provide an efficient method for taxpayers to check the status of their refunds, initiate an on-line refund trace, and provide an updated address if their refund was not deliverable as originally addressed. During 2008, the application successfully answered more than 38 million inquiries, which is about a 22% increase from the same period in 2007. The IRS also introduced a Spanish language version of "Where's My Refund?" Over 350,000 successful responses were provided for our Spanish speaking taxpayers since launch of the application in January 2008. Additionally, the "Where's My Refund?" programming was used as a basis for developing the "Where's My Stimulus Payment?" web application in English and Spanish. This tool assisted more than 20 million taxpayers by providing the status of their stimulus payment.
- Research work began on how the IRS can meet taxpayer needs by providing the right channel of communication and on improving IRS's understanding of taxpayer needs through the errors they make. A contract is underway to survey individual taxpayers in order to better understand taxpayer burden. Data collection is on schedule with final data delivery expected in Spring 2009. A contract was also awarded to design a multi-year research plan addressing the impact of service on compliance. Data collection and model building are expected to begin in FY 2009.

- IRS continues to make great strides in addressing its financial management challenges and has resolved or substantially mitigated several material weaknesses and other less significant weaknesses in its internal controls. IRS has made progress in developing its cost accounting program including the issuance of a service-wide cost accounting policy in 2007 that provides guidance on managerial cost concepts. Cost pilot projects have been initiated to explore ways to apply cost information to various activities, a major step forward in efforts to develop cost benefit information needed to make better informed management decisions. Throughout the remainder of FY 2009, the IRS will continue to explore ways to improve the use of the financial information available from the Integrated Financial System.
- The IRS successfully launched 66 of the 114 Interactive Tax Law Assistant (ITLA) Tax Law Categories (TLC's) for use by Field Assistance and Accounts Management employees to respond to customer tax law questions. Half (33) of the deployed TLCs were converted into the Haley-Ruleburst software. The project team will convert 52 Accounts Management and Field Assistance shared topics to Haley-Ruleburst software by July 2009. The remaining Accounts Management specific TLCs (29) will be converted in time for the 2010 filing season. Content redesign will begin in late 2009 and continue through 2010. Tax Law Categories will be prioritized to target topics that will have the greatest online customer demand. The project team will incorporate customer focus group feedback to maximize usability. A natural language engine will also be employed for simpler navigation processes.

Program Name: Taxpayer Advocate Service

OMB Major Findings/Recommendations

- The quality of the Advocate's casework on behalf of taxpayers has improved from 71 percent with quality standards in 2001 to 90.5 percent in 2004.
- 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.
- 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

- TAS identified data limitations in implementing Phase I of a new time reporting system that automatically captures the amount of time spent on cases when a case is accessed through TAMIS. These limitations will be addressed when Phase II is implemented, in June, 2009. When Phase II is completed, TAMIS will provide a graphical front-end screen that will allow users to capture time spent on cases, even when TAMIS is not used (e.g., research, telephone calls, etc.). Time data, along with fiscal data and case complexity results, is needed before a costing system can be developed. In the interim, two case advocacy cost indicators have been developed: Closed Cases per Case Advocacy Full Time Equivalent (FTE) and Closed Cases per Direct FTE.
- TAS is currently rolling out its Systemic Advocacy Management System (SAMS) Version 2, which includes program, procedural, and interface improvements. TAS made progress in its efforts to identify and rectify sources of rework originating from the operating divisions. The two primary areas of focus are Amended Returns and Combined Annual Wage Reporting. TAS continues to work jointly with the operating divisions to improve the systems associated with these issues. The recommendations center on reducing delays from the Examination Operating Division's "Category A" process, reducing general processing timeframes, improving customer service, and modernizing systems. The National Taxpayer Advocate is in consultation with Wage & Investment leadership regarding implementation of the recommendations. TAS's FY 2008 receipts of Combined Annual Wage Reporting (CAWR) and Federal Unemployment Tax Act (FUTA) cases increased by 25% over case receipts received in FY 2007. These cases involve wage and tax reconciliation, and reporting compliance issues. TAS and SB/SE have identified the effect of the CAWR and FUTA Certification Program on TAS receipts as the targets of a second study.

- TAS almost attained the 2009 quality goal in FY 2008 with a cumulative quality rate of 89.9 percent. TAS's overall quality rate has remained constant, near 90 percent, for the last five years. Because of the challenging operating environment, TAS has revised its long-term case advocacy quality goals. TAS has completed efforts to identify revised quality attributes to enhance case quality measurement standards by addressing changes in casework and processing. Recommendations were solicited from all employees regarding revising quality standards. TAS plans to test the revised standards, develop a database, create an application guide, and brief employees on the revised standards in FY 2009. The new quality standards should be implemented in FY 2010.

Program Name: Criminal Investigations

OMB Major Findings/Recommendations

- 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.
- 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).
- 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

- The Investigative Scanning and Document Management System (ISDM) pilot for the Atlanta and San Antonio field offices began in January 2009 and will conclude in March 2009. Production rollout will commence in either May or June of 2009. The complete rollout to all field offices is still expected by December 2010.
- The IRS is implementing a pilot program to improve the effectiveness of the Suspicious Activity Report (SAR) Review Teams. The Task Forces are in various stages of operation, some having secured dedicated space and task force officers and others that continue to negotiate space and participation issues. A review of the initiative will take place after the second quarter of FY 2009 with the goal of expanding the program to additional locations in FY 2010.
- Criminal Investigative Management Information System (CIMIS) version 2.5 is scheduled for release in April 2009. This version will correct identified defects across CIMIS and incorporate suggestions from the Field including: Modifications to the equipment activity, SSN masking - masking of the employee (or non-employee SSN), and changes requested by the Asset Forfeiture Tracking and Retrieval (AFTRAK) team necessary for the AFTRAK/CIMIS future integration.

Program Name: Examinations

OMB Major Findings/Recommendations

- 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.
- 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.
- 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

- In May 2008, a preliminary selection score analysis was completed using updated Discriminant Function (DIF) scores on closed-case results from the 1040 (individual) NRP study. The raw data from the National Research Program (NRP) S-Corp compliance study was made available for analysis in January 2008. Preliminary analysis has been completed and the draft report is under initial review by the Office of Tax Analysis in Treasury, along with a white paper on the issues involved in using the results to adjust the individual income tax underreporting gap. Work requests have been submitted for potential DIF formula and examination activity code 1120S programming changes to be implemented by January 2010.
- Classification of NRP 1040 TY 2007 returns began in August 2008 with the initial returns delivered to examiners in October 2008. Approximately 1,000 of these returns have been started. NRP 1040 TY 2006: Over 78% of the 2006 Tax Compliance Officer and 66% of the 2006 Revenue Agent returns have been closed or been excluded from the NRP sample as of October 2008.
- The IRS is anticipating achieving a 5% increase in examination starts from FY 2008 to 2009. The raw data from the NRP S-Corp compliance study was made available for analysis in January 2008. Preliminary analysis has been completed and the draft report is under initial review by the Office of Tax Analysis in Treasury, along with a white paper on the issues involved in using the results to adjust the individual income tax underreporting gap. The Office of Research, Analysis, and Statistics (RAS) is updating the tax gap estimates for TY 2004.

Program Name: Retirement Savings Regulatory Program

OMB Major Findings/Recommendations

- 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.
- Preliminary data from the program's compliance study shows that retirement plans comply 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.
- 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

- The focused examination techniques used since January 2006 will continue to be used for the majority of Employee Plan (EP) examinations, allowing us to target noncompliant areas and perform more productive and efficient exams. The EP Compliance Unit (EPCU) has made over 8,400 compliance contacts since its inception four years ago. Through a combination of compliance contacts and examinations, the EPCU has secured corrections to plans totaling over \$5.5 million, collected nearly \$2.5 million in excise taxes, and secured correction of over 26,000 W-2s. The unit continues to address emerging issues and is investigating additional data sources to identify future areas of non-compliance. IRS will continue to strengthen enforcement in this area through the implementation of a second EP Compliance Unit (pending resource availability), refinements to case selection, efficiencies from using focused examination techniques, case processing improvements, and use of an electronic case file system (TREES).
- Deployment of TREES (the TE/GE Reporting and Electronic Examination System, an electronic Windows-based software program used to create and assign cases, work the case, document activity, and ultimately close and review the case), including training on its use, was completed in April 2008. Additional enhancements are being deployed in the first quarter of FY 2009.

- IRS is halfway through its initial six-year cycle for pre-approved plans and five-year cycle for individually designed plans. The process met initial goals, avoiding the use of examination resources to address major spikes in the inventory of determination letter cases. IRS successfully completed the defined-contribution (DC) pre-approved plan program with the review and approval of more than 780 applications for lead plans. Review of defined-benefit pre-approved plan applications is now underway. Training was completed in April 2008 and technical guidance is available. IRS has assigned 98 of the 105 lead plans; with 23 of those cases in or ready for second-level review. With respect to individually designed plans, IRS is undertaking a thorough review of the implementing revenue procedure for staggered remedial amendments with a goal of significantly simplifying the procedure. The IRS expects a large increase in applications in 2010 and is looking at alternatives to address the processing of these cases while continuing to refine the process to provide faster service.

Program Name: Health Care Tax Credit Administration

OMB Major Findings/Recommendations

- The program's measures do not adequately capture the program's success in providing access to the credit to potential beneficiaries.
- 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.
- 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

- The IRS continues working with the Pension Benefit Guarantee Corporation (PBGC) to provide improved access to potential beneficiaries. The IRS also meets regularly with the Department of Labor to ensure our respective programs remain compatible. The IRS continues to work with DOL and their state workforce agencies and state rapid response teams to ensure potential recipients receive timely, accurate, and appropriate information regarding the HCTC Program. The HCTC Program reaches out to the appropriate state workforce agency and/or rapid response team when notified about a Trade Act certification to ensure these agencies have the information they need to talk about the HCTC Program. We believe these actions ensure potential recipients receive the information they need, and results in more timely registrations with the HCTC Program when a potential recipient becomes fully eligible.
- The HCTC Program has moved forward with a strategy to partner with selected federal agencies and other third parties to provide information about the credit through established outreach and communication networks. A number of organizations are charged with delivering information and education on behalf of the HCTC Program and IRS has reinvigorated partnerships with them. This allows the program to contact individuals earlier in the process and give these workers more flexibility when making decisions on their insurance needs. Upon enactment of new legislation, IRS will be working closely with the State Workforce Agencies, DOL, PBGC and other federal agencies to explore ways to improve access to HCTC. IRS has established a communication plan to communicate new provisions in the law to current and potential participants.

- The IRS made a blank payment coupon available to enrollees on the IRS.gov website. The blank payment coupon facilitates "supplemental" payments for enrollees whose health policies were subject to a premium change after they made their initial payment for the month - this allows the enrollees to receive the additional HCTC credit in the month the premium was due, rather than claiming the amount via the Yearly HCTC option. Additionally, the blank payment coupon reduces calls for enrollees who misplaced their original payment coupon, as the document is now available electronically. The IRS began utilizing blue return-envelopes for enrollee payments, to expedite the processing of time-sensitive payments at the lockbox facility. The HCTC Program initiated a quarterly review of participants who had not made payment in the previous 90 days - those accounts that were deemed "inactive" were cancelled and those participants no longer receive monthly invoices. Finally, the Program reorganized the HCTC web presence on IRS.gov to make it more user-friendly. The IRS conducted initial requirement sessions to assess the feasibility of a self-service application to allow on-line payments. We expect that this application would decrease calls at the call center and provide a preferred payment channel for many of our participants. The implementation of such a channel warrants additional consideration in FY09, and will need to be timed with the implementation of any system changes to support an expanded HCTC.

4.3 – IRS Performance Measure Table

The following table shows IRS performance measures achieved and projected from FY 2007 through FY 2010.

Performance Measures	Type of Measure	FY 2007 Actual	FY 2008 Actual	FY 2008 Planned	FY 2009 Planned	FY 2010 Planned
Customer Service Representative Level of Service	Oe, L	82.1%	52.8%	82.0%	70.0%	71.2%
Customer Contacts Resolved per Staff Year	E	7,648	12,634	8,000	10,386	8,919
Percent of Eligible Taxpayers Who File for EITC	Oe	N/A	N/A	75% - 80%	75% - 80%	75% - 80%
Customer Accuracy - Tax Law (Phones)	Ot	91.2%	91.2%	91.0%	91.0%	91.2%
Customer Accuracy - Accounts (Phones)	Ot	93.4%	93.7%	93.5%	93.5%	93.7%
Timeliness of Critical Filing Season Tax Products to the Public	Ot	83.5%	92.4%	86.0%	92.0%	93.0%
Timeliness of Critical Other Tax Products to the Public	Ot	84.0%	89.5%	86.0%	89.0%	90.0%
Percent Individual Returns Processed Electronically	Oe, L	57.1%	57.6%	61.8%	64.0%	67.3%
Cost per Taxpayer Served (\$) (HCTC)	E	\$14.90	\$16.94	\$14.25	\$17.00	Baseline ¹
Sign-Up Time (Days) - Customer Engagement (HCTC)	Ot	93.3	94.0	97.0	97.0	Baseline ¹
Percent of Business Returns Processed Electronically	Oe, L	19.1%	19.4%	20.8%	21.6%	23.4%
Refund Timeliness - Individual (Paper)	Ot	98.9%	99.1%	98.4%	98.4%	98.4%
Taxpayer Self-Assistance Rate	E, L	49.5%	66.8%	51.5%	64.7%	57.3%
Examination Coverage - Individual	Oe, L	1.0%	1.01%	1.0%	1.0%	1.0%
Field Exam Embedded Quality	Oe, L	85.9%	86.0%	87.0%	87.0%	87.1%
Office Exam Embedded Quality	Oe, L	89.4%	90.0%	90.0%	90.0%	90.9%
Examination Quality - Industry	Oe, L	87.0%	88.0%	88.0%	88.0%	89.0%
Examination Quality - Coordinated Industry	Oe, L	96.0%	97.0%	96.0%	96.0%	96.0%
Examination Coverage - Business	Oe, L	6.8%	6.1%	6.6%	5.8%	5.1%
Examination Efficiency - Individual	E, L	137	138	133	132	130
Automated Underreporter Efficiency	E, L	1,956	1,982	1,961	1,855	1,894
Automated Underreporter Coverage	E, L	2.5%	2.55%	2.5%	2.5%	3.1%
Collection Coverage (Units)	Ot, L	54.0%	55.2%	53.0%	54.4%	54.6%
Collection Efficiency (Units)	E, L	1,828	1,926	1,835	1,872	1,776
Field Collection Embedded Quality	Ot, L	84.0%	79.0%	86.0%	80.0%	83.0%
Automated Collection System Accuracy	Oe	92.9%	95.3%	92.0%	92.0%	93.5%
Criminal Investigations Completed	Ot, L	4,269	4,044	4,000	3,900	3,900
Number of Convictions	Oe, L	2,155	2,144	2,135	2,135	2,135
Conviction Rate	Oe, L	90.2%	92.3%	92.0%	92.0%	92.0%
Conviction Efficiency Rate (\$)	E, L	\$301,788	\$315,751	\$317,625	\$317,100	\$321,400
TE/GE Determination Case Closures	Ot	109,408	100,050	100,600	94,000	126,000
Percent of BSM Projects within +/- 10% Cost Variance	E	**	92.0%	Baseline	90.0%	90.0%
Percent of BSM Projects within +/- 10% Schedule Variance	E	**	92.0%	Baseline	90.0%	90.0%

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

¹ As a result of the American Recovery and Reinvestment Act, expecting a 400% increase in participation. HCTC Program Office will baseline FY 2010 targets under the expanded population.

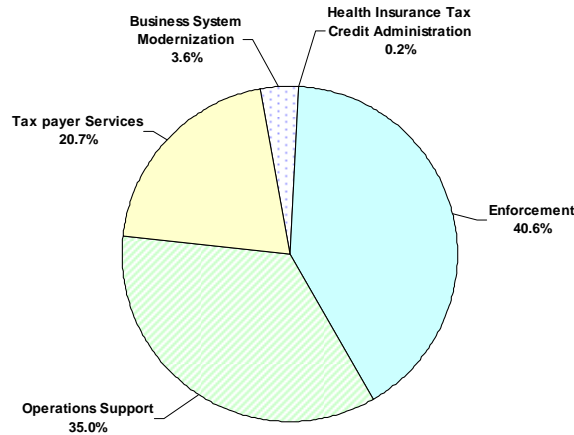
** In FY 2007, Cost and Schedule variance was reported separately for each project release/subrelease. In FY 2008, these measures were changed to reflect an overall percentage of all major BSM projects that were within the +/- 10% threshold. In FY 2009, MITS is changing the methodology to include all major BSM and non-BSM projects. If approved, reporting will begin in FY 2010.

4.4 – Cost of IRS Operating Activities

FY 2008 Cost of IRS Operating Activities

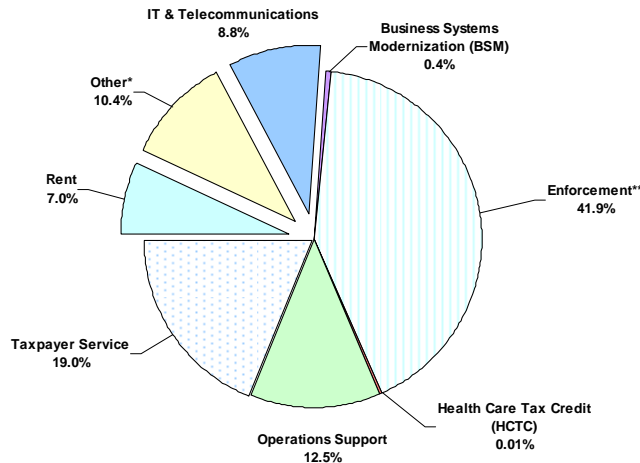
The following charts provide the FY 2008 cost of IRS operating activities by appropriation and by major expense category. The charts include all expenditures, regardless of the fiscal year the funds were appropriated, that occurred in FY 2008 except for imputed costs (i.e., costs associated with services obtained by other agencies such as the Department of the Treasury and the Office of Personnel Management that are provided to the IRS, but are not reimbursed).

FY 2008 Expenses by Appropriation
(Excluding Imputed Costs)



The second chart shows the FY 2008 actual costs by major expense category.

FY 2008 Expenses by Category
(Excluding Imputed Costs)



Note:

* **Other** includes Contractual Services, Supplies, Printing, Postage, Travel, and Training

** **Enforcement** includes Non-Labor Enforcement Expense of \$229M (2.1%)

Labor Costs represent 71.8 % of total expenses and include Taxpayer Service, Operations Support, Enforcement, BSM, and HCTC

4.5 – Summary of IRS FY 2010 Budget Request

	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT		BSM		HITCA		TOTAL	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
Bureau: Internal Revenue Service												
Summary of Proposed FY 2010 Budget Request												
FY 2008 Enacted Budget ¹	\$2,191,085	31,949	\$4,780,000	47,596	\$3,841,109	12,495	\$267,090	358	\$15,235	17	\$11,094,519	92,415
FY 2009 President's Budget Request ²	\$2,150,000	30,792	\$5,117,267	49,792	\$3,856,172	11,989	\$222,664	333	\$15,406	15	\$11,361,509	92,921
Technical FTE and Resource Adjustments ³		30		(853)		281						(542)
FY 2009 President's Budget Request	\$2,150,000	30,822	\$5,117,267	48,939	\$3,856,172	12,270	\$222,664	333	\$15,406	15	\$11,361,509	92,379
Congressional Action	\$143,000	1,830			\$10,839		\$7,250				\$161,089	1,830
FY 2009 Enacted Budget	\$2,293,000	32,652	\$5,117,267	48,939	\$3,867,011	12,270	\$229,914	333	\$15,406	15	\$11,522,598	94,209
Changes to Base:												
Maintaining Current Levels	\$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			\$0									
Increase e-File Savings												
Non-Recur Savings												
Non-Recur Stimulus Savings												
Non-Recur FY09 Reduction Adjustment / Correspondence Inventory												
Non-Recur Pension Plan												
Reinvestment	\$2,025				\$306						\$2,331	
Submission Processing Consolidation (Andover)	2,025				306						2,331	
Subtotal Changes to Base	(\$28,698)	(1,504)	\$133,815		\$34,159		\$1,153		\$106		\$140,535	(1,504)
Total FY 2010 Base - Current Services	\$2,264,302	31,148	\$5,251,082	48,939	\$3,901,170	12,270	\$231,067	333	\$15,512	15	\$11,663,133	92,705
Program Increases:												
Enforcement Initiatives												
Reduce the Tax Gap Attributable to International Activities	3,124	42	104,113	742	20,827						128,064	784
Improve Reporting Compliance of SB/SE Taxpayers	267	3	75,114	752	18,834						94,215	755
Expand Document Matching for Business Taxpayers	1,425	16	17,955	284	6,857						26,237	300
Address Nonfiling/Underpayment and Collection Coverage	712	8	55,736	483	27,196						83,644	491
Subtotal, Enforcement Initiatives	\$5,528	69	\$252,918	2,261	\$73,714						\$332,160	2,330
Infrastructure Initiatives												
Address IT Security and Material Weakness					90,000	36					90,000	36
Implement Return Review Program (RRP)					18,100	10					18,100	10
Subtotal, Infrastructure Initiatives					\$108,100	46					\$108,100	46
Business Systems Modernization Initiative							22,607				22,607	
Subtotal, Business Systems Modernization							\$22,607				\$22,607	
Subtotal FY 2010 Program Changes	\$5,528	69	\$252,918	2,261	\$181,814	46	\$22,607				\$462,867	2,376
Total FY 2010 Request	\$2,269,830	31,217	\$5,504,000	51,200	\$4,082,984	12,316	\$253,674	333	\$15,512	15	\$12,126,000	95,081

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

² The FY 2009 President's Budget Request excludes the \$67.9M Economic Stimulus Payment reflected in the tables within this budget document.

³ Technical FTE and resource adjustments made since February 2008.

Dollar/FTE Change	(\$23,170)	(1,435)	\$386,733	2,261	\$215,973	46	\$23,760		\$106		\$603,402	872
Percent Change	-1.01%	-4.39%	7.56%	4.62%	5.59%	0.37%	10.33%		0.69%		5.24%	0.93%