

# 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

Appropriation	FY 2007	FY 2008	Request	FY 2009	
	Enacted <sup>1</sup>	Enacted		\$ Change	% Change
Taxpayer Services	\$2,138,238	\$2,150,000	\$2,150,000	\$0	0.00%
Enforcement	4,686,477	4,780,000	5,117,267	337,267	7.06%
Operations Support	3,544,835	3,680,059	3,856,172	176,113	4.79%
Business Systems Modernization	212,659	267,090	222,664	(44,426)	-16.63%
Health Insurance Tax Credit Administration	14,856	15,235	15,406	171	1.12%
<b>Total Appropriated Resources</b>	<b>\$10,597,065</b>	<b>\$10,892,384</b>	<b>\$11,361,509</b>	<b>\$469,125</b>	<b>4.31%</b>

<sup>1</sup> FY 2007 Enacted represents the approved FY 2007 Operating Plan.

## FY 2009 Priorities

The Internal Revenue Service (IRS) administers America's tax laws and collects the revenue that funds most federal government operations. The IRS taxpayer service program assists millions of taxpayers with understanding and meeting their tax obligations. The IRS enforcement program is aimed at deterring taxpayers inclined to evade their responsibilities while vigorously pursuing those who violate tax laws.

In FY 2009, the IRS will continue efforts to implement tax compliance strategies addressed in *Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance* (see [http://www.irs.gov/pub/irs-news/tax\\_gap\\_report\\_final\\_080207\\_linked.pdf](http://www.irs.gov/pub/irs-news/tax_gap_report_final_080207_linked.pdf)) and the *IRS Taxpayer Assistance Blueprint* (TAB) (see <http://www.irs.gov/individuals/article/0,,id=156394,00.html>) by focusing on the following priorities:

- Improve voluntary compliance and reduce the tax gap by:
  - Increasing front-line enforcement resources,
  - Improving taxpayer service options,
  - Enhancing research, and
  - Implementing legislative and regulatory changes.
- Maintain balance between taxpayer service and enforcement.
- Invest in technology to improve infrastructure, modernize, and increase the productivity of existing resources.

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## Section 1 – Purpose

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

The FY 2009 President's Budget request supports the IRS and the Department of the Treasury Strategic Plans, the Taxpayer Assistance Blueprint (TAB), and the recently released report, *Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance*. These plans underscore IRS commitment to ensure fairness, observe taxpayer rights, and reduce taxpayer burden while working in a balanced manner to reduce non-compliance. The IRS strategic plan goals are:

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

In support of these goals, the FY 2009 IRS Budget priorities follow the guiding principle of *Service plus Enforcement equals Compliance* and sustain the IRS objectives to:

- Simplify the tax process and improve service options for the taxpaying public;
- Discourage and deter non-compliance with emphasis on corrosive activity by corporations, high-income taxpayers and other contributors to the tax gap including abusive domestic and off shore tax entities; and
- Modernize information systems and business processes to maximize resources and improve service and enforcement.

The IRS established a set of enterprise-wide long-term goals, which the IRS Oversight Board approved in March 2007. These long-term goals link to the *IRS 2005-2009 Strategic Plan* and serve as overarching indicators of achieving objectives that support IRS mission-critical programs.

These goals provide focus and rigor for measuring the effectiveness of IRS programs that manage the nation's tax system. The long-term goals are:

- Increase the voluntary compliance rate,
- Improve the electronic filing (e-File) rate,
- Increase individual taxpayer satisfaction as measured by the American Customer Satisfaction Index (ACSI) score,
- Increase level of non-revenue enforcement activity, and
- Improve employee engagement/satisfaction.

### **FY 2009 President's Budget Request**

The FY 2009 President's Budget request for the IRS is \$11.4 billion, which is \$469.1 million, or an increase of 4.3 percent above the FY 2008 enacted level. The funding request for Taxpayer Services is \$2.2 billion; Enforcement is \$5.1 billion; Operations Support is \$3.9 billion; Business Systems Modernization (BSM) is \$222.7 million; and Health Insurance Tax Credit Administration (HITCA) is \$15.4 million. In FY 2009, the IRS budget will continue to restore enforcement activities targeted at improving compliance by reducing the tax gap for large businesses and small business/self employed, increasing reporting of compliance of domestic taxpayers with offshore activity, and continuing research activities. This budget request will also implement legislative changes to improve tax compliance. These legislative proposals will generate about \$36 billion in revenue over the next ten years. In addition, the IRS will continue modernizing its technology to strengthen taxpayer service and enforcement programs.

The IRS \$469.1 million increase consists of:

- \$200.9 million for changes to the base, including:
  - \$265.0 million for Maintaining Current Levels,
  - -\$1.4 million transfer to Treasury Inspector General for Tax Administration,
  - -\$1.0 million transfer to FinCEN,
  - -\$71.4 million for efficiency savings,
  - -\$22.9 million for program savings, and
  - \$32.6 million in base reinvestments.
- \$268.2 million for program changes, including:
  - -\$92.7 million for program changes to taxpayer assistance centers and outreach, Taxpayer Advocate Service, VITA grants program, and BSM activities;
  - \$286.8 million to expand enforcement activities aimed at improving compliance and reducing the tax gap;
  - \$51.1 million to increase support for research to determine the reasons for taxpayer non-compliance; and
  - \$23.0 million to implement legislative proposals to improve compliance.

## **Reducing the Tax Gap**

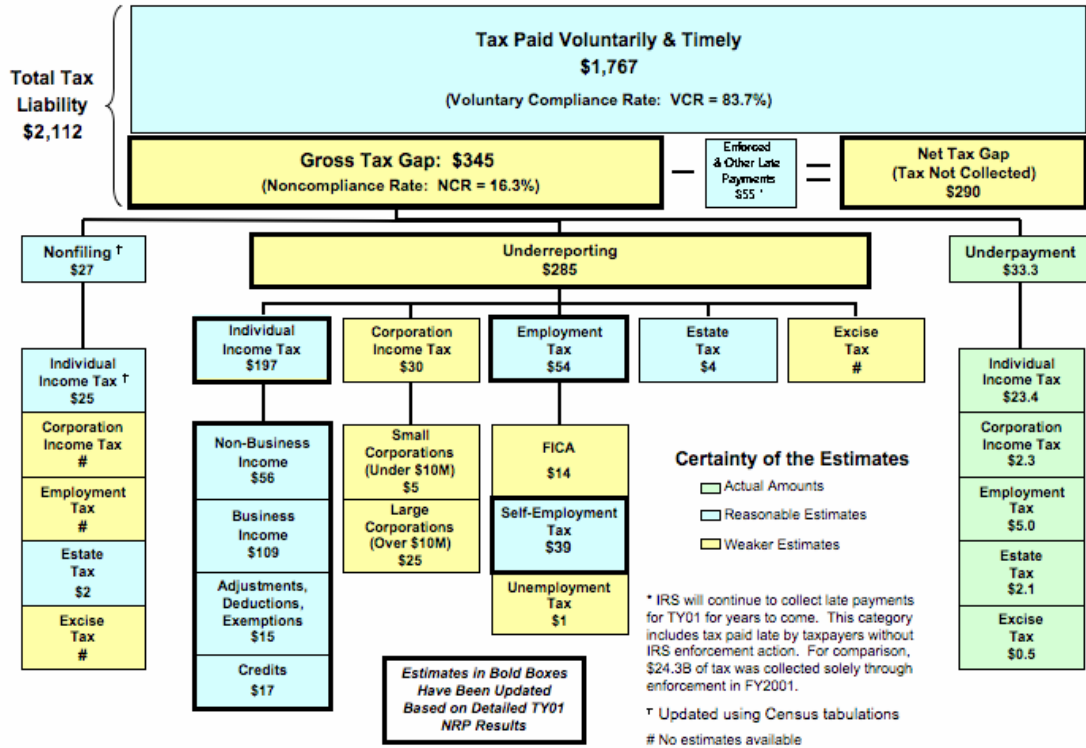
In FY 2007, the IRS collected \$2.7 trillion in taxes (gross receipts before tax refunds), 96 percent of total federal government receipts. The IRS improved tax compliance by increasing enforcement and enhancing taxpayer service. From 2001 to 2007, the IRS increased revenue from its enforcement programs by 75 percent from \$33.8 billion to an all-time high of \$59.2 billion, yielding a 5.6 to 1 return on investment in 2007. Revenue growth has been greatest in the areas of corporate taxes and high income individual taxes. The FY 2009 President's Budget request will support Administration and Congressional deficit reduction efforts by strengthening the federal government's ability to collect more legally owed taxes.

The tax gap is defined as the aggregate amount of tax liability imposed by law for a given tax year that is not paid voluntarily and timely. Tax liability means the amount of tax that would be determined for the tax year in question if all relevant aspects of the tax law were applied correctly to all of the relevant facts of that taxpayer's situation. The gross tax gap, about \$345 billion for Tax Year 2001, represents the amount of non-compliance with the tax laws. There are three categories of non-compliance:

- 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 reported on a timely return.

Underreporting tax liability accounts for 83 percent of the gross tax gap. 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.

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



Internal Revenue Service • February 2007

The gross tax gap estimate, however, does not take into account taxes paid voluntarily but paid late, or tax collections resulting from IRS enforcement activities. Considering these factors, the “net tax gap” is estimated at \$290 billion.

Non-compliance 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 non-compliance is willful, even to the point of criminal tax evasion. Because both taxpayer service and enforcement are critical to improving voluntary compliance and reducing the tax gap, the IRS remains committed to its working equation of:

$$\text{Service} + \text{Enforcement} = \text{Compliance}$$

In August 2007, the Department of the Treasury and the IRS released a report, *Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance*, addressing efforts to improve the level of voluntary compliance with federal tax laws, which builds upon the Department of the Treasury’s “A Comprehensive Strategy for Reducing the Tax Gap” issued in September 2006. The report provides details on activities and efforts taken and planned to improve voluntary compliance. In addition, the report presents an outreach approach to ensure all taxpayers understand their tax obligations and recognizes the

importance of having a multi-year research program that will help the IRS understand both the scope of and reasons for non-compliance. This report, combined with legislative changes and tax simplification, will guide IRS efforts to reduce the tax gap.

## **Taxpayer Service and Enforcement Programs**

The IRS and its employees represent the face of the federal government to more American citizens than any other government agency. IRS taxpayer service programs provide the information and tools taxpayers need to calculate and understand their tax obligations; collect, process, and store filed tax returns; and collect and process tax receipt and refunds owed. IRS enforcement activities, such as examination and collection, will continue to target its casework and enforcement activities to more effectively deliver results and drive down the tax gap.

Providing quality taxpayer service is especially important to help taxpayers avoid making unintentional errors. Moreover, assisting taxpayers with their tax questions before they file their returns addresses inadvertent non-compliance 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 web site, Taxpayer Assistance Centers (TACs), Volunteer Income Tax Assistance (VITA) sites, and Tax Counseling for the Elderly (TCE) sites.

The IRS delivered Phase 1 of the 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:

- Complexity and changes to the tax code;
- Need for additional data on the causes of non-compliance;
- Expanding use of third parties;
- Scope and diversity of the taxpaying population; and
- Keeping pace with technology and taxpayer expectations.

IRS enforcement activities are also important for improving voluntary compliance with federal tax laws and implementing the Department of the Treasury's tax gap strategy. Increased resources for IRS enforcement programs yield a positive return on investment (ROI). As shown in the table below, the proposed IRS FY 2009 enforcement initiatives will generate about \$2.0 billion in additional annual enforcement revenue once the new hires reach full potential in FY 2011.



## Return on Investment for IRS Enforcement Initiatives

Dollars in Millions						
	First Year (FY 2009)			Full Performance (FY 2011)		
FY 2009 Enforcement Investment	Cost	Revenue	ROI	Cost	Revenue	ROI
All Enforcement Initiatives	\$360.8	\$769.0	2.1	\$306.1	\$2,001.1	6.5
Direct Revenue Producing Initiatives	\$337.8	\$769.0	2.3	\$283.1	\$2,001.1	7.1
Reduce the Tax Gap for Small Business/Self-Employed	168.5	422.0	2.5	136.7	980.8	7.2
Increase Reporting Compliance of Domestic Taxpayers with Offshore Activity	13.7	39.5	2.9	11.3	101.9	9.0
Reduce the Tax Gap for Large Business	69.5	121.0	1.7	61.3	543.9	8.9
Improve Tax Gap Estimates, Measurement, and Detection of Non-Compliance	51.1	15.1	0.3	42.3	15.9	0.4
Expand Document Matching	35.1	171.4	4.9	31.5	358.6	11.4
Other Enforcement Initiatives	\$23.0	\$0.0	0.0	\$23.0	\$0.0	0.0

IRS enforcement activities also yield indirect revenue by deterring non-compliance. This effect is more difficult to measure, but it is estimated to be at least three times the direct revenue impact. IRS enforcement efforts improved in virtually every area over the last several years. While the increase in enforcement revenue is most obvious, the increased audit coverage in all segments of the filing population demonstrates IRS continued emphasis on reductions to the tax gap.

### *Fully Costing the Taxpayer Service and Enforcement Programs*

IRS taxpayer service and enforcement programs depend on support activities, such as information technology and rent, funded by the Operations Support appropriation. As shown in the following table, the IRS allocates this appropriation funding to its core operational program funded in the Taxpayer Service and Enforcement appropriations in order to reflect the full cost of operating these programs (see Section 3, Operations Support, for further description of the allocation methodology).

## Taxpayer Service and Enforcement Programs

Dollars in Thousands				
Programs	FY 2007 Enacted	FY 2008 Enacted	FY 2009 Request <sup>1</sup>	%Change FY 2008 to FY 2009
<b>Taxpayer Service</b>	<b>\$3,547,252</b>	<b>\$3,612,833</b>	<b>\$3,636,230</b>	<b>0.6%</b>
Taxpayer Services Appropriation	2,138,238	2,150,000	2,150,000	
Operations Support Appropriation	1,409,014	1,462,833	1,486,230	
<b>Enforcement</b>	<b>\$6,822,298</b>	<b>\$6,997,226</b>	<b>\$7,487,209</b>	<b>7.0%</b>
Enforcement Appropriation	4,686,477	4,780,000	5,117,267	
Operations Support Appropriation	2,135,821	2,217,226	2,369,942	
<b>Total Taxpayer Services and Enforcement</b>	<b>\$10,369,550</b>	<b>\$10,610,059</b>	<b>\$11,123,439</b>	<b>4.8%</b>

<sup>1</sup> The Operations Support funds allocated to the Taxpayer Service and Enforcement programs in FY 2009 use the FY 2008 President's Budget allocation methodology. In order to execute FY 2009 spending, the Administration is proposing language to adjust Operations Support allocations by up to 1 percent with prior notification to the Appropriations Committees.

### 1B – Program History and Future Outlook

Each year, IRS employees make millions of contacts with American taxpayers and businesses. These contacts encourage and facilitate self-sufficiency for taxpayers in meeting their tax obligations. The IRS also enforces the tax laws to ensure non-compliant taxpayers pay their fair share. To improve voluntary tax compliance, the IRS must provide the proper balance of service and enforcement.

#### Strategic Goal I: Improve Taxpayer Service

Helping the public understand their tax reporting and payment obligations is the cornerstone of taxpayer compliance and is vital for maintaining public confidence in the tax system. Assisting taxpayers with their tax questions before they file their returns addresses inadvertent non-compliance and reduces burdensome post-filing notices and other correspondence from the IRS. Thus, the IRS continued to address taxpayer needs and make improvements in key services for taxpayers in FY 2007.

The IRS delivered a successful 2007 filing season despite several new challenges. Challenges included the implementation of the Telephone Excise Tax Refund (TETR), a one-time payment designed to refund long distance telephone taxes introducing split refund capability, which provided taxpayers with more control over their refunds by allowing direct deposit of a refund to up to three financial accounts and making the necessary changes to forms and systems to accommodate late passage of provisions of the Tax Relief and Health Care Act of 2006. Results of the 2007 filing season include:

- The IRS issued more than 105 million refunds totaling more than \$261 billion for those individual tax filers. Providing quality taxpayer service, and continuing to improve that service, remains a strategic priority for the IRS.
- The overall American Customer Satisfaction Index (ACSI) score for all individual tax filers increased 17 points, from 51 in 1999 to 68 in 2007. The ACSI score for the popular IRS website, IRS.gov, increased five points over the 2005 filing season to 74.
- The IRS outreach and educational services were enhanced through partnerships between the IRS and public organizations. Through its 11,922 VITA and TCE sites, the IRS provided free tax assistance to the elderly, disabled, and limited English proficient individuals and families. Over 76,000 volunteers filed 2.63 million returns, a 14 percent increase over FY 2006. Additionally, the IRS established 16 new clinics in rural areas to help low income taxpayers meet their tax obligations.
- More than 3.9 million taxpayers used the free services offered by the Free File Alliance. Home computer filing of returns increased to 22.5 million in 2007, while tax professional use of e-file increased 10 percent to 57.2 million returns.
- The IRS successfully implemented TETR by delivering an integrated approach, which enabled the filing of over 94 million 2006 tax returns including TETR refund claims, of more than \$4.81 billion. In addition, the IRS prevented more than \$291 million in potential erroneous refunds with the aid of a return selection tool created specifically to catch questionable TETR requests. The comprehensive approach to administering this refund allowed the IRS to successfully meet taxpayer and stakeholder expectations.
- Seventy-five percent (9 of 12) of the taxpayer service performance targets were met or within 98.5 percent of the target. The IRS continues its upward trend in most categories with over 83 percent of the taxpayer service measures exceeding FY 2006 levels.

The table below highlights IRS taxpayer service performance and workload trends for FY 2005 through FY 2007.

**Performance Measures and Workload Statistics by Fiscal Year**

<b>Performance Measures</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>
Percent of Individuals Filing Electronically	51.1%	54.1%	57.1%
Percent of Business Returns Filed Electronically	17.8%	16.6%	19.1%
Toll Free Assistance Level of Service	82.6%	82.0%	82.1%
Toll Free Tax Law Accuracy	89.0%	90.9%	91.2%
Toll Free Accounts Accuracy	91.5%	93.2%	93.4%
<b>Workload Statistics</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>
Number of IRS.gov Page Visits (in Millions)	177.0	194.0	215.0
Number of IRS.gov Page Views (in Millions)	1,259.0	1,302.0	1,350.0
"Where's My Refund?" Usage (in Millions)	22.1	24.7	32.1

To further address taxpayer needs, the IRS delivered two phases of the TAB to Congress and established a Taxpayer Services Program Management Office and IRS Services Committee to formalize integrated service investment decision-making. Research conducted for the Phase 2 TAB, submitted in April 2007, indicated the following: the majority of taxpayers who used IRS assistance indicated a willingness to use electronic services; fewer customers visit TACs as opposed to other options, such as phone and correspondence; taxpayers are most concerned with first contact resolution; and 9 out of 10 taxpayers using IRS services in 2005 reported they would use the same method again.

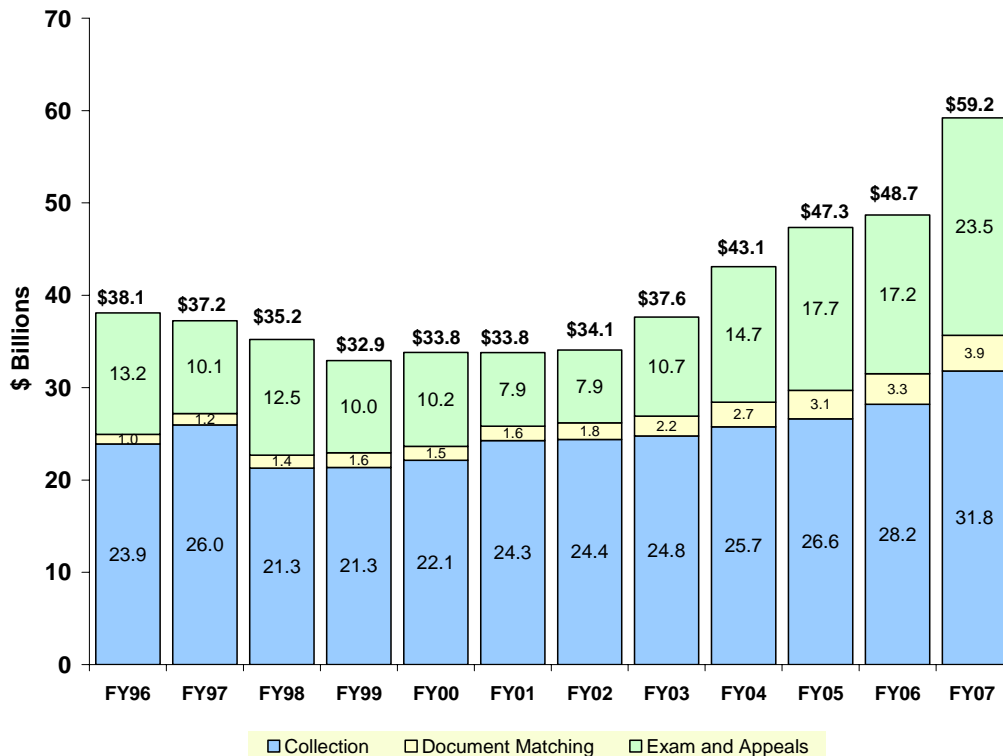
Going forward, the IRS will continue integration of the TAB Strategic Plan within planning and budgeting processes and will implement service-wide improvement initiatives and future research projects identified by the TAB. Additionally, the IRS will implement a multi-year research portfolio by making service-related decisions based on taxpayer data and develop new measures for compliance, taxpayer, partner, and government value.

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

The potential for narrowing the nation's tax gap hinges primarily on IRS efforts to improve compliance with tax laws. Non-compliance may not be deliberate and can stem from a wide-range of causes, including lack of knowledge, confusion, poor record-keeping, differing legal interpretations, unexpected personal emergencies, and temporary cash flow problems. However, some non-compliance is willful, even to the point of criminal tax evasion.

FY 2007 was a record year for collections related to enforcement activities. Enforcement revenue from all sources rose 75 percent from \$33.8 billion in FY 2001 to an all-time high of \$59.2 billion in FY 2007 (see chart below). The increased enforcement revenue collected resulted from the IRS focus on noncompliant activities of corporations, high-income taxpayers, and other major violators of the tax code. Targeting high-risk taxpayers improves IRS examination efficiency, reduces the burden on compliant taxpayers, and concentrates enforcement presence where needed.

**Enforcement Revenue Continues to Rise  
(Dollars in Billions)**



The IRS continues to build on its enforcement efforts, while emphasizing early identification of tax liabilities through increased audits and focused collection activities.

Since FY 2005, the IRS steadily progressed in its enforcement efforts and showed marked increases in performance and workload statistics, as illustrated in the table below.

### Percent Change of Performance and Workload Statistics

	FY 2005 to FY 2006	FY 2006 to FY 2007
<b>Performance Measures</b>		
Criminal Investigations Completed	1.0%	3.0%
<b>Workload Statistics</b>		
Individual Audits	7.0%	8.0%
High-Income Audits (Total Positive Income Over \$200,000)	18.0%	29.0%
Small-Business Audits (Total Gross Receipts Less Than \$10 Million)	8.0%	17.0%
Collection Case Closures	15.0%	12.0%
Revenue Received from Collection Case Closures	9.0%	13.0%

In FY 2007, the IRS substantially enhanced its productivity by implementing technological and process improvements in the Automated Underreporter (AUR), Examination, and Compliance Services Collection Operations. Significant improvements made in FY 2007 included:

- Implementing a new AUR case selection and scoring methodology for individuals, resulting in a 20.5 percent increase in assessments;
- Controlling and directing incoming examination toll-free calls through an Intelligent Call Management system, resulting in a 6.1 percent increase in the level of service; and
- Automating the process of installment agreement problem cases freed resources to process additional installment agreement compliance work. Over 43 percent of installment problem cases were handled using the new automated process.

The IRS continued to reengineer its examination and collection procedures to reduce time, increase yield, and expand coverage. Emphasizing early identification of tax liabilities through increased audits and more focused collection activities, the IRS undertook the following actions in FY 2007:

- Piloted new Automated Substitute for Return screening and batching procedures, with the increased efficiencies resulting in a productivity improvement of over 156 percent, from 7.5 cases per hour to 19.2 cases per hour;
- Increased detection of fraudulent activities and the number of recommendations for civil fraud penalties by 49 percent over the prior year level; and
- Developed an employment tax strategy that includes eliminating/reducing overlaps and gaps in processes to enhance organizational effectiveness, expanding work relationships with federal and state authorities, conducting studies to better understand the tax gap, and assessing new ways to impact taxpayer behavior.

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

The BSM program combines best practices and expertise in business solutions and internal management from the IRS, business, and technology sectors to develop a world-class tax administration system that fulfills the revenue collection requirements of the United States as well as taxpayer needs and expectations.

The IRS met most of its targets for BSM project deliveries and continued to adhere to established governance processes that ensure success in managing complex and complicated system development efforts. Notable modernization accomplishments for FY 2007 include:

- Processed over 11 million returns and issued refunds of \$11.6 billion using the Customer Account Date Engine (CADE). CADE processed filing season changes, as well as the capability to handle the TETR and Form 1040 schedules.
- Added new functionality to the Modernized e-File (MeF) system, which enhanced electronic filing capabilities for Forms 1065, *U.S. Return of Partnership Income*, and 1065-B, *U.S. Return of Income for Electing Large Partnerships*, returns and made all the required extender legislation changes. This resulted in the processing of over two million corporate, non-profit, and partnership forms.
- Developed the Accounts Management Services (AMS) system, designed to deliver improved customer support and functionality by leveraging existing IRS applications. AMS exited the detailed design phase for Release 1.1, which provides address update capabilities, and Release 1.2, which provides inventory management capabilities.

In FY 2007, the IRS implemented a new governance structure for all information technology (IT) investment projects. The new structure facilitates the ability to identify and address project-related issues and risks, ensuring IT investment projects deliver required results. As a result, in FY 2007, 92 percent of system releases were delivered within +/-10 percent of cost estimates, and 77 percent were delivered within +/-10 percent of schedule estimates.

In addition, the IRS developed a five-year IT Modernization Vision and Strategy (MV&S) that addresses priorities for modernizing front-line tax administration functions. The strategy guides IT investment decision-making for 2007. Important aspects include: establishing partnerships among IT and business leadership; leveraging existing systems; emphasizing the delivery of smaller, incremental releases; and unifying the portfolio-level view of investments.

Security of infrastructure and IT systems remains a top priority for the IRS. In FY 2007, the IRS continued to update its systems, processes, and training efforts to ensure taxpayer information is properly safeguarded. The IRS also established new offices and governing bodies to provide direction and oversight regarding the security and protection of sensitive information. Highlights of security measures executed include:

- Implemented enterprise disk encryption, which secured 100 percent of IRS laptops with automatic hard drive encryption to protect data in the event of computer loss or theft;
- Worked with business partners to deploy secure data transmission, an automated solution that eliminated the physical mailing of tape shipments to federal, state, and municipal tax agencies;
- Upgraded firewall and intrusion detection devices, which strengthened the security posture of the network infrastructure and reduced the cost of operations and maintenance; and
- Deployed mandatory information protection training for all IRS employees and contractors having access to sensitive information.

## **FY 2009 Challenges**

The IRS continues to seek efficiencies in delivering taxpayer service and bolstering its enforcement efforts to improve compliance with the tax laws and, ultimately, increase tax revenue. Using the internet as a means of providing taxpayers access to tax information and services is one approach to achieving greater efficiencies. The IRS continues to seek alternative, cost-effective ways of improving taxpayer service and enforcement. The following discussion identifies some of the most significant internal and external challenges for the IRS.

### **Improving Voluntary Compliance and Reducing the Tax Gap**

Continuing progress in restoring enforcement presence remains a high priority for the IRS in addressing key elements of the tax gap. The FY 2009 President's Budget request will enhance coverage of high-risk compliance areas. Funding will be used to target key areas such as critical reporting, filing, and payment within the small business and self-employed taxpayer community, high-income taxpayers, flow-through entities (e.g., partnerships), and large multinational corporations. Additional resources will also address offshore activities of domestic taxpayers. The IRS will continue to reengineer its examination and collection procedures to reduce time, increase yield, and expand coverage.

Measuring and understanding taxpayer non-compliance are keys to ensuring optimal allocation of IRS resources and allow the IRS to better understand the size and causes of the tax gap. The FY 2009 President's Budget request provides for resources to support ongoing research studies of filing, payment, and reporting compliance to provide a comprehensive picture of the overall level of taxpayer compliance. Research enables the IRS to develop strategies to combat specific areas of non-compliance, improve voluntary compliance, and allocate resources more effectively to reduce the tax gap.

The IRS also focuses on compliance by addressing the issues identified in the TAB and in *Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance*. The IRS maintains its commitment to high-quality taxpayer services through improvements to IT and targeted efficiencies. The IRS will also continue to identify opportunities for



providing quality taxpayer service at a lower cost by providing and marketing expanded services to increase use of the IRS.gov website and maintaining growth in e-filing, which improves efficiency and accuracy and ultimately reduces tax administration costs. While the IRS continues to address compliance problems by improving customer service and using traditional methods of enforcement, the FY 2009 President's Budget request also includes funding to implement legislative proposals aimed at improving compliance. These legislative proposals would serve as enforcement tools with minimal impact on taxpayer burden and generate an estimated \$36 billion over 10 years.

### **Modernizing the IRS**

The IRS must ensure its employees possess the tools necessary to increase program efficiency and effectiveness. The FY 2009 President's Budget request includes funding to continue the modernization of IT systems and align them with the overall business strategy, as well as to provide IRS employees with the tools they need to administer and improve taxpayer service and enforcement programs. Modernizing the technology environment allows the IRS to address extremely high volumes, widely varying inputs from taxpayers, seasonal processing with significant variations in processing load, transaction rates on the order of billions per year, and storage capacity needs measured in trillions of bytes.

### **The Complexity of the Tax Code**

The Internal Revenue Code contains over a million words, creating complexity for taxpayers. Provisions such as the alternative minimum tax create additional computational work for taxpayers and can be hard to interpret. The IRS must explain the Code in a way that taxpayers can understand if they are to comply with their tax obligations. In addition, the IRS must continue to find ways to effectively administer tax law changes in a manner that minimizes complexity, the burden on taxpayers, and the cost of administering the tax code.

### **Achieving 80 Percent E-Filing**

The IRS continues to work toward the goal of increasing the e-file rates to 80 percent. For the third consecutive year, more than half (over 80 million) of all individual returns were filed electronically, representing an 11 percent increase over FY 2006. More than 16,900 large corporations, subject to the electronic filing mandate, successfully e-filed their returns in 2007. The IRS processed this volume of very complex returns and accepted and acknowledged receipt well within its 24-hour turnaround standard. The IRS also continues to work on finding ways to encourage more taxpayers to use electronic filing options.

## Section 2 – Budget Adjustments – Internal Revenue Service

The IRS Budget request for FY 2009 is \$11,361,509,000 in direct appropriations and 92,922 FTE. This is an increase of \$469,125,000 or 4.3 percent, and 1,799 FTE, over the FY 2008 enacted level of \$10,892,384,000 and 91,123 FTE.

### Program Summary by Appropriations Account and Budget Activity

Dollars in Thousands

Appropriation	FY 2007 Enacted <sup>1</sup>	FY 2008 Enacted	Request	FY 2009 \$ Change	% Change
Taxpayer Services	\$2,138,238	\$2,150,000	\$2,150,000	\$0	0.00%
Pre-filing Taxpayer Assistance and Education	576,537	645,375	617,326	(28,049)	-4.35%
Filing and Account Services	1,561,701	1,504,625	1,532,674	28,049	1.86%
Enforcement	4,686,477	4,780,000	5,117,267	337,267	7.06%
Investigations	576,785	593,794	603,466	9,672	1.63%
Exam and Collections	3,959,741	4,038,309	4,363,826	325,517	8.06%
Regulatory	149,951	147,897	149,975	2,078	1.41%
Operations Support	3,544,835	3,680,059	3,856,172	176,113	4.79%
Infrastructure	845,203	843,720	883,325	39,605	4.69%
Shared Services and Support	1,179,216	1,170,686	1,243,703	73,017	6.24%
Information Services	1,520,416	1,665,653	1,729,144	63,491	3.81%
Business Systems Modernization	212,659	267,090	222,664	(44,426)	-16.63%
Health Insurance Tax Credit Administration	14,856	15,235	15,406	171	1.12%
<b>Total Appropriated Resources</b>	<b>\$10,597,065</b>	<b>\$10,892,384</b>	<b>\$11,361,509</b>	<b>\$469,125</b>	<b>4.31%</b>

<sup>1</sup> FY 2007 Enacted represents the approved FY 2007 Operating Plan.

## 2.1 – Budget Adjustments Tables

Dollars in Thousands

### Internal Revenue Service

	FTE	\$000
<b>FY 2008 Enacted</b>	<b>91,123</b>	<b>\$10,892,384</b>
<b>Changes to Base:</b>		
<b>Maintaining Current Levels</b>		<b>\$264,985</b>
Pay Annualization		57,854
Pay Inflation Adjustment		152,303
Non-Pay Inflation Adjustment		54,828
<b>Transfers</b>		<b>(\$2,370)</b>
Transfer to TIGTA		(1,370)
Transfer to FinCEN		(1,000)
<b>Efficiencies/Savings</b>	<b>(976)</b>	<b>(\$94,249)</b>
Efficiency Savings	(769)	(71,356)
Increase e-File Savings	(207)	(10,300)
Non-Recur Savings		(12,593)
<b>Base Reinvestments</b>	<b>30</b>	<b>\$32,604</b>
Increase Efficiency through Submission Processing Consolidations		2,006
Address Correspondence Inventory	30	2,457
Fully Fund Postage Base		28,141
<b>Subtotal Changes to Base</b>	<b>(946)</b>	<b>\$200,970</b>
<b>Total FY 2009 Base - Current Services</b>	<b>90,177</b>	<b>\$11,093,354</b>
<b>Program Changes:</b>		
<b>Program Decreases:</b>	<b>(312)</b>	<b>(\$92,691)</b>
Taxpayer Assistance Centers and Outreach	(262)	(31,200)
Taxpayer Advocate Service	(25)	(7,711)
Volunteer Income Tax Assistance Grants Program		(8,000)
Business System Modernization	(25)	(45,780)
<b>Program Increases - Enforcement Initiatives</b>	<b>3,057</b>	<b>\$360,846</b>
Reduce the Tax Gap for Small Business / Self-Employed	1,608	168,498
Reduce the Tax Gap for Large Businesses	519	69,488
Improve Tax Gap Estimates, Measurement, and Detection of Non-Compliance	393	51,058
Increase Reporting Compliance of U.S. Taxpayers with Offshore Activity	124	13,697
Expand Document Matching	413	35,060
Implement Legislative Proposals to Improve Compliance		23,045
<b>Subtotal FY 2009 Program Changes</b>	<b>2,745</b>	<b>\$268,155</b>
<b>Total FY 2009 Request</b>	<b>92,922</b>	<b>\$11,361,509</b>

**Taxpayer Service Program Summary Budget Adjustment Table  
(Includes Both Direct Costs in the Taxpayer Services Appropriation  
and Indirect Costs in the Operations Support Appropriation)**

Dollars in Thousands

	FTE	\$000
<b>FY 2008 Enacted</b>	<b>36,066</b>	<b>\$3,612,833</b>
<b>Changes to Base:</b>		
<b>Maintaining Current Levels</b>		<b>\$86,261</b>
Pay Annualization		18,332
Pay Inflation Adjustment		48,838
Non-Pay Inflation Adjustment		19,091
<b>Transfers</b>		<b>(\$523)</b>
Transfer to TIGTA		(523)
<b>Efficiencies/Savings</b>	<b>(298)</b>	<b>(\$37,415)</b>
Efficiency Savings	(91)	(14,522)
Increase e-File Savings	(207)	(10,300)
Non-Recur Savings		(12,593)
<b>Base Reinvestments</b>	<b>30</b>	<b>\$19,294</b>
Increase Efficiency through Submission Processing Consolidations		2,006
Address Correspondence Inventory	30	2,457
Fully Fund Postage Base		14,831
<b>Subtotal Changes to Base</b>	<b>(268)</b>	<b>\$67,617</b>
<b>Total FY 2009 Base - Current Services</b>	<b>35,798</b>	<b>\$3,680,450</b>
<b>Program Changes:</b>		
<b>Program Decreases</b>	<b>(287)</b>	<b>(\$46,911)</b>
Taxpayer Assistance Centers and Outreach	(262)	(31,200)
Taxpayer Advocate Service	(25)	(7,711)
Volunteer Income Tax Assistance Grants Program		(8,000)
<b>Program Increases - Enforcement Initiatives</b>	<b>38</b>	<b>\$2,691</b>
Reduce the Tax Gap for Small Business / Self-Employed	38	2,691
<b>Subtotal FY 2009 Program Changes</b>	<b>(249)</b>	<b>(\$44,220)</b>
<b>Total FY 2009 Request<sup>1</sup></b>	<b>35,549</b>	<b>\$3,636,230</b>

<sup>1</sup> The Operations Support funds allocated to the Taxpayer Service and Enforcement programs in FY 2009 use the FY 2008 President's Budget allocation methodology. In order to execute FY 2009 spending, the Administration is proposing language to adjust Operations Support allocations by up to 1 percent with prior notification to the Appropriations Committees.

**Enforcement Program Summary Budget Adjustment Table  
(Includes Both Direct Costs in the Enforcement Appropriation  
and Indirect Costs in the Operations Support Appropriation)**

Dollars in Thousands

	FTE	\$000
<b>FY 2008 Enacted</b>	<b>54,682</b>	<b>\$6,997,226</b>
<b>Changes to Base:</b>		
<b>Maintaining Current Levels</b>		<b>\$177,048</b>
Pay Annualization		39,170
Pay Inflation Adjustment		102,390
Non-Pay Inflation Adjustment		35,488
<b>Transfers</b>		<b>(\$1,847)</b>
Transfer to TIGTA		(847)
Transfer to FinCEN		(1,000)
<b>Efficiencies/Savings</b>	<b>(677)</b>	<b>(\$56,683)</b>
Efficiency Savings	(677)	(56,683)
<b>Base Reinvestments</b>		<b>\$13,310</b>
Fully Fund Postage Base		13,310
<b>Subtotal Changes to Base</b>	<b>(677)</b>	<b>\$131,828</b>
<b>Total FY 2009 Base - Current Services</b>	<b>54,005</b>	<b>\$7,129,054</b>
<b>Program Changes:</b>		
<b>Program Increases - Enforcement Initiatives</b>	<b>3,019</b>	<b>\$358,155</b>
Reduce the Tax Gap for Small Business / Self-Employed	1,570	165,807
Reduce the Tax Gap for Large Businesses	519	69,488
Improve Tax Gap Estimates, Measurement, and Detection of Non-Compliance	393	51,058
Increase Reporting Compliance of U.S. Taxpayers with Offshore Activity	124	13,697
Expand Document Matching	413	35,060
Implement Legislative Proposals to Improve Compliance		23,045
<b>Subtotal FY 2009 Program Changes</b>	<b>3,019</b>	<b>\$358,155</b>
<b>Total FY 2009 Request<sup>1</sup></b>	<b>57,024</b>	<b>\$7,487,209</b>

<sup>1</sup> The Operations Support funds allocated to the Taxpayer Service and Enforcement programs in FY 2009 use the FY 2008 President's Budget allocation methodology. In order to execute FY 2009 spending, the Administration is proposing language to adjust Operations Support allocations by up to 1 percent with prior notification to the Appropriations Committees.

## 2A – Budget Increases and Decreases Description

### Treasury Strategic Goals and Outcome

All of the IRS FY 2009 initiatives support the Treasury Strategic Goal of “Effectively Managed U.S. Government’s 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 2009 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.

For detailed information about the FY 2007-2012 Treasury Strategic Plan, please go to <http://www.treasury.gov/offices/management/budget/strategic-plan/2007-2012/home.html>

### Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Goal	FY 2008	FY 2009	Percent
<i>Treasury Strategic Objective</i>	Enacted	Request	Change
Treasury Strategic Outcome			
Effectively Managed U.S. Government Finances	\$10,626,721	\$11,091,461	4.4%
<i>Cash resources are available to operate the government</i>	10,626,721	11,091,461	4.4%
Revenue collected when due through a fair and uniform application of the law	10,626,721	11,091,461	4.4%
Prevented Terrorism and Promoted the Nation's Security Through Strengthened International Financial Systems	\$265,663	\$270,048	1.7%
<i>Pre-empted and neutralized threats to the international financial systems and enhanced U.S. national security</i>	265,663	270,048	1.7%
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	265,663	270,048	1.7%
<b>Total</b>	<b>\$10,892,384</b>	<b>\$11,361,509</b>	<b>4.3%</b>

### Treasury Strategy for Reducing the Tax Gap

The IRS FY 2009 Budget request directly supports its Strategic Plan and includes the initiatives directly aimed at increasing voluntary compliance and reducing the tax gap. The IRS FY 2009 initiatives support the IRS report, *Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance*, which builds upon the Department of the Treasury’s “Comprehensive Strategy for Reducing the Tax Gap”.

The Treasury Tax Gap Strategy consists of seven components that form the basis for the detailed compliance improvement efforts that were set forth in the IRS Report. The seven Treasury Tax Gap Strategy components are:

**1. Reduce Opportunities for Evasion**

The focus of this component is to identify legislative proposals that would reduce evasion opportunities and improve the efficiency of the IRS. It also includes the development of regulations and other published guidance to clarify ambiguous areas of the law, target specific areas of non-compliance, and prevent abusive behavior.

**2. Make a Multi-Year Commitment to Research**

Research is an essential component to identify sources of non-compliance and to understand the relationship between taxpayer burden, compliance, and customer service on voluntary compliance.

**3. Continue Improvements in Information Technology (IT)**

Improvements in IT are critical to providing the IRS with better tools to increase compliance through early detection, better case selection, and better case management.

**4. Improve Compliance Activities**

The focus of this component is to increase and enhance activities in examination, collection, and document matching, which will allow the IRS to better prevent, detect, and remedy non-compliance. These activities will increase compliance not only among those directly contacted by the IRS, but also among those who will be deterred from non-compliant behavior as a consequence of a more visible IRS enforcement presence.

**5. Enhance Taxpayer Service**

The importance of this component is to help taxpayers avoid making unintentional errors. Through new and existing tools, such as the IRS website, the IRS provides taxpayers with assistance and clear and accurate information before they file their tax returns, thus reducing unnecessary post-filing contacts.

**6. Reform and Simplify the Tax Law**

The focus of this component is to simplify the tax law, forms, and procedures so that unintentional errors could be reduced. The complexity of the current tax code causes unintentional errors due to lack of understanding. Simplifying the tax code also would reduce the opportunities for intentional evasion and make it easier to administer the tax laws. The Department of the Treasury and the IRS will continue to recommend additional legislative changes to Congress that will reduce taxpayer burden.

## 7. Coordinate with Partners and Stakeholders

The purpose of this component is to share information and compliance strategies by enhancing coordination between the IRS and state and foreign governments, as well as practitioner organizations, including bar and accounting associations.

### 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 fully costs the salary, benefits, and support costs needed for each FTE.

### Total Changes to Base +\$200,970,000 / -946 FTE

#### Maintaining Current Levels (MCLs)

+\$264,985,000 / 0 FTE

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

- \$57,854,000 to fund annualization of the January 2008 federal pay raise in FY 2009;
- \$152,303,000 to fund the proposed January 2009 federal pay raise; and
- \$54,828,000 to fund the FY 2009 non-pay inflation adjustment for items such as rent, utilities, communications, contracts, travel, supplies, and equipment.

#### Transfer to Treasury Inspector General for Tax Administration (TIGTA)

-\$1,370,000 / 0 FTE

The IRS Restructuring and Reform Act of 1998 (RRA 98), P.L. 105-206, eliminated the IRS Office of the Chief Inspector and transferred its responsibilities to a new TIGTA Office. Once TIGTA was established in FY 1999, the IRS and TIGTA signed a Memorandum of Understanding whereby the IRS would continue providing services until the costs could be determined and budgetary transfers made.

In FY 2009, the IRS budget proposes to permanently transfer \$1.4 million from the IRS to TIGTA to provide base funding for its costs associated with building operations and support services such as public transportation subsidy, security, management training, and telecommunications.



Transfer to Financial Crimes Enforcement Network (FinCEN)  
-\$1,000,000 / 0 FTE

The IRS annually reimburses FinCEN for the costs associated with the operations and maintenance contract supporting the Bank Secrecy Act (BSA) e-filing system, which is administered and controlled by FinCEN. This transfer permanently moves funds from IRS to FinCEN to provide the base funding it needs to continue supporting its BSA e-filing system.

**Efficiencies/Savings**

**-\$94,249,000 / -976 FTE**

Efficiency Savings  
-\$71,356,000 / -769 FTE

The IRS has identified organizational changes designed to increase operating efficiencies and reduce costs for FY 2009.

In the enforcement and operations support programs, savings will be achieved through enhancement of technology and support structure improvements such as the Integrated Collections Systems (ICS) Windows, Integrated Data Retrieval System (IDRS) Decision Assisting program, and Compliance Data Environment (CDE). These enhancements will improve system performance and workload distribution, increase the ability to interface with other modernized systems, and reduce cycle time while improving customer service. Additional productivity will be gained by continued efforts to streamline and centralize work processes, enhance workload selection techniques, and improve case selection tools. In the Operations Support programs, the IRS will realize savings by implementing re-engineered business processing efforts. For example, the IRS expects to gain efficiencies and engage stakeholders and business customers in decisions by implementing the seat management concept of managing workstations, i.e., the coordination of all workstations in an enterprise network by overseeing the installation, operation, and maintenance of hardware and software at each workstation. Through innovative concepts, evolving techniques, and streamlined efforts, the IRS will ensure efficiencies within the operations support programs. The IRS also plans to save by deferring lower priority space and housing projects and focusing on higher priority projects.

This budget request proposes to reinvest these savings to *Fully Fund Postage Base*.

Increase e-File Savings  
-\$10,300,000 / -207 FTE

As the result of increased electronic filing, the IRS projects a decrease of paper return filings in FY 2009. An estimated 4.2 million fewer paper returns (3.5 million individual and 0.7 million business) will be received in FY 2009 due to increases in electronically-filed returns. As a result, 207 fewer FTE will be required to perform submissions processing activities, generating a savings of \$10.3 million. This savings will be

reinvested to cover the costs of *Increase Efficiency through Submission Processing Consolidations* and *Address Correspondence Inventory*.

The IRS continues to strive to meet the legislatively-established goal of electronically receiving 80 percent of all tax and information returns. While technological advances, such as modernization of the 1040 e-File system, facilitate the IRS efforts, the 80 percent e-File goal was not met in FY 2007. The IRS expects progress toward this goal by continuing to enhance taxpayer service efforts, including expanding options for filing, payments, and communications, a key component of the strategy to reduce the tax gap.

The table below shows the actual and projected percent of returns processed electronically for FY 2006 through FY 2011 for individual and business returns.

Performance Level	FY 2006 Actual	FY 2007 Actual	FY 2008 Target	FY 2009 Target	FY 2010 Target	FY 2011 Target
Percent of Individual Returns Processed Electronically	54.10%	57.10%	61.80%	64.70%	67.00%	69.00%
Percent of Business Returns Processed Electronically	16.60%	19.10%	20.80%	22.80%	25.20%	26.60%

*Non-Recur Savings*  
*-\$12,593,000 / 0 FTE*

This reduction reflects non-recurring, one-time costs associated with the IRS FY 2008 initiatives, such as new hire training, background investigations, and acquisition of telecommunications equipment, computers, and printers.

**Reinvestments**

**+\$32,604,000 / +30 FTE**

*Increase Efficiency through Submission Processing Consolidations*  
*+\$2,006,000 / 0 FTE*

**Initiative Summary**

Increased use of e-Filing options has driven continued efforts to consolidate the processing of individual returns into fewer sites. Resources from *Increased e-File Savings* will be reinvested to fund one-time severance pay costs for the ramp-down of the Andover submissions processing site. As the Andover consolidation approaches, the IRS will continue to assist employees in finding employment either in or outside the IRS.

## **Implementation Plan and Benefits**

This reinvestment supports the IRS efforts to implement planned submissions processing strategies, including the downsizing of paper operations to meet increases in electronic submissions and cost efficient opportunities in processing the paper returns. Return processing efficiency and effectiveness will improve as electronic filing increases. The ramp-down and consolidation of the Andover submissions processing site will also improve compliance by providing taxpayer services more efficiently and effectively, a key component of the tax gap strategy.

Address Correspondence Inventory  
+\$2,457,000 / +30 FTE

### **Initiative Summary**

This reinvestment provides \$2.5 million and 30 FTE in the IRS Accounts Management program. This initiative provides \$1.8 million for Customer Service Representatives (CSRs) to address increased volumes in correspondence inventory and assist individual taxpayers with their questions to reach accounts resolution. As a result, addressing the correspondence inventory will improve overall taxpayer compliance. Recently, this program has experienced increased volumes, and cases have become more complex. This initiative also provides \$0.7 million in training funds to provide CSRs with additional technical training on the processing of the Form 1040X, *Amended U.S. Individual Income Tax Return*, and to address taxpayer questions. Training funds will also be used for managerial training as the Wage & Investment operating division continues to decrease its span of control.

## **Implementation Plan and Benefits**

Through additional hires and training for CSRs, the IRS will more effectively address the needs of taxpayers and process the continuously increasing number of Form 1040X returns. This reinvestment supports the IRS efforts to improve compliance by providing taxpayer services more efficiently and effectively, a key component of the tax gap strategy.

Fully Fund Postage Base  
+\$28,141,000 / 0 FTE

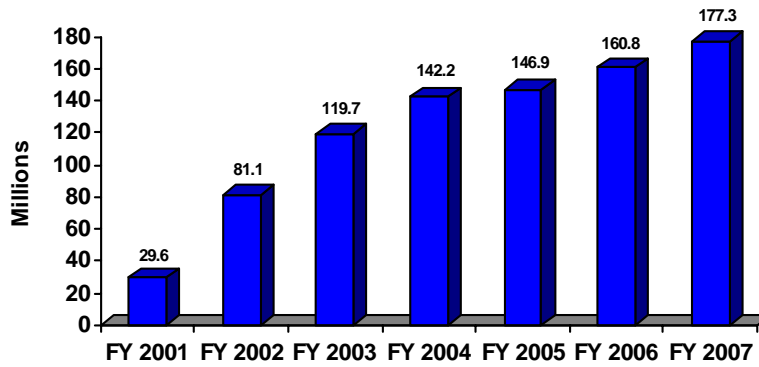
### **Initiative Summary**

This reinvestment will fully fund the IRS postage costs. Increases in both IRS enforcement and service-related correspondence activities have resulted in an increase in postage costs to contact taxpayers and issue notices via mail. Increased costs are not only due to an increase in volume, length, and weight of the mailings, but also due to a larger proportion of the mailings being sent via certified mail to ensure taxpayer privacy. Similarly, IRS emphasis on providing quality service to American taxpayers necessitates effective communication of important information about tax laws and available services,

such as e-filing. Fully funding IRS postage costs is critical to supporting enforcement efforts to improve compliance and enhancements to taxpayer service programs, two key components of the IRS strategy to narrow the tax gap. To fund the postage program, the IRS redirected \$8.5 million in FY 2006 and reprogrammed \$31 million in FY 2007 from prior year and user fee balances.

As illustrated by the table below, the number of notices sent to taxpayers increased from 146.9 million in FY 2005 to 160.8 million (9.5 percent) in FY 2006 and another 16.5 million (10 percent) in FY 2007.

**Correspondence Production Services (CPS) Branch  
Number of Notices per Fiscal Year**



**Total FY 2009 Program Changes +\$200,970,000 / -946 FTE**

**Program Decreases**

**-92,691,000 / -312 FTE**

*Taxpayer Assistance Centers and Outreach*

*- \$31,200,000 / -262 FTE*

Additional resources were provided in FY 2008 for increasing outreach and education activities, for individuals, businesses, and tax-exempt entities; and increasing the number of tax returns prepared at the Taxpayer Assistance Centers (TACs). In FY 2009, the IRS will continue to work to implement the taxpayer assistance improvements detailed in the Taxpayer Assistance Blueprint (TAB).

*Taxpayer Advocate Service*

*-\$7,711,000 / -25 FTE*

Additional Taxpayer Advocate Service (TAS) funds were provided in FY 2008 to expand TAS case processing activities. In FY 2009, these activities will be restored to levels in line with resources for other taxpayer service programs. However, the IRS does request additional TAS program resources where appropriate in support of enforcement staffing initiatives (e.g., the FY 2009 *Reduce the Tax Gap for Small Business/Self Employed* initiative).

*VITA Grants Program*

*-\$8,000,000 / 0 FTE*

Funds provided in FY 2008 included \$8,000,000 for a new Volunteer Income Tax Assistance (VITA) matching grant demonstration program for tax return preparation assistance. This funding is available until September 30, 2009. Given the ramp-up time to establish the grant application and approval process, these grants are expected to be issued for the 2009 filing season.

*Business Systems Modernization*

*-\$45,780,000 / -25 FTE*

The FY 2009 proposed level of \$222,664,000 will allow continued progress on key modernization projects including the Customer Account Data Engine (CADE), Accounts Management Services (AMS), and Modernized e-File (MeF).

## **Program Increases**

**+360,846,000 / +3,057 FTE**

### *Reduce the Tax Gap for Small Business / Self-Employed*

*+\$168,498,000 / +1,608 FTE*

## **Initiative Summary**

This initiative provides for an increase of \$168.5 million and 1,608 FTE to address and improve compliance among Small Business and Self-Employed (SB/SE) and Wage & Investments taxpayers in the tax gap elements of reporting, filing, and payment compliance. Over \$980.8 million in additional annual enforcement revenue will be produced once new hires reach full potential in FY 2011 by increasing examinations of business and high-income returns, increasing audits involving flow-through entities, implementing voluntary tip agreements, increasing document matching audits, and collecting unpaid taxes from filed and unfiled tax returns.

This initiative will increase staff resources by 687 to address Underreporting Compliance, 721 to address Nonfiling and Underpayment Compliance, 33 to address Fraud/BSA and 167 for other direct support.

## **Implementation Plan and Expected Benefits by Program**

### *Underreporting Compliance (+\$74.6 million/ +687 FTE)*

The Underreporting Compliance tax gap, estimated at \$285 billion, reflects the underreporting of income and the overstating 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. Underreporting of individual income tax and employment tax constitutes over 70 percent of the gross tax gap. Individual income tax underreporting totals \$197 billion, of which over half, or \$109 billion, is attributed to understated net business income. Another 28 percent, or \$56 billion, represents underreported non-business income such as wages, tips, interest, dividends, and capital gains. Employment tax accounts for another \$54 billion of the underreporting tax gap, of which 72 percent or \$39 billion represents self-employment tax.

In FY 2009, this investment will increase staff resources by 530 Revenue Agents (RAs), 74 Tax Compliance Officers (TCOs), 53 Specialty Field Examination RAs, and 30 Correspondence Examination Customer Service Representatives.

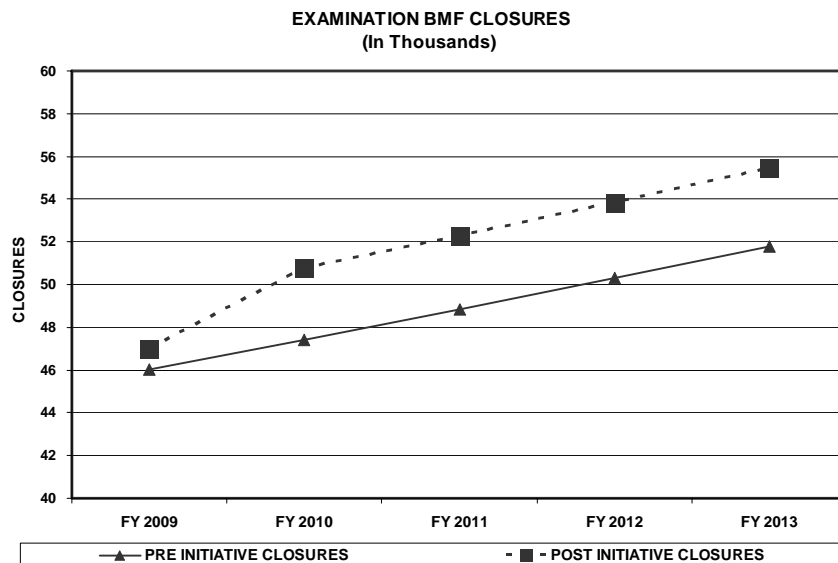
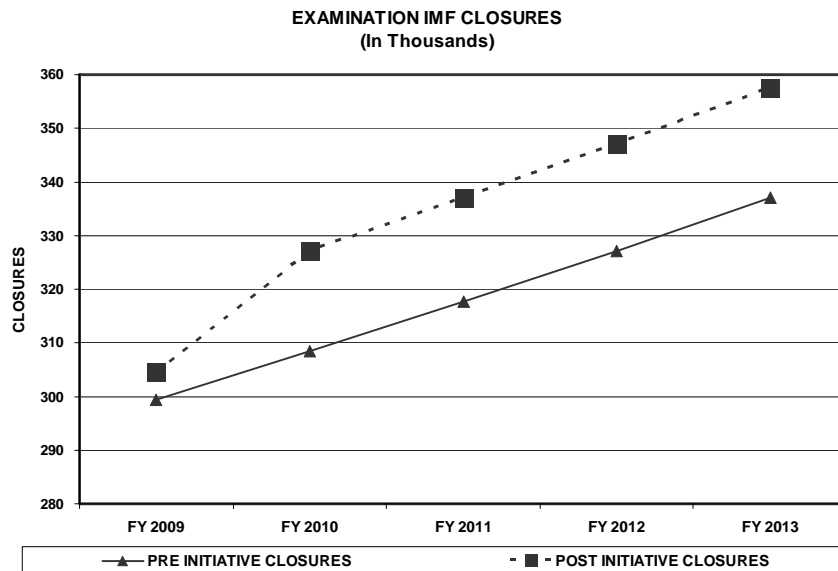
### **Field Examination**

The RAs will continue to focus on Abusive Tax Avoidance Transactions (ATAT), structured transactions, and corporate and high-income examinations involving flow-through entities (e.g., trusts, partnerships, S corporations). The Employment Tax (ET)

RAs will be dedicated to securing and implementing voluntary agreements within the gaming industry tip compliance program to increase the accuracy of tip reporting for both the employer and employee.

The RAs and TCOs will examine an additional 5,100 individual income tax returns (IMF closures) and 1,000 business income tax returns (BMF closures). Once new hires reach full potential in FY 2011, this investment is projected to produce an additional 19,000 individual return audits and 3,000 business return audits, potentially generating \$377.6 million in increased revenue.

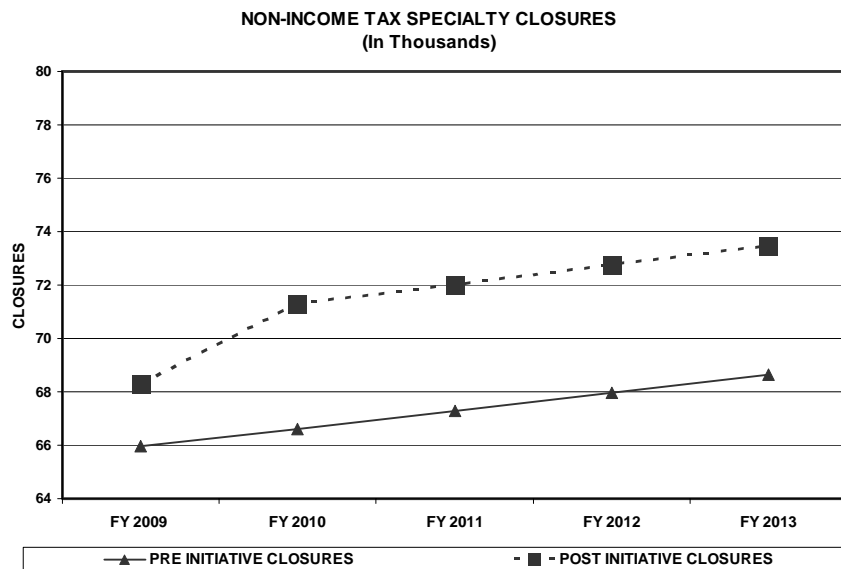
Despite 5 percent growth in individual return filings from FY 2008 through FY 2011, the IRS estimates that with the addition of Field Examination resources, the IRS will be able to maintain the current audit coverage rate for individual returns of approximately 1 percent.



## Specialty Tax Program

The Specialty Tax Program addresses the tax gap by handling cases in the employment, excise, and estate and gift tax program areas. In the employment tax area, the IRS continues to target efforts toward egregious non-compliance, such as the lower compliance levels of tipped employees compared to straight-wage earners. In the excise tax area, the IRS is focusing on claims for long-distance telephone tax as well as compliance with fuel tax. In the estate and gift tax area, the IRS is focusing on areas of non-compliance involving timing and valuation.

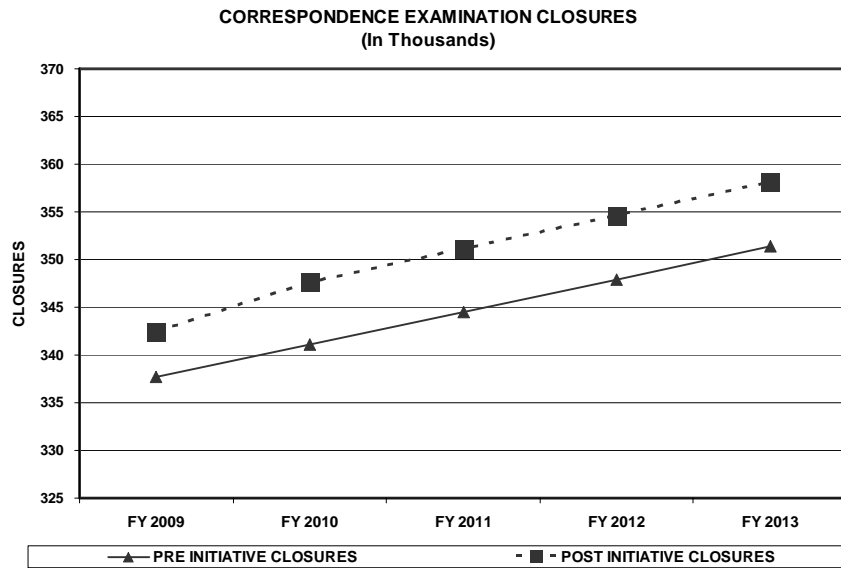
Specialty Tax staff (53 FTE) will conduct approximately 2,300 more tax audits in FY 2009, with an emphasis on employment tax cases. Once new hires reach full potential in FY 2011, this investment will result in an additional 4,000 tax audits with potential revenue of \$12.1 million.



## Correspondence Examination

The Correspondence Examination program addresses the tax gap through increased enforcement presence and coverage. The additional 30 FTE will allow the Correspondence Examination program to examine approximately 4,700 more cases in FY 2009. Once new hires reach full potential in FY 2011, the additional FTE will complete approximately 6,000 more audits with a projected revenue increase of \$44.4 million.





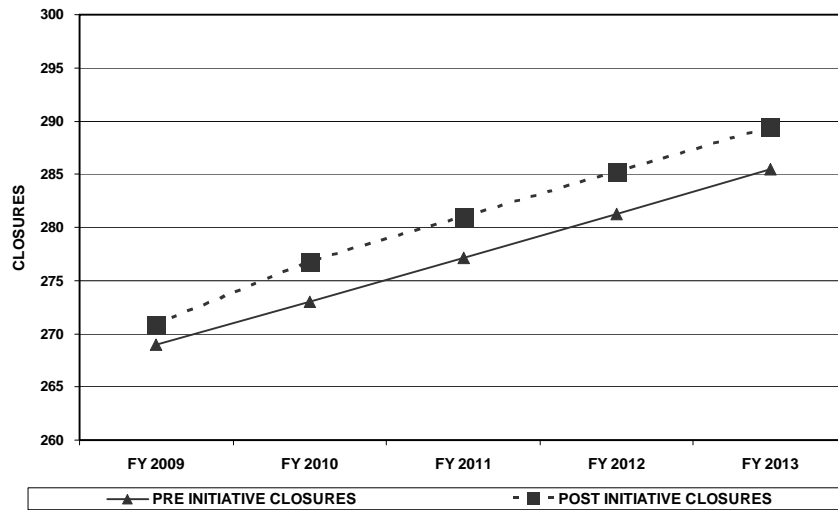
*Nonfiling and Underpayment Compliance (+\$69.4 million / +721 FTE)*

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 SB/SE nonfiler population. In 2002, SB/SE individual nonfilers accounted for 66 percent of the individual high-income nonfiler population, representing a 20 percent increase since FY 2000. Revenue Officers and Campus Compliance employees use an array of techniques to address nonfiling, including the determination of compliance assessments based upon available internal and third-party information.

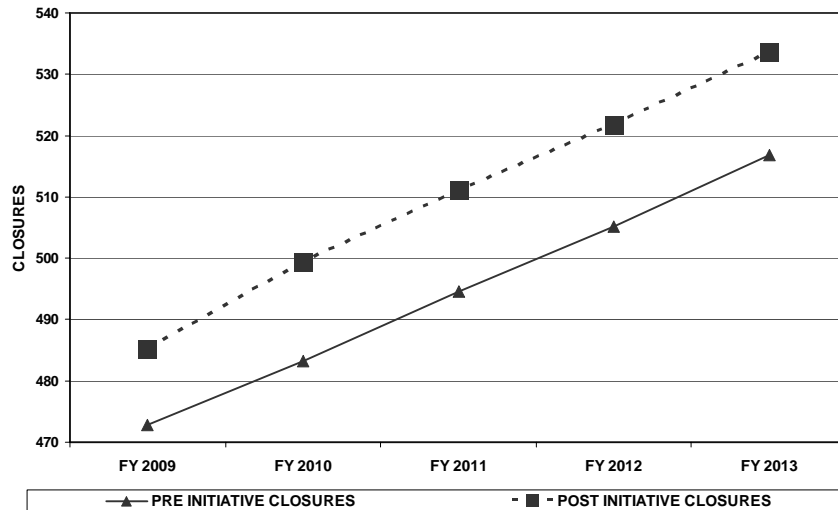
Nonfiler

This initiative requests funding to increase the collection efforts on key compliance assessments focused on improving voluntary compliance and decreasing nonfiling. Additional Field Collection staff (96 FTE) will resolve approximately 1,900 additional nonfiler Tax Delinquency Investigations (TDI) in FY 2009, and once new hires reach full potential in FY 2011 an additional 3,000 nonfiler investigations. Additional Campus Collection/Automated Collection System (ACS) staff (19 FTE) will resolve approximately 12,000 additional nonfiler TDI in FY 2009, and once new hires reach full potential in FY 2011, an additional 16,000 nonfiler investigations.

**FIELD TDI CLOSURES  
(In Thousands)**



**ACS TDI CLOSURES  
(In Thousands)**

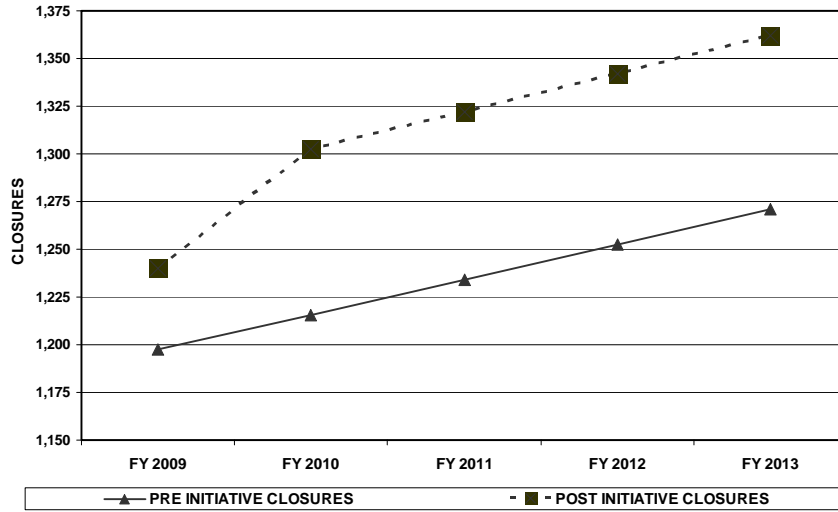


## Underpayment

Payment Compliance represents 10 percent, or \$33 billion, of the tax gap. Additional staffing will increase coverage of potentially collectible inventory (PCI) and focus on addressing the PCI growth. PCI is the amount of the total unpaid assessments that is available for active collection actions. Total PCI increased from \$81 billion in 2004 to \$105 billion in 2007. In 2004, compliance assessments accounted for \$14 billion of PCI, increasing to \$23 billion in 2005, \$27 billion in 2006, and \$36 billion in 2007.

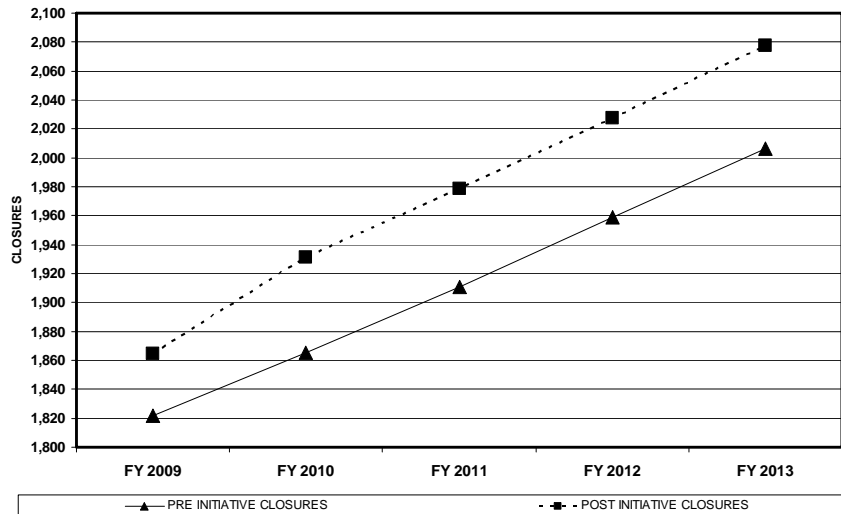
Additional Field Collection staff of 486 FTE will resolve approximately 42,000 additional Tax Delinquency Accounts (TDA) in FY 2009. Once new hires reach full potential in FY 2011, the additional staff will resolve an additional 88,000 delinquent tax accounts, generating approximately \$333.6 million in revenue.

**FIELD TDA CLOSURES  
(In Thousands)**



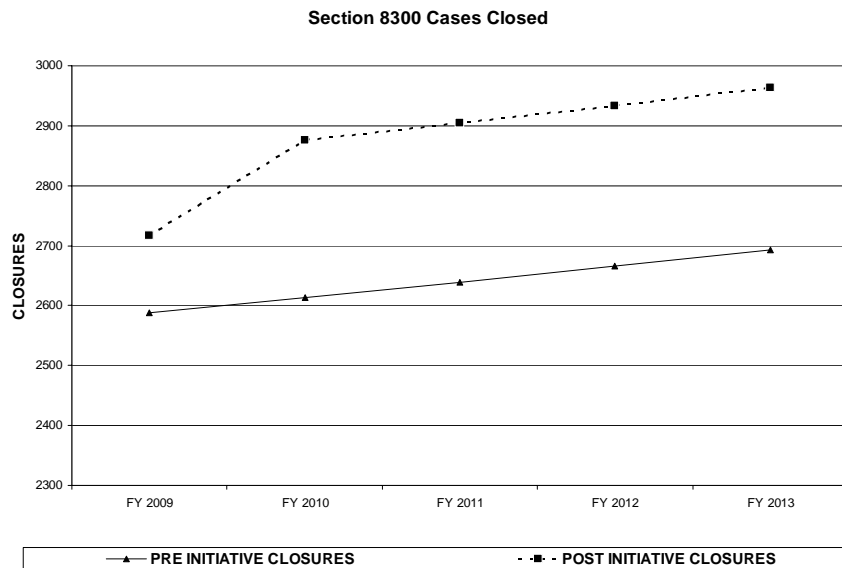
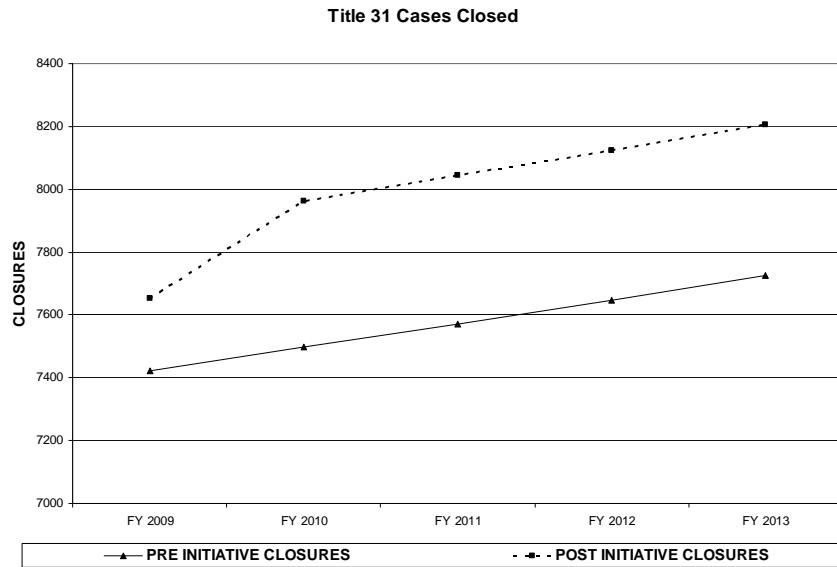
Additional Campus Collection/ACS staff of 120 FTE (92 TDA/28 TDI) will resolve approximately 43,000 additional TDA in FY 2009. Once new hires reach full potential in FY 2011, the new ACS staff will resolve approximately 67,000 additional delinquent tax accounts, with a potential generation of \$213.1 million collected.

**ACS TDA CLOSURES  
(In Thousands)**



*Fraud/BSA (+\$3.4 million / +33 FTE)*

The 33 RA FTE will be dedicated to the BSA program and will close an additional 229 Title 31 cases, and in FY 2011, an additional 400 such cases. In FY 2009, 129 additional Form 8300 cases will be examined, and once new hires reach full potential in FY 2011, 200 additional cases will be examined.



*Follow-On Support (+\$21.1 million / +167 FTE)*

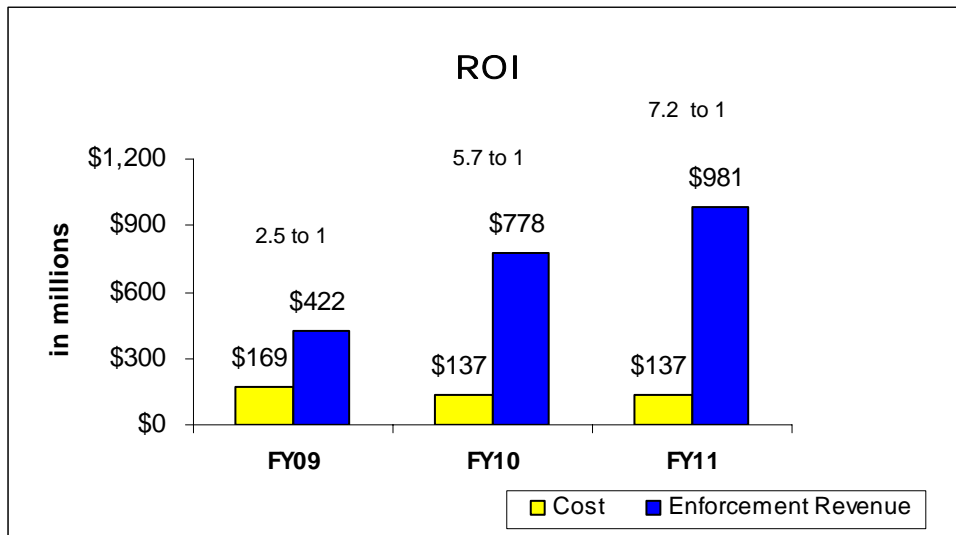
The IRS Appeals division (\$9.3 million and 67 FTE) will process additional cases generated from increased examination and collection program staffing.

The IRS Office of Chief Counsel (\$8.5 million and 62 FTE) will provide legal advice and assistance in litigating the increased number of cases and support for additional tax shelter litigation and published guidance; as well as and conduct tax reform-related work pertaining to SB/SE cases. A legislative change in FY 2006 transferring Collection Due Process (CDP) cases involving employment taxes from the United States District Courts to the United States Tax Court will have a direct impact on the number of increased CDP cases litigated by SB/SE Counsel Attorneys.

Funding for the Taxpayer Advocate Service (\$3.3 million and 38 FTE) will be applied to both examination and collection programs to ensure the IRS follows appropriate procedures and does not create unnecessary burdens or compromise taxpayer rights.

**Expected Benefits**

This request will produce \$980.8 million in additional annual enforcement revenue once new hires reach full potential in FY 2011.



Reduce the Tax Gap for Large Business

+\$69,488,000 / +519 FTE

**Initiative Summary**

This initiative requests an increase of \$69.5 million and 519 FTE to address the tax gap derived primarily from the underreporting of income tax by large, usually multi-national businesses; foreign residents; and smaller corporations with significant international activity. To narrow this gap, the IRS will continue to improve identification of risk, implement more effective approaches to address non-compliance, and allocate resources to the highest risk areas. This initiative funds additional RAs with international, financial products, and valuation expertise; operational support to enable the IRS to further use existing systems to capture other electronic data through scanning and imaging; and increases for Counsel attorney and Appeals support.

In addition to traditional audits, the IRS will expand the use of pre-filing methods, such as the Compliance Assurance Process (CAP), which benefit from the post-Sarbanes-Oxley environment of transparency in financial disclosures including required disclosures of uncertain tax positions.

Funding of this initiative will allow the IRS to:

- Increase and maintain appropriate examination coverage of corporations among various stratifications based on compliance risk. For example, in Calendar Year (CY) 2005, corporations with assets of more than \$250 million reported \$172 billion in tax and have the largest book-to-tax differences. Efforts to identify risk and deal with them effectively through a balance of service and enforcement would be a priority.
- Allocate additional resources to complex enterprises with significant compliance risks, often including flow-through entities or offshore special purpose entities. (Flow-through entities are the fastest growing population in the Large and Mid-Size Business (LMSB) return population, comprising over 64 percent of filings.)
- Increase and maintain examination coverage of smaller corporate returns and individuals with international activity.
- Leverage technology through the increased development and deployment of workforce tools, issue management systems and management information systems to increase organizations capabilities to address compliance risk.
- Provide operational support to enable IRS to further use existing systems to capture other electronic data through scanning and imaging. This will provide early and efficient delivery of modernized e-file and residual paper return data to field compliance employees for identification and resolution of compliance issues.

- Strengthen the technical expertise and specialization of the LMSB workforce, aligned with complex issues of compliance risk.
- Provide for on-going renewal of the LMSB workforce to avoid future skill and experience gaps.

## **Implementation Plan and Benefits**

### **Increase Coverage of Large and Mid-Size Corporations**

This initiative funds an additional 333 FTE comprised of RAs and specialized personnel such as international and financial products specialists, engineers, and economists to primarily support increased coverage of large and mid-size corporations, including returns with significant international activity as well as a small increase in individual returns of foreign residents. These additional RAs and specialized personnel will improve examination coverage of large businesses, with specific focus on key areas of non-compliance involving not only the largest taxpayers, but the most complex financial transactions and difficult issues of accounting and tax law. An additional 32 FTE will be designated for tax technicians to conduct examinations of individual foreign resident returns, and 3 FTE will be designated for international technical training to meet the demand for increased technical skills of employees dealing with international tax issues and non-compliance.

The resources provided by this initiative will increase the ability of the IRS to ensure that the complicated transactions arising from the factors identified in the next paragraph are properly reported for tax purposes. This initiative will fund the hiring of a workforce needed to implement new data-driven processes using an issue-focused approach to compliance through specialization of resources.

IRS historical enforcement results show that non-compliance by large corporations represents a significant portion of the \$345 billion gross tax gap. As filings continue to increase, the IRS assumes the tax gap associated with these filings also increases. While it is difficult to identify the exact source for the large corporate tax gap, a large portion may be attributed to:

- Unreconciled or undisclosed book-to-tax differences between financial reporting and income tax reporting. Corporate taxpayers are encouraged to show high profitability for financial reporting purposes and low profitability for tax reporting purposes. In FY 2003, book-to-tax differences increased by at least \$266 billion compared to FY 2000 through FY 2002. As book-to-tax differences continue to increase, it is likely that underreporting attributable to these differences will also increase. The lack of adequate information regarding relevant business transactions and book-to-tax reconciliations increases the risk of undetected non-compliance with tax laws.
- Increased opportunities to engage in improper tax planning due to rapid global business expansion across differing tax jurisdictions, including tax haven countries. Between December 31, 2004 and June 30, 2005, 31,298 taxpayers

filed Schedule M-3 for corporate tax returns. Aggregated data estimates that \$227 billion of net income from controlled foreign corporation was excluded from tax return filings, and \$89 billion of net income from non-includible U.S. entities was excluded from U.S. tax returns.

- Use of abusive tax avoidance transactions and illegal shelters.
- Increased risks from the evolution of complex business structures as businesses respond to pressure for increased shareholder return. These structures include offshore and multilateral arrangements reflected in special purpose entities, joint ventures, and other specialized arrangements, which often include tiered flow-through entities. For the largest corporations for which a “team approach” is used for examinations, 69 percent were involved in tiered partnerships directly or through subsidiaries.
- Increased complexity within the tax code.

IRS compliance efforts are facilitated by the implementation of mandatory electronic filing for large businesses and implementation of the Schedule M-3, which provides information on potentially non-compliant transactions that have differing treatment for book and tax purposes. The improved data from electronic filings allows the IRS to quickly assess risks in these returns and deliver the returns to the field for compliance action where warranted. The data from Schedule M-3 provides direction for the IRS to address critical compliance issues early and provides a more level playing field for determining which returns require audit or other compliance action. The improved information will enhance the IRS ability to determine where resources should be applied and better assess the necessary scope and depth of the audits or other compliance action.

Faced with growing business risks, the IRS has implemented and improved processes to maintain audit coverage in the large corporate sector - those corporations with \$10 million or greater in assets. The currency and cycle time initiative improves the timeliness of examinations. The IRS also implemented new, non-traditional approaches to compliance. These approaches include pre-filing and real-time compliance solutions in contrast to post-filing solutions, which do not occur until years after the actual transactions. Specific examples of these new approaches include the CAP, use of issue management teams, pre-filing agreements, currency and cycle time initiatives, and issue specialization among the IRS workforce. At the international level, the IRS supports the Joint International Tax Shelter Information Centre (JITSIC) and exchanges of information with treaty partners.

Return filings for the volatile large business taxpayer population continue to increase. Projected filings for CY 2008 are 205,800, a 36 percent increase over the CY 2002 total of 151,353. As indicated by the chart below, filings are projected to grow an additional 3 percent to 212,700 in CY 2009.



Filings by type of return by assets	CY 2002	CY 2003	CY 2004	CY 2005	CY 2006	CY 2007	CY 2008	CY 2009
Corporations								
\$10M <\$250M	48,694	47,786	43,064	44,744	44,773	43,700	43,000	42,400
Corporations >\$250M	10,908	11,188	11,027	12,133	12,584	12,500	12,500	12,500
Sub Chapter S >\$10M	25,271	26,954	30,017	32,753	36,325	38,000	40,100	42,300
Partnerships	66,480	71,000	81,000	86,322	99,482	104,800	110,200	115,500
<b>Total</b>	<b>151,353</b>	<b>156,928</b>	<b>165,108</b>	<b>175,952</b>	<b>193,164</b>	<b>199,000</b>	<b>205,800</b>	<b>212,700</b>

## Technological and Process Improvements

This initiative includes an additional 77 FTE for support of certain critical compliance information systems. The additional FTE will enable IRS to further use existing systems to capture other electronic data through scanning and imaging. These data come from residual paper returns, which include international information returns, paper-filed Schedule M-3s, and certain flow-through filings, as well as returns not mandated to be filed electronically. These data will facilitate the better and quicker identification of abusive transactions and issues from book-tax differences that are a major contributor to the tax gap.

The 77 FTE requested to support each system under this initiative are:

- 30 FTE for Data Capture,
- 7 FTE for LMSB Imaging Network (LIN),
- 15 FTE for Promoter Imaging Network (PIN), and
- 25 FTE for Chapter 3 Withholding (CTW).

## Other Direct Costs

The IRS Office of Chief Counsel (\$6.8 million and 54 FTE) will provide support to this initiative and increased case closures. Counsel attorneys will advise RAs on complicated issues of tax law and accounting principles in the context of large corporate and flow-through enterprises. The attorneys will assist in all phases, including: developing facts by assisting in gathering documents; issuing summonses and conducting interviews; identifying issues; developing legal positions; assessing the merits of taxpayer positions; developing responses to taxpayer submissions; accompanying agents to taxpayer meetings; commenting on taxpayer protests; drafting closing agreements; reviewing statutory notices; attending pre-conferences with Appeals; and litigation, as necessary.

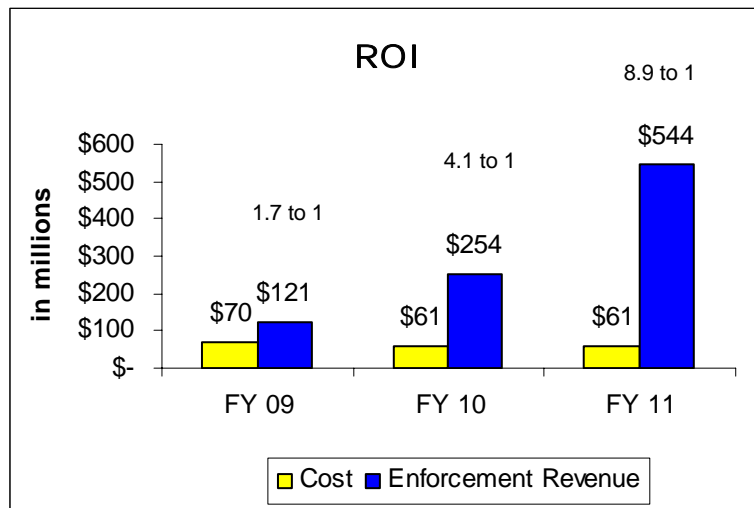
The IRS Appeals division (\$2.6 million and 20 FTE) will provide support to this initiative by increasing coverage through non-traditional approaches, leveraging technology to enhance the quality and timeliness of risk identification, and employing a strategic approach to issue management.

## Expected Benefits

With technological and process improvements and new approaches to compliance, the IRS is positioned to quickly identify the issues most warranting compliance action and to apply compliance treatments that are appropriate for the type of risk and taxpayer behavior. IRS performance reflects the improvement in processes derived from an issue-driven approach to compliance motivated by improved data delivery tools.

## Return on Investment (ROI)

The ROI for this initiative will generate \$543.9 million in additional annual enforcement revenue once the new hires reach full potential in FY 2011 (see chart below.)



Improve Tax Gap Estimates, Measurement, and Detection of Non-Compliance  
+\$51,058,000 / +393 FTE

## Initiative Summary

This initiative provides \$51.1 million and 393 FTE to support and expand ongoing research studies of filing, payment, and reporting compliance to provide a comprehensive picture of the overall taxpayer compliance level. Research enables the IRS to develop strategies to combat specific areas of non-compliance, improve voluntary compliance, and allocate resources more effectively to reduce the tax gap. The goal of the measures is to provide benchmarks against which the IRS can evaluate the effectiveness of programs designed to improve compliance with the tax code and reduce the tax gap.

## **Implementation Plan and Benefits**

This initiative supports ongoing Reporting Compliance Studies through the National Research Program (NRP). The request funds research studies of reporting compliance for new segments of taxpayers, such as corporations, partnerships, and other business entities, and updates existing estimates of reporting compliance (e.g., individual taxpayers). The initiative will also enhance an existing base of operating division examiners with varying expertise to perform reporting compliance studies to limit the diversion of resources from operational priorities. Accordingly, this initiative requests FTE in the following divisions; 68 in LMSB, 208 in SB/SE, 87 in Tax-Exempt/Government Entities (TEGE) and an additional 30 in support divisions.

## **Expected Benefits**

Improved quality of research data will allow the IRS to spend a smaller proportion of its resources auditing taxpayers who are already compliant with the law. This initiative improves the fairness of the tax system and voluntary taxpayer compliance, reduces the burden on compliant taxpayers, and increases revenue to reduce the tax gap. The audits associated with these studies will generate \$16 million in additional annual enforcement revenue once new hires reach full potential in FY 2011.

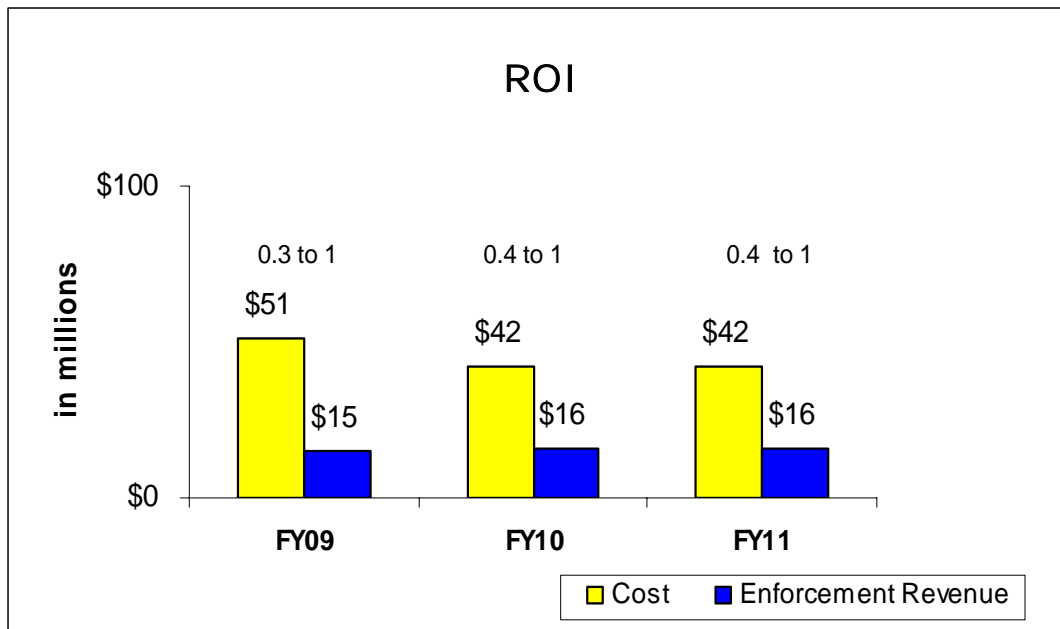
The initiative focuses on three measures (filing, payment, and reporting compliance) to provide a comprehensive picture of the overall level of compliance. The measures will provide benchmarks against which the IRS can evaluate the effectiveness of programs designed to improve taxpayer compliance with the tax code.

The data captured during the studies will enable the IRS to develop strategies to combat specific areas of non-compliance, improve voluntary compliance, allocate resources more effectively, respond to new sources of non-compliance as they emerge, and reduce the tax gap. The IRS needs estimates of non-compliance for all of the major taxes and groups of taxpayers in order to effectively deploy resources.

Moreover, since patterns of non-compliance in the population change over time, the IRS requires updated estimates of taxpayer compliance. With up-to-date studies, the IRS will be able to respond rapidly to trends and emerging vulnerabilities in the tax system. The initiative also benefits compliant taxpayers by using reporting compliance studies to improve workload selection formulas.

## **Return on Investment (ROI)**

The ROI for this initiative will generate \$15.9 million in additional annual enforcement revenue once the new hires reach full potential in FY 2011 (see chart below).



Increase Reporting Compliance of U.S. Taxpayers with Offshore Activity  
+\$13,697,000 / +124 FTE

### Initiative Summary

This initiative provides for an increase of \$13.7 million and 124 FTE to address domestic taxpayer offshore activities. Abusive tax schemes, reporting of flow-through income, and high-income individuals are prime channels or candidates of opportunity for tax avoidance. Abusive offshore tax schemes involve the use of foreign jurisdictions that enacted financial secrecy laws in an effort to attract investments from outside their borders. Domestic promotions lure taxpayers with the promise of illegitimate tax benefits that do not conform to current law and are marketed as devices that reduce, eliminate, or help evade income, self-employment, employment, estate, gift, and/or excise taxes.

One of the most difficult tasks the IRS encounters in addressing offshore compliance is identifying individual taxpayers who are involved in offshore arrangements. Offshore arrangements may be designed to conceal the identity of the taxpayers and to shield their ownership of assets and income from detection. The process used by IRS to identify taxpayers involved in offshore arrangements is known as “following the money”. Below are four basic components to an offshore abusive arrangement:

- Devise an overall offshore plan (the Promoter/Promotion);
- Covertly transfer funds and assets offshore (Expatriation);
- Control the funds and assets transferred offshore (Control/Ownership); and
- Access the offshore funds (Repatriation).

## **Implementation Plan**

Financial privacy laws in certain foreign jurisdictions pose a significant hurdle in IRS efforts to battle offshore abusive tax shelters. These jurisdictions deliberately attract foreign business with government policies including enacting incentives that minimize or mitigate tax, “business friendly” regulatory/supervisory regimes such as exchange controls, disclosure requirements, and secrecy enforced by law.

The legal framework of these jurisdictions makes them unique. In addition, these jurisdictions enable banks, trust companies, company incorporators, other financial intermediaries, and financial advisors resident in that jurisdiction to provide products and services to non-residents in their home countries. The IRS is particularly concerned about offshore secrecy jurisdictions that:

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

A few offshore secrecy jurisdictions have Tax Information Exchange Agreements (TIEAs) 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 United States is able to secure information about a taxpayer, the TIEAs do not provide for assistance with the collection of U.S. taxes from foreign-based assets.

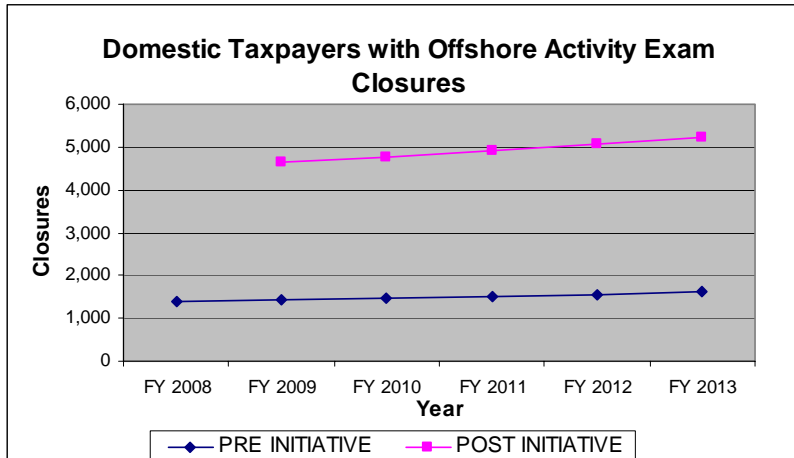
To take advantage of TIEA while addressing offshore activities, the IRS plans to establish five new domestic taxpayer offshore activity groups to fill gaps in geographic areas. The additional specially-trained RAs will uncover use of offshore credit cards, disguised corporate ownership, and brokering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

## **Other Direct Costs**

Of the 124 FTE, this initiative has 10 FTE for support cost. The IRS Appeals division (\$0.5 million and 4 FTE) will process the additional anticipated exam cases that will be referred and accommodate the increased time that will be required to resolve these cases. The IRS Office of Chief Counsel (\$0.8 million and 6 FTE) will provide legal advice and assistance in the area of investigating taxpayers with financial dealings in offshore secrecy jurisdictions.

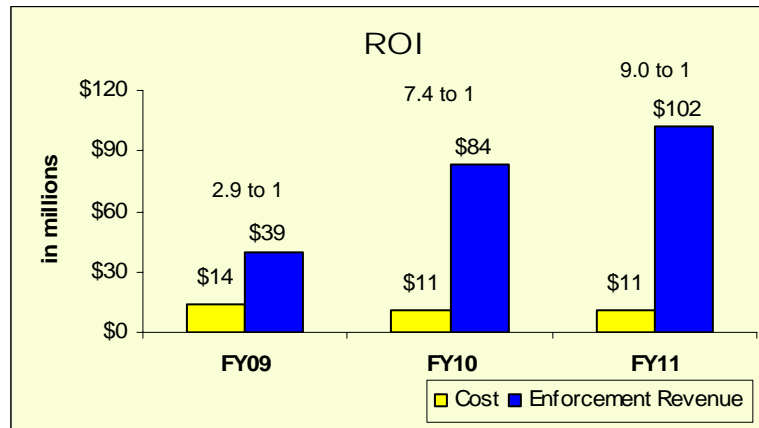
## Expected Benefits

The additional FTE will generate in the first year an estimated 3,200 additional examinations of taxpayers who use offshore activities to hide, conceal, defer, or obscure assets and taxable income.



## Return on Investment (ROI)

This request will generate approximately \$39 million in additional resources in the first year and \$101.9 million in additional annual enforcement revenue once the new hires reach full potential in FY 2011 (see chart below).



## Expand Document Matching

+\$35,060,000 / +413 FTE

### **Initiative Summary**

This initiative requests \$35.1 million to increase the coverage of the IRS Automated Underreporter (AUR) program in order to reduce the number of non-compliant taxpayers who misreport their income. Increased document matching of small business/self-employed and individual taxpayer account information identifies taxpayers who underreport their income and minimizes revenue loss. This initiative will generate \$359 million in additional annual enforcement revenue once the new hires reach full potential in FY 2011.

### **Implementation Plan**

The objective of the AUR program is to minimize revenue loss through document matching of taxpayer account information. The IRS commitment to maintaining a robust AUR program is demonstrated by a commitment to increasing enforcement results and is reflected in targets for the long-term goals and corresponding performance targets.

About 6.9 million small business taxpayers may currently misreport their income based on third party information returns. Of those, the small business AUR program processes approximately 2.2 million taxpayer cases, leaving an unaddressed gap of 4.7 million taxpayers.

The number of individual taxpayers who may annually misreport their income is about 5.1 million based on third party information returns. The AUR program currently processes about 2.3 million taxpayer cases, leaving an unaddressed gap of 2.8 million taxpayers.

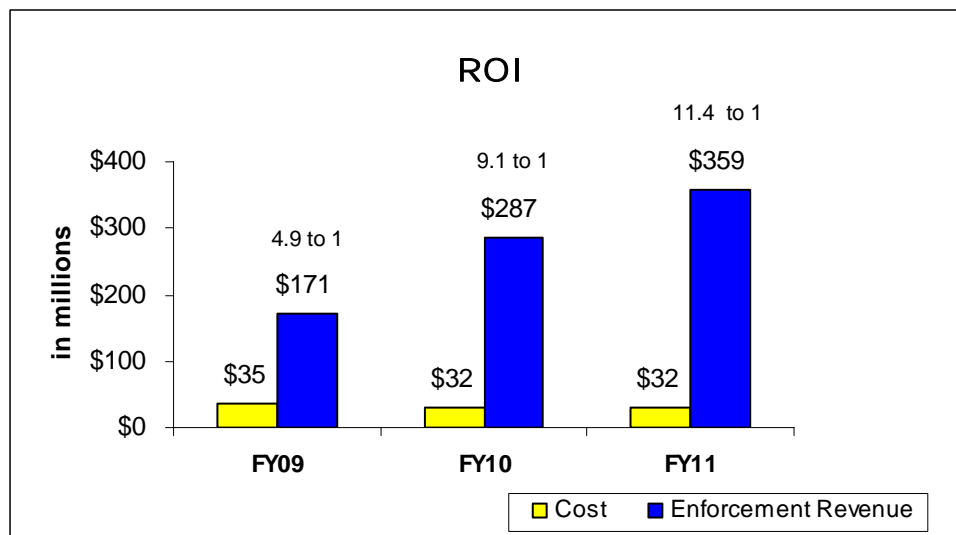
The additional resources will increase the number of SB/SE AUR closures from 1.7 million in FY 2009 to 1.8 million in FY 2011 and individual AUR closures from 2.1 million in FY 2009 to 2.4 million in FY 2011.

### **Other Direct Costs**

The IRS Appeals division (\$2.1 million and 14 FTE) will process additional cases that will be referred by the AUR document matching program.

### **Expected Benefits**

The AUR program has one of the highest returns on investment ratios of all compliance programs. By 2011, the return on investment is expected to reach 11.4 to 1. This initiative will generate \$358.6 million in additional annual enforcement revenue once the new hires reach full potential in FY 2011.



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

Implement Legislative Proposals to Improve Compliance

+\$23,045,000 / 0 FTE

**Initiative Summary**

This initiative provides an increase of \$23 million to implement several legislative proposals that are intended to provide the IRS with additional enforcement tools to improve compliance with minimum taxpayer burden. These tools would supplement the IRS ongoing efforts to address compliance problems by improving customer service and using traditional methods of enforcement. These proposals would expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties. This enforcement initiative includes funding for purchasing software and making modifications to the IRS IT systems necessary to implement these legislative proposals.

**Implementation Plan**

Although the Budget includes sixteen proposals, additional information is provided below only for those proposals that will require funding to implement in FY 2009.

*Information Reporting on Merchant Payment Card Reimbursements:*

Underreported business income among members of the SB/SE community accounts for a significant portion of the individual income tax gap. Businesses often receive payments for goods or services via a consumer’s payment card, but subsequently fail to report the



income from these transactions on the business' federal income tax return. These underreported transactions add up to be significant contributors to the tax gap.

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

The IRS anticipates that this proposal will help reduce the tax gap in three ways. First, businesses would benefit from having an annual summary of credit card payments, which they could compare with their own records (much as individuals benefit from receiving a confirmation from their bank as to how much interest they earned during the year). Second, businesses that might otherwise be inclined to underreport their income might reconsider, knowing the IRS has a means to validate the gross income reported on their federal tax returns. Third, businesses that continue to abrogate their responsibilities as taxpayers (e.g., by not filing returns, or understating their income) would be more easily identified, so that appropriate enforcement action could be taken.

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

*Information Reporting on Certain Government Payments:*

One of the most high-profile components of the tax gap relates to the failure of some government vendors and contractors to meet their tax filing and payment obligations. Under present law, the federal government has broad authority to levy federal payments made to vendors of goods and services. The proposal would authorize the implementation of regulations requiring information reporting and backup withholding on all non-wage payments by federal, state, and local governments to procure property and services.

As part of the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA), enacted on May 17, 2006, Congress enacted a provision requiring 3 percent withholding on certain government vendor payments. This provision is broader than the Administration's proposal in that it requires information reporting and immediate withholding on government payments, rather than information reporting and backup withholding. The TIPRA provision applies only to payments made after December 31, 2010, whereas the Administration's proposal would be effective for payments made on or after January 1, 2009.

The IRS anticipates receiving an additional 89 to 177 million information returns as a result of the new reporting requirements. The costs associated with implementation of this program are for reprogramming affected information technology systems. Once

these initial costs have been incurred, subsequent costs will decrease as processing, transcription, and matching activities will occur largely within existing workgroups.

*Information Reporting on Payments to Corporations:*

The National Research Program and earlier compliance studies have consistently shown that misreporting of individual income and offsets to income is significantly reduced where there is substantial third-party information reporting. This is likely to be true for corporations, as well. Under current law, businesses are not required to issue Forms 1099 for services provided by corporations.

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

*Basis Reporting on Security Sales:*

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

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

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

*Increase Information Return Penalties:*

The IRS currently asserts a penalty for failure to file a correct information return. The current penalty amount of \$50 (or \$100 for intentional disregard), with a calendar year cap of \$250,000 for each filer, provides little incentive to increase compliance. This proposal will enhance compliance in this area by increasing the penalty amount and the cap to increase the cost of doing business for perpetual offenders. The penalty will be increased to \$100 (or \$250 for intentional disregard) for each unfiled return. The cap will be increased to \$1,500,000 unless the failure is due to intentional disregard of a filing requirement, in which case there will continue to be no calendar year limit. For certain small filers whose average annual gross receipts do not exceed \$5,000,000, the cap will be increased from \$100,000 to \$500,000.

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

*Expand IRS Access to Information in the NDNH Database:*

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

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

**Expected Benefits**

This initiative supports the tax gap strategy outlined in the IRS report, *Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance*, that was published August 2007. Implementation of these legislative proposals will improve compliance without imposing undue burdens on honest taxpayers and supports the first component of this strategy: Reduce Opportunities for Evasion. Collectively, the Department of the Treasury estimates that these 16 legislative proposals will generate about \$36 billion over the next ten years.

## 2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Internal Revenue Service	FY 2007 Enacted <sup>1</sup>	FY 2008 President's Budget	Cong. Action including Rescission	FY 2008 Enacted Level	FY 2009 Requested Level
<b>FTE</b>	93,088	93,486	(2,363)	91,123	92,923
<b>Object Classification:</b>					
11.1 Full-Time Permanent Positions.....	\$5,304,177	\$5,614,374	(\$128,957)	\$5,485,417	\$5,711,664
11.3 Other than Full-Time Permanent Positions.....	417,819	428,545	(44)	428,501	433,088
11.5 Other Personnel Compensation.....	248,846	327,366	(66,813)	260,553	272,744
11.8 Special Personal Services Payments.....	17,494	17,499	(231)	17,268	17,726
<b>11.9 Personnel Compensation (Total).....</b>	<b>\$5,988,336</b>	<b>\$6,387,784</b>	<b>(\$196,045)</b>	<b>\$6,191,739</b>	<b>\$6,435,222</b>
12.0 Personnel Benefits.....	1,612,921	1,581,334	(42,560)	1,538,774	1,624,404
13.0 Benefits to Former Personnel.....	56,090	55,096	1,695	56,791	53,839
21.0 Travel.....	203,612	209,176	1,412	210,588	250,003
22.0 Transportation of Things.....	86,873	30,060	3,473	33,533	34,702
23.1 Rental Payments to GSA.....	629,076	649,631	(20,674)	628,957	653,829
23.2 Rent Payments to Others.....	4,371	388	112	500	510
23.3 Communications, Utilities, & Misc.....	359,054	373,331	(543)	372,788	414,628
24.0 Printing and Reproduction.....	70,745	67,279	1,024	68,303	69,333
25.1 Advisory & Assistance Services.....	91,069	69,895	77,077	146,972	150,077
25.2 Other Services.....	696,411	771,946	(45,767)	726,179	720,388
25.3 Purchase of Goods/Serv. from Govt. Accts.....	163,583	98,909	2,554	101,463	104,981
25.4 Operation & Maintenance of Facilities.....	159,992	170,953	(2,124)	168,829	181,503
25.5 Research & Development Contracts.....	5,863	8,177	(699)	7,478	7,620
25.6 Medical Care.....	10,025	10,245	0	10,245	10,764
25.7 Operation & Maintenance of Equipment.....	70,993	82,712	(5,374)	77,338	79,745
25.8 Subsistence & Support of Persons.....	4,486	5,022	1,837	6,859	6,910
26.0 Supplies and Materials.....	55,414	62,658	7,920	70,578	73,384
31.0 Equipment.....	251,195	388,237	7,005	395,242	423,039
32.0 Lands and Structures.....	54,259	55,132	(3,306)	51,826	48,139
33.0 Investments & Loans.....	0	0	0	0	0
41.0 Grants, Subsidies.....	12,108	12,569	9,000	21,569	12,502
42.0 Insurance Claims & Indemn.....	5,294	1,033	12	1,045	1,114
43.0 Interest and Dividends.....	0	0	0	0	0
44.0 Refunds.....	0	0	0	0	0
91.0 Unvouchered.....	5,295	3,932	856	4,788	4,873
<b>Total Budget Authority.....</b>	<b>\$10,597,065</b>	<b>\$11,095,499</b>	<b>(\$203,115)</b>	<b>\$10,892,384</b>	<b>\$11,361,509</b>
<b>Appropriations:</b>					
Taxpayer Services.....	\$2,138,238	\$2,103,089	\$46,911	\$2,150,000	\$2,150,000
Enforcement.....	4,686,477	4,925,498	(145,498)	4,780,000	5,117,267
Operations Support.....	3,544,835	3,769,587	(89,528)	3,680,059	3,856,172
Business Systems Modernization.....	212,659	282,090	(15,000)	267,090	222,664
Health Insurance Tax Credit Administration.....	14,856	15,235	0	15,235	15,406
<b>Total Budget Authority.....</b>	<b>\$10,597,065</b>	<b>\$11,095,499</b>	<b>(\$203,115)</b>	<b>\$10,892,384</b>	<b>\$11,361,509</b>

<sup>1</sup> FY 2007 Enacted represents the approved FY 2007 Operating Plan.

## 2.3 – Appropriation Detail Table

Dollars in Thousands

Internal Revenue Service										
Resources Available for Obligation	FY 2007 Obligations		FY 2007 Enacted <sup>1</sup>		FY 2008 Enacted		FY 2009 Request		% Change FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>										
Taxpayer Services	31,908	2,133,464	31,557	\$2,138,238	31,218	\$2,150,000	30,792	\$2,150,000	-1.36%	0.00%
Enforcement	47,842	4,652,556	48,307	4,686,477	47,349	4,780,000	49,792	5,117,267	5.16%	7.06%
Operations Support	11,904	3,514,581	12,890	3,544,835	12,181	3,680,059	11,989	3,856,172	-1.58%	4.79%
Business Systems Modernization	353	158,758	317	212,659	358	267,090	333	222,664	-6.98%	-16.63%
Health Insurance Tax Credit Administration	10	14,850	17	14,856	17	15,235	16	15,406	-5.88%	-1.12%
<b>Subtotal New Appropriated Resources</b>	<b>92,017</b>	<b>\$10,474,209</b>	<b>93,088</b>	<b>\$10,597,065</b>	<b>91,123</b>	<b>\$10,892,384</b>	<b>92,922</b>	<b>\$11,361,509</b>	<b>1.97%</b>	<b>4.31%</b>
<b>Other Resources:</b>										
Recoveries	0	4,082	0	4,082	0	0	0	0	0.00%	0.00%
Offsetting Collections - Reimbursable	698	90,160	598	90,160	623	104,898	650	107,904	4.33%	2.87%
Available multi-year/no-year funds	0	148,686	0	148,686	0	158,893	0	151,110	0.00%	-4.90%
50% Carryover	0	43,358	0	43,358	0	0	0	0	0.00%	0.00%
Transfers In/Out	0	4,552	0	4,552	0	0	0	0	0.00%	0.00%
Mandatory Appropriations - User Fees	0	136,789	0	136,789	0	258,372	0	177,655	0.00%	-31.24%
<b>Subtotal Other Resources</b>	<b>698</b>	<b>\$427,627</b>	<b>598</b>	<b>\$427,627</b>	<b>623</b>	<b>\$522,163</b>	<b>650</b>	<b>\$436,669</b>	<b>4.33%</b>	<b>-16.37%</b>
<b>Total Resources Available for Obligation</b>	<b>92,715</b>	<b>\$10,901,836</b>	<b>93,686</b>	<b>\$11,024,692</b>	<b>91,746</b>	<b>\$11,414,547</b>	<b>93,572</b>	<b>\$11,798,178</b>	<b>1.99%</b>	<b>3.36%</b>

**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><b>TAXPAYER SERVICES:</b></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, \$2,150,000,000, of which [not less than \$3,000,000] <i>up to \$4,100,000</i> shall be for the Tax Counseling for the Elderly Program, of which [not less than \$9,000,000] <i>\$8,000,000</i> shall be available for low-income taxpayer clinic grants[, of which not less than \$8,000,000, to remain available until September 30, 2009, shall be available to establish and administer a Community Volunteer Income Tax Assistance matching grants demonstration program for tax return preparation assistance, and of which not less than \$177,000,000 shall be available for operating expenses of the Taxpayer Advocate Service]. (<i>Department of the Treasury Appropriations Act, 2008.</i>)</p> <p><b>ENFORCEMENT:</b> (including transfer of funds)</p> <p>For necessary expenses of the Internal Revenue Service to determine and collect owed taxes, to provide legal and litigation support, to conduct criminal investigations, to enforce criminal statutes related to violations of internal revenue laws and other financial crimes, [to] <i>for the</i> purchase (for police-type use, not to exceed 850) and hire of 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, [\$4,780,000,000] <i>\$5,117,267,000</i>, of which not less than \$57,252,000 shall be for the Interagency Crime and Drug Enforcement program: <i>Provided</i>, That up to \$10,000,000 may be transferred as necessary from this account to the Internal Revenue Service, “Operations</p>	<p>Deleted language for VITA and the Taxpayer Advocate Service consistent with the IRS 2009 Budget request.</p>

Support” [appropriations] 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. (*Department of the Treasury Appropriations Act, 2008.*)

**OPERATIONS SUPPORT:**

For necessary expenses of the Internal Revenue Service to[operate and] 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;

[\$3,680,059,000]**\$3,856,172,000**, of which *up to* \$75,000,000 shall remain available until September 30, [2009]**2010**, for information technology support; of which not to exceed \$1,000,000 shall remain available until September 30, [2010]**2011**, for research; of which not [less than \$2,000,000] *to exceed* **\$1,600,000** shall be for the Internal Revenue Service Oversight Board; and of which not to exceed \$25,000 shall be for official reception and representation. (*Department of the Treasury Appropriations Act, 2008.*)

**BUSINESS SYSTEMS MODERNIZATION:**

For necessary expenses of the Internal Revenue Service’s business systems modernization program, [\$267,090,000]**\$222,664,000**, to remain available until September 30, [2010]**2011**, 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

Adding the “up to” language allows additional flexibility to determine late in the year which projects may require a second year for obligation.

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 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, 2008.*)

**HEALTH INSURANCE TAX CREDIT ADMINISTRATION:**

For expenses necessary to implement the health insurance tax credit included in the Trade Act of 2002 (Public Law 107-210), [\$15,235,000]*\$15,406,000.* (*Department of the Treasury Appropriations Act, 2008.*)

**ADMINISTRATIVE PROVISIONS:**

(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

Sec. 104 The IRS has sustained a level of service of 82 percent for the last three years and believes this provision is no



<p>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.]</p> <p>[Sec. 105. Section 9503(a) of title 5, United States Code, is amended by striking “for a period of 10 years after the date of enactment of this section” and inserting “before July 23, 2013”.]</p> <p>[Sec. 106. Sections 9504(a) and (b), and 9505(a) of title 5, United States Code, are amended by striking “For a period of 10 years after the date of enactment of this section” each place it occurs and inserting “Before July 23, 2013”.]</p> <p>[Sec. 107. Section 9502(a) of title 5, United States Code, is amended by striking “Office of Management and Budget” and inserting “Office of Personnel Management”.]</p> <p>[Sec. 108. Of the funds made available by this Act for the Internal Revenue Service, not less than \$7,350,000 shall be available for increasing above fiscal year 2007 levels the number of full-time equivalent positions and related support activities performing Automated Collection System functions.]</p> <p><i>Sec. 104. Of the funds made available by this Act to the Internal Revenue Service, not less than \$6,997,226,000 shall be available only for tax enforcement and related support activities funded in Internal Revenue Service, "Enforcement" and "Operations Support" accounts. In addition, of the funds made available by this Act to the Internal Revenue Service, and subject to the same terms and conditions, an additional \$489,983,000 shall be available for enhanced tax enforcement and related support activities: Provided, that not to exceed 1 percent of the funds made available by this Act to the Internal Revenue Service "Operations Support" account, for tax enforcement related support activities, may be transferred to taxpayer service related support activities upon advance notification of the Committees on Appropriations. (Department of the Treasury Appropriations Act, 2008.)</i></p>	<p>longer necessary.</p> <p>Sec. 105 through Sec. 107 extended IRS critical pay authority through 2013 and are not needed in the 2009 appropriation bill.</p> <p>Sec. 108 The funding for the Automated Collection System functions is included in the base of the IRS 2009 Budget request.</p> <p>As in the past three budget requests, the Administration proposes to include these enforcement increases as a Budget Enforcement Act program integrity cap adjustment.</p> <p>The IRS allocates Operations Support funding (e.g., rent, telecommunications, information technology) to the Taxpayer Service and Enforcement programs based on a cost allocation methodology. In many cases the IRS must move money between support activities during budget execution (e.g., from facilities to postage). This language will provide the IRS with flexibility to transfer up to one percent of</p>
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	<p>enforcement related operations support funds to taxpayer service related support activities. This will allow greater flexibility in execution without reducing front line enforcement effort.</p>
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## 2C – Legislative Proposals

The FY 2009 President's Budget includes a number of legislative proposals intended to improve tax compliance with minimum taxpayer burden. These proposals will generate about \$36 billion over the next ten years. The Administration proposes to expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties.

- *Expand information reporting* – Compliance with the tax laws is highest when payments are subject to information reporting to the IRS. Specific information reporting proposals would:
  - 1) require information reporting on payments to corporations;
  - 2) require basis reporting on security sales;
  - 3) require information reporting on merchant payment card reimbursements;
  - 4) require a certified Taxpayer Identification Number (TIN) from contractors;
  - 5) require increased information reporting on certain government payments;
  - 6) increase information return penalties; and
  - 7) improve the foreign trust reporting penalty.
  
- *Improve compliance by businesses* – Improving compliance by businesses of all sizes is important. Specific proposals to improve compliance by businesses would:
  - 1) require electronic filing by certain large organizations; and
  - 2) 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:
  - 1) expand IRS access to information in the National Directory of New Hires for tax administration purposes;
  - 2) permit disclosure of prison tax scams;
  - 3) make repeated willful failure to file a tax return a felony;
  - 4) facilitate tax compliance with local jurisdictions;
  - 5) extend statutes of limitations where state tax adjustments affect federal tax liability; and
  - 6) improve the investigative disclosure statute.

- *Expand penalties* – Penalties play an important role in discouraging intentional non-compliance. A specific proposal to expand penalties would:

- 1) impose a penalty on failure to comply with electronic filing requirements.

### **Improve Tax Administration and Other Miscellaneous Proposals**

The Administration has put forward additional proposals relating to IRS administrative reforms. Five of these proposals are highlighted below:

The first proposal modifies employee infractions subject to mandatory termination and permits a broader range of available penalties. It strengthens taxpayer privacy while reducing employee anxiety resulting from unduly harsh discipline or unfounded allegations.

The second proposal allows the IRS to terminate installment agreements when taxpayers fail to make timely tax deposits and file tax returns on current liabilities.

The third proposal eliminates the requirement that the IRS Chief Counsel provide an opinion for any accepted offer-in-compromise of unpaid tax (including interest and penalties) equal to or exceeding \$50,000. This proposal requires that the Secretary of Treasury establish standards to determine when an opinion is appropriate.

The fourth proposal extends the IRS authority to use the proceeds received from undercover operations through December 31, 2012. The IRS was authorized to use proceeds received from undercover operations to offset necessary and reasonable expenses incurred in such operations. The IRS authority to use proceeds from undercover operations expired on December 31, 2007.

The fifth proposal equalizes penalty standards between tax return preparers and taxpayers, reducing unnecessary conflicts of interest between them. The standard applicable to tax return preparers for disclosed positions would be reasonable basis, but for certain reportable transactions with a significant purpose of tax avoidance, the existing standard would persist, i.e., the preparer should have a reasonable belief that the position, more likely than not, would be sustained on the merits.

## **Section 3 – Budget and Performance Plan**

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### **Taxpayer Services**

#### **Appropriation Description**

The Taxpayer Services appropriation provides funding for taxpayer service activities and programs including: forms and publications; processing tax returns and related documents; filing and account services; taxpayer advocacy services; and taxpayer assistance.

The Taxpayer Services Budget request for FY 2009 is \$2,150,000,000 in direct appropriations and 30,792 FTE. The FY 2009 funding for the direct appropriation maintains the FY 2008 enacted level and is an increase of 426 FTE over the FY 2008 level of 31,218 FTE.

## 2.1 – Budget Adjustments Table

Dollars in Thousands

	FTE	\$000
<b>FY 2008 Enacted</b>	<b>31,218</b>	<b>\$2,150,000</b>
<b>Changes to Base:</b>		
<b>Maintaining Current Levels</b>		<b>\$54,726</b>
Pay Annualization		14,435
Pay Inflation Adjustment		38,823
Non-Pay Inflation Adjustment		1,468
<b>Efficiencies/Savings</b>	<b>(207)</b>	<b>(\$14,969)</b>
Increase e-File Savings	(207)	(8,996)
Non-Recur Savings		(5,973)
<b>Base Reinvestments</b>	<b>30</b>	<b>\$4,463</b>
Increase Efficiency through Submission Processing Consolidations		2,006
Address Correspondence Inventory	30	2,457
<b>Subtotal Changes to Base</b>	<b>(177)</b>	<b>\$44,220</b>
<b>Total FY 2009 Base - Current Services</b>	<b>31,041</b>	<b>\$2,194,220</b>
<b>Program Changes:</b>		
<b>Program Decreases:</b>	<b>(287)</b>	<b>(\$46,911)</b>
Taxpayer Assistance Centers and Outreach	(262)	(31,200)
Taxpayer Advocate Service	(25)	(7,711)
Volunteer Income Tax Assistance Grants Program		(8,000)
<b>Program Increases - Enforcement Initiatives</b>	<b>38</b>	<b>\$2,691</b>
Reduce the Tax Gap for Small Business / Self-Employed	38	2,691
<b>Subtotal FY 2009 Program Changes</b>	<b>(249)</b>	<b>(\$44,220)</b>
<b>Total FY 2009 Request</b>	<b>30,792</b>	<b>\$2,150,000</b>

## 2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Taxpayer Services	FY 2007 Enacted <sup>1</sup>	FY 2008 President's Budget	Cong. Action including Rescission	FY 2008 Enacted Level	FY 2009 Requested Level
<b>FTE</b>	<b>31,557</b>	<b>31,120</b>	<b>98</b>	<b>31,218</b>	<b>30,792</b>
<b>Object Classification:</b>					
11.1 Full-Time Permanent Positions.....	\$1,134,191	\$1,176,433	\$30,700	\$1,207,133	\$1,206,453
11.3 Other than Full-Time Permanent Positions.....	320,431	319,641	(502)	319,139	320,840
11.5 Other Personnel Compensation.....	76,769	86,714	(4,347)	82,367	84,003
11.8 Special Personal Services Payments.....	0	0	\$0	\$0	\$0
<b>11.9 Personnel Compensation (Total).....</b>	<b>\$1,531,391</b>	<b>\$1,582,788</b>	<b>\$25,851</b>	<b>\$1,608,639</b>	<b>\$1,611,296</b>
12.0 Personnel Benefits.....	391,036	328,643	(22,077)	306,566	318,294
13.0 Benefits to Former Personnel.....	3,441	3,243	5,968	9,211	5,307
21.0 Travel.....	29,847	28,724	2,690	31,414	28,866
22.0 Transportation of Things.....	4,548	4,405	2,056	6,461	6,501
23.1 Rental Payments to GSA.....	0	0	0	0	0
23.2 Rent Payments to Others.....	46	0	44	44	45
23.3 Communications, Utilities, & Misc.....	4,073	4,982	(398)	4,584	4,612
24.0 Printing and Reproduction.....	9,827	8,124	1,017	9,141	8,948
25.1 Advisory & Assistance Services.....	18,862	4,374	19,952	24,326	24,477
25.2 Other Services.....	43,869	99,774	(225)	99,549	100,428
25.3 Purchase of Goods/Serv. from Govt. Accts.....	65,927	11,459	2,863	14,322	14,409
25.4 Operation & Maintenance of Facilities.....	71	94	0	94	94
25.5 Research & Development Contracts.....	0	0	0	0	0
25.6 Medical Care.....	0	0	0	0	0
25.7 Operation & Maintenance of Equipment.....	8,121	667	0	667	671
25.8 Subsistence & Support of Persons.....	1,456	1,455	120	1,575	1,485
26.0 Supplies and Materials.....	12,662	11,527	50	11,577	11,601
31.0 Equipment.....	827	567	0	567	570
32.0 Lands and Structures.....	13	0	0	0	0
33.0 Investments & Loans.....	0	0	0	0	0
41.0 Grants, Subsidies.....	11,950	12,232	9,000	21,232	12,315
42.0 Insurance Claims & Indemn.....	271	31	0	31	81
43.0 Interest and Dividends.....	0	0	0	0	0
44.0 Refunds.....	0	0	0	0	0
91.0 Unvouchered.....	0	0	0	0	0
<b>Total Budget Authority.....</b>	<b>\$2,138,238</b>	<b>\$2,103,089</b>	<b>\$46,911</b>	<b>\$2,150,000</b>	<b>\$2,150,000</b>
<b>Budget Activities:</b>					
Pre-filing Taxpayer Assistance & Education.....	\$576,537	\$589,882	\$55,493	\$645,375	\$617,326
Filing & Account Services.....	1,561,701	1,513,207	(8,582)	1,504,625	1,532,674
<b>Total Budget Authority.....</b>	<b>\$2,138,238</b>	<b>\$2,103,089</b>	<b>\$46,911</b>	<b>\$2,150,000</b>	<b>\$2,150,000</b>

<sup>1</sup> FY 2007 Enacted represents the approved FY 2007 Operating Plan.

## 2.3 – Appropriation Detail Table

Dollars in Thousands

Taxpayer Services										
Resources Available for Obligation	FY 2007 Obligations		FY 2007 Enacted <sup>1</sup>		FY 2008 Enacted		FY 2009 Request		% Change FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Pre-Filing Taxpayer Assistance and Education	5,626	\$573,685	6,091	\$576,537	6,313	\$645,375	6,063	\$617,326	-3.96%	-4.35%
Filing and Account Services	26,282	1,559,779	25,466	1,561,701	24,905	1,504,625	24,729	1,532,674	-0.71%	1.86%
<b>Subtotal New Appropriated Resources</b>	<b>31,908</b>	<b>\$2,133,464</b>	<b>31,557</b>	<b>\$2,138,238</b>	<b>31,218</b>	<b>\$2,150,000</b>	<b>30,792</b>	<b>\$2,150,000</b>	<b>-1.36%</b>	<b>0.00%</b>
Other Resources:										
Recoveries		275		275						
Offsetting Collections - Reimbursable	310	20,924	314	20,924	327	21,715	341	22,454	4.28%	3.40%
Available multi-year/no-year funds		15,866		15,866		6,286		6,286	0.00%	0.00%
50% Carryover		27,924		27,924						
Transfers In/Out										
Mandatory Appropriations - User Fees		64,659		64,659		95,750		126,950	0.00%	32.58%
<b>Subtotal Other Resources</b>	<b>310</b>	<b>\$129,648</b>	<b>314</b>	<b>\$129,648</b>	<b>327</b>	<b>\$123,751</b>	<b>341</b>	<b>\$155,690</b>	<b>4.28%</b>	<b>25.81%</b>
<b>Total Resources Available for Obligation</b>	<b>32,218</b>	<b>\$2,263,112</b>	<b>31,871</b>	<b>\$2,267,886</b>	<b>31,545</b>	<b>\$2,273,751</b>	<b>31,133</b>	<b>\$2,305,690</b>	<b>-1.31%</b>	<b>1.40%</b>

**3A – Pre-Filing Taxpayer Assistance and Education** (\$617,326,000 in direct appropriation, and \$905,000 from reimbursable programs): 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, web sites, 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' disputes on tax returns 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 2007 Enacted <sup>1</sup>	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	\$559,249	\$573,685	\$576,537	\$645,375	\$617,326
Reimbursable Resources	1,038	843	843	877	905
Mandatory Appropriations - User Fees		1,201	1,201	0	0
<b>Total Resources</b>	<b>\$560,287</b>	<b>\$574,528</b>	<b>\$578,581</b>	<b>\$646,252</b>	<b>\$618,231</b>

<sup>1</sup> FY 2007 Enacted represents the approved FY 2007 Operating Plan.

Pre-Filing Taxpayer Assistance & Education Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2007 Target	FY 2008 Target	FY 2009 Target
Timeliness of Critical Filing Season Tax Products to the Public (O)	91.4%	83.0%	83.5%	85.2%	86.0%	86.0%
Timeliness of Critical Other Tax Products to the Public (O)	80.0%	61.2%	84.0%	79.6%	86.0%	86.0%
Taxpayer Self Assistance Rate (E) (L)	42.5%	46.8%	49.5%	48.6%	51.5%	52.5%
Percent of Eligible Taxpayers Who File for EITC (Oe)	80.0%	*	*	75%-85%	75%-80%	75%-80%

Key: Oe - Outcome Measure, E - Efficiency Measure, OI - 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 simplifying the tax process are key objectives under the IRS strategic goal to improve taxpayer service. Helping taxpayers understand their tax reporting and payment obligations remains a vital part of maintaining public confidence in administering the tax laws. The IRS continued to expand its outreach by relying on partner organizations such as state taxing authorities and volunteer groups, such as Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly, to help serve taxpayer needs. The IRS also provided assistance to millions of taxpayers through toll-free call sites, the IRS.gov website and Taxpayer Assistance Centers (TACs).

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 our customers. By augmenting and opening these avenues of communication, the IRS is able to quickly identify and respond to emerging issues in tax compliance and to more efficiently provide education and outreach to a wider population of taxpayers to improve compliance.

To further address taxpayer needs, the IRS delivered two phases of the TAB to Congress and established a Taxpayer Services Program Management Office and IRS Services Committee to formalize integrated service investment decision-making. The TAB Phase 2 Report outlines a five-year plan for taxpayer service that will help the IRS enhance the services delivered to taxpayers and partners. The report contains performance metrics, service improvement initiatives, and an implementation strategy for

improving service investment decisions. It also outlines the future direction of IRS service delivery and identifies strategic challenges facing taxpayers and the IRS.

The report *Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance* identifies current tax gap activities and presents the steps being taken to reduce opportunities for tax evasion, leverage technology, and support legislative proposals to improve compliance. It provides an outreach approach to ensure all taxpayers understand their tax obligations and highlights the importance of having a multi-year research program to help the IRS understand both the scope of and reasons for non-compliance while reaffirming the need to minimize burden for compliant taxpayers.

These reports, combined with legislative changes and tax simplification, will provide the roadmap necessary to deliver on the important priorities of service and enforcement, and lead to improved compliance.

Despite late enactment of tax law changes in December 2006, over 83.5 percent (137 of 164) of the critical filing season tax products and 84 percent of critical other (business) tax products were delivered to the public on time in FY 2007. Over 1,000 tax product revisions were required. The Tax Relief and Health Care Act of 2006 (TRHCA) included the extension of several significant tax benefits. However, because TRHCA was enacted after the forms and publications for Tax Year 2006 were printed and distributed, the IRS was required to notify taxpayers how to modify their claims for the allowable benefits. In addition, all 401 TACs remained open and serviced over 7 million taxpayers.

The FY 2007 taxpayer self-assistance rate was 49.5 percent, higher than the FY 2007 target of 48.6 percent. This success is primarily attributed to the increased use of the “Where’s My Refund?” self-service internet application, which is up 30 percent (totaling 32.1 million taxpayers). The implementation of improvements to the IRS website, including the addition of a sales tax deduction calculator, 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 of providing all of its published products in electronic format.

Over 83,000 taxpayer returns requested the split refund option. The capability to split refunds in the 2007 filing season provided individual taxpayers with a new option of choosing direct deposit for depositing their tax refunds to different accounts. All taxpayers who filed using any of the 1040 series forms had the option to divide their refunds in up to three financial accounts including individual retirement accounts, over 500 college savings plans, savings bonds, or a variety of other accounts.

In FY 2007, the IRS also improved services for Earned Income Tax Credit (EITC) participants through the following actions:

- Developed a three-point plan expanding outreach initiatives and identified ways to simplify and improve forms and make IRS.gov more user friendly;
- Held an EITC Awareness Day, a nationwide media campaign to increase awareness of the EITC among eligible taxpayers, especially those with limited English proficiency;
- Developed outreach strategies and products to reach and increase participation among the underserved EITC populations, such as Hispanic and rural communities; and
- Increased partnerships with community-based organizations dedicated to assisting taxpayers with financial literacy, return preparation, and tax return filing, which increased IRS outreach by 15 percent and return preparation by 18 percent from FY 2006.

The IRS partners with organizations such as state taxing authorities and volunteer groups to serve taxpayer needs. Through its 11,922 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. In FY 2006, 69,000 volunteers filed approximately 2.3 million returns, a 7 percent increase over FY 2005. This trend continued in FY 2007, with 76,619 volunteers located at the sites preparing approximately 2.63 million returns, a 14 percent increase over FY 2006.

The IRS established 16 new Low Income Taxpayer Clinics (LITC) in rural areas to help taxpayers who cannot afford representation obtain competent assistance in meeting their obligations. LITCs reduce taxpayer uncertainty and errors by clarifying taxpayer rights and responsibilities, and through their outreach efforts, offer effective information and education. Existing procedures were also enhanced to secure translators for any taxpayer seeking assistance in a language other than English or Spanish.

In FY 2008, the IRS will continue improvements to better serve taxpayers. Efforts to increase electronic filing will continue, including adding new forms and schedules to the business electronic portfolio, leveraging partner organizations such as state taxing authorities, and increasing use of volunteers to better serve taxpayer needs.

**3A – Filing and Account Services** (*\$1,532,674,000 in direct appropriation, \$21,549,000 from reimbursable programs, and \$126,950,000 from user fees*): This budget activity funds programs that provide filing and account services to taxpayers, process paper and electronically submitted tax returns, issue refunds, and maintain taxpayer accounts. This includes the following program activities:

- *Filing and Account Services Management* administers filing and account services programs.

- *Submission Processing* processes paper and electronically-submitted tax returns and supplemental documents, accounts for tax revenues, and issues refunds and tax notices.
- *Account Management and Assistance* – Electronic Correspondence Assistance provides education and assistance to taxpayers through telephone, paper, and internet correspondence to resolve account and notice inquiries.
- *Electronic Tax Administration* markets and administers electronic tax administration products and services.
- *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 2007 Enacted <sup>1</sup>	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	\$1,568,209	\$1,559,779	\$1,561,701	\$1,504,625	\$1,532,674
Reimbursable Resources	24,242	20,081	20,081	20,838	21,549
Mandatory Appropriations - User Fees		63,458	63,458	95,750	126,950
<b>Total Resources</b>	<b>\$1,592,451</b>	<b>\$1,643,318</b>	<b>\$1,645,240</b>	<b>\$1,621,213</b>	<b>\$1,681,173</b>

<sup>1</sup> FY 2007 Enacted represents the approved FY 2007 Operating Plan.

Filing and Account Services Measures	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2007 Target	FY 2008 Target	FY 2009 Target
Percent Individual Returns Processed Electronically (Oe) (L)	51.1%	54.1%	57.1%	57.0%	61.8%	64.7%
Percent of Business Returns Processed Electronically (Oe) (L)	17.8%	16.6%	19.1%	19.5%	20.8%	22.8%
Customer Accuracy - Tax Law Phones (Ot)	89.0%	90.9%	91.2%	91.0%	91.0%	91.0%
Customer Accuracy - Customer Accounts (Phones) (Ot)	91.5%	93.2%	93.4%	93.3%	93.5%	93.7%
Customer Contacts Resolved per Staff year (E)	7,585	7,414	7,648	7,702	8,000	8,100
Customer Service Representative (CSR) Level of Service (Oe) (L)	82.6%	82.0%	82.1%	82.0%	82.0%	82.0%
Refund Timeliness - Individual (paper) (Ot)	99.2%	99.3%	98.9%	99.2%	98.4%	98.4%

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

### Description of Performance

The IRS delivered a successful 2007 filing season notwithstanding new challenges that included implementing the Telephone Excise Tax Refund (TETR, a one-time payment designed to refund long distance telephone taxes); introducing split refund capability, which provided taxpayers with more control over their refunds by allowing direct deposit of a refund to up to three financial accounts; and making the necessary changes to forms

and systems to accommodate late passage of provisions of the Tax Relief and Health Care Act of 2006. During the 2007 filing season, the IRS:

- Processed more than 139.7 million individual returns and issued more than 105.5 million refunds totaling \$261 billion;
- Maintained a telephone level of service of 82.1 percent while answering 33.2 million calls;
- Correctly responded to 91.2 percent of tax law questions and 93.4 percent of account questions received via the telephone;
- Served over 7 million taxpayers at 401 Taxpayer Assistance Centers; and
- Increased electronic filing:
  - Individual returns electronically filed reached 57.1 percent, up from 54.1 percent in 2006;
  - Business returns electronically filed reached 19.1 percent, up from 16.6 percent in 2006;
  - Home computer filing increased to 22.5 million returns, an 11 percent improvement over 2006; and
  - Tax professional use of e-file increased to 57.2 million returns or 10 percent over 2006.

In FY 2007, 3.9 million taxpayers used the Free File Alliance, the partnership between the IRS and a consortium of tax preparation software companies. In the same year, the IRS negotiated an amendment to the agreement with the Free File Alliance that removed ancillary products from the free-filing process. Qualified taxpayers were able to prepare and e-file their returns without the distraction of advertisements for various products. In addition, the IRS launched a Spanish Free File page with two companies providing tax preparation software in Spanish.

In FY 2007, the IRS also successfully delivered the TETR, a one-time credit available on federal income tax returns designed to refund previously collected long distance telephone taxes. The IRS integrated approach to educate and assist taxpayers included:

- Using regular IRS income tax processing channels and existing income tax forms by adding a line for TETR on every form;
- Developing a methodology for claiming the credit using a standard amount for individuals and an estimation formula for businesses;
- Reprogramming major filing systems to process the TETR credit with the filing of individual tax returns;
- Creating a new form for individuals without an income tax filing requirement to claim the credit; and
- Implementing an extensive communication strategy that focused on education, maximizing media reach, and publicizing compliance issues.

For the 2007 filing season, the IRS issued 22 news releases, eight “Tax Tips,” and messages included in over 4,000 articles related to taxes and tax filing. To further assist taxpayers and the practitioner community, the IRS launched a TETR web page on IRS.gov that was viewed by more than 4.5 million people.

Successful delivery of the integrated TETR approach enabled the filing of over 94 million 2006 federal income tax returns including TETR refund claims, which are more than \$4.81 billion in telephone excise tax refunds. In addition, the IRS prevented more than \$291 million in potential erroneous refunds with the aid of a return selection tool created specifically to catch questionable TETR requests. The comprehensive approach to administering this refund allowed the IRS to successfully meet taxpayer and stakeholder expectations.

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

The FY 2009 Budget request provides additional resources to increase efficiencies in submissions processing by continuing site consolidations and by increasing individual and business electronic filing.

## Enforcement

### Appropriation Description

The Enforcement appropriation funds the examination of tax returns, both domestic and international; administrative and judicial settlement of taxpayer appeals of examination findings; technical rulings; monitoring of employee pension plans; determination of qualifications of organizations seeking tax-exempt status; examination of tax returns of exempt organizations; enforcement of statutes relating to detection and investigation of criminal violations of the internal revenue laws; identification of underreporting of tax obligations; and the securing of unfiled tax returns and collecting unpaid accounts.

The Enforcement Budget request for FY 2009 is \$5,117,267,000 in direct appropriations and 49,792 FTE. This is an increase of \$337,267,000 or 7.1 percent and 2,443 FTE over the FY 2008 enacted level of \$4,780,000,000 and 47,349 FTE.

### 2.1 – Budget Adjustments Table

Dollars in Thousands

	FTE	\$000
<b>FY 2008 Enacted</b>	<b>47,349</b>	<b>\$4,780,000</b>
<b>Changes to Base:</b>		
<b>Maintaining Current Levels</b>		\$126,003
Pay Annualization		33,184
Pay Inflation Adjustment		87,006
Non-Pay Inflation Adjustment		5,813
<b>Transfers</b>		(\$1,000)
Transfer to FinCEN		(1,000)
<b>Efficiencies/Savings</b>	(538)	(\$48,762)
Efficiency Savings	(538)	(48,762)
<b>Subtotal Changes to Base</b>	<b>(538)</b>	<b>\$76,241</b>
<b>Total FY 2009 Base - Current Services</b>	<b>46,811</b>	<b>\$4,856,241</b>
<b>Program Changes:</b>		
<b>Program Increases - Enforcement Initiatives</b>	<b>2,981</b>	<b>\$261,026</b>
Reduce the Tax Gap for Small Business / Self-Employed	1,570	132,093
Reduce the Tax Gap for Large Businesses	515	57,009
Improve Tax Gap Estimates, Measurement, and Detection of Non-Compliance	359	35,473
Increase Reporting Compliance of U.S. Taxpayers with Offshore Activity	124	11,075
Expand Document Matching	413	25,376
<b>Subtotal FY 2009 Program Changes</b>	<b>2,981</b>	<b>\$261,026</b>
<b>Total FY 2009 Request</b>	<b>49,792</b>	<b>\$5,117,267</b>

## 2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Enforcement	FY 2007 Enacted <sup>1</sup>	FY 2008 President's Budget	Cong. Action including Rescission	FY 2008 Enacted Level	FY 2009 Requested Level
<b>FTE</b>	48,307	49,140	(1,791)	47,349	49,792
<b>Object Classification:</b>					
11.1 Full-Time Permanent Positions.....	\$3,193,531	\$3,394,207	(\$114,263)	\$3,279,944	\$3,490,824
11.3 Other than Full-Time Permanent Positions.....	85,058	97,309	(10,492)	86,817	89,150
11.5 Other Personnel Compensation.....	138,672	171,714	(25,360)	146,354	156,069
11.8 Special Personal Services Payments.....	17,494	17,499	(231)	17,268	17,726
<b>11.9 Personnel Compensation (Total).....</b>	<b>\$3,434,755</b>	<b>\$3,680,729</b>	<b>(\$150,346)</b>	<b>\$3,530,383</b>	<b>\$3,753,769</b>
12.0 Personnel Benefits.....	915,516	926,653	(6,448)	920,205	987,447
13.0 Benefits to Former Personnel.....	2,306	0	0	0	0
21.0 Travel.....	135,827	145,802	(2,013)	143,789	184,360
22.0 Transportation of Things.....	11,786	5,685	883	6,568	6,731
23.1 Rental Payments to GSA.....	55	0	0	0	0
23.2 Rent Payments to Others.....	410	383	68	451	459
23.3 Communications, Utilities, & Misc.....	29,261	6,642	(1,960)	4,682	4,808
24.0 Printing and Reproduction.....	8,440	5,443	(8)	5,435	5,589
25.1 Advisory & Assistance Services.....	17,562	21,209	9,831	31,040	32,486
25.2 Other Services.....	50,516	59,830	1,674	61,504	64,849
25.3 Purchase of Goods/Serv. from Govt. Accts.....	37,505	25,642	1,993	27,635	26,734
25.4 Operation & Maintenance of Facilities.....	182	163	(86)	77	78
25.5 Research & Development Contracts.....	2,925	2,908	1	2,909	2,960
25.6 Medical Care.....	20	0	0	0	0
25.7 Operation & Maintenance of Equipment.....	2,196	6,747	(5,038)	1,709	1,745
25.8 Subsistence & Support of Persons.....	2,637	3,289	717	4,006	4,121
26.0 Supplies and Materials.....	23,739	24,342	4,923	29,265	30,761
31.0 Equipment.....	3,102	5,361	(449)	4,912	4,999
32.0 Lands and Structures.....	0	0	0	0	0
33.0 Investments & Loans.....	0	0	0	0	0
41.0 Grants, Subsidies.....	158	337	0	337	187
42.0 Insurance Claims & Indemn.....	2,284	401	(96)	305	311
43.0 Interest and Dividends.....	0	0	0	0	0
44.0 Refunds.....	0	0	0	0	0
91.0 Unvouchered.....	5,295	3,932	856	4,788	4,873
<b>Total Budget Authority.....</b>	<b>\$4,686,477</b>	<b>\$4,925,498</b>	<b>(\$145,498)</b>	<b>\$4,780,000</b>	<b>\$5,117,267</b>
<b>Budget Activities:</b>					
Investigations.....	\$576,785	\$602,385	(8,591)	\$593,794	\$603,466
Exam and Collections.....	3,959,741	4,164,361	(126,052)	4,038,309	4,363,826
Regulatory.....	149,951	158,752	(10,855)	147,897	149,975
<b>Total Budget Authority.....</b>	<b>\$4,686,477</b>	<b>\$4,925,498</b>	<b>(\$145,498)</b>	<b>\$4,780,000</b>	<b>\$5,117,267</b>

<sup>1</sup> FY 2007 Enacted represents the approved FY 2007 Operating Plan.



## 2.3 – Appropriation Detail Table

Dollars in Thousands

Enforcement										
Resources Available for Obligation	FY 2007 Obligations		FY 2007 Enacted <sup>1</sup>		FY 2008 Enacted		FY 2009 Request		% Change FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>										
Investigations	4,283	\$573,469	4,315	\$576,785	4,278	\$593,794	4,239	\$603,466	-0.91%	1.63%
Exam and Collections	42,334	3,932,874	42,751	3,959,741	41,842	4,038,309	44,389	4,363,826	6.09%	8.06%
Regulatory	1,225	146,213	1,241	149,951	1,229	147,897	1,164	149,975	-5.29%	1.41%
<b>Subtotal New Appropriated Resources</b>	<b>47,842</b>	<b>\$4,652,556</b>	<b>48,307</b>	<b>\$4,686,477</b>	<b>47,349</b>	<b>\$4,780,000</b>	<b>49,792</b>	<b>\$5,117,267</b>	<b>5.16%</b>	<b>7.06%</b>
<b>Other Resources:</b>										
Recoveries		98		98						
Offsetting Collections - Reimbursable	116	41,460	115	41,460	120	42,522	125	43,700	4.17%	2.77%
Available multi-year/no-year funds		2,286		2,286		5,746		5,746		
50% Carryover		4,325		4,325						
Transfers In/Out		(18,948)		(18,948)						
Mandatory Appropriations - User Fees		5,452		5,452		59,254				
<b>Subtotal Other Resources</b>	<b>116</b>	<b>\$34,673</b>	<b>115</b>	<b>\$34,673</b>	<b>120</b>	<b>\$107,522</b>	<b>125</b>	<b>\$49,446</b>	<b>4.17%</b>	<b>-54.01%</b>
<b>Total Resources Available for Obligation</b>	<b>47,958</b>	<b>\$4,687,229</b>	<b>48,422</b>	<b>\$4,721,150</b>	<b>47,469</b>	<b>\$4,887,522</b>	<b>49,917</b>	<b>\$5,166,713</b>	<b>5.16%</b>	<b>5.71%</b>

**3A – Investigations** (\$603,466,000 in direct appropriation and \$33,678,000 from reimbursable programs): This budget activity funds the IRS Criminal Investigations (CI) programs that explore potential criminal violations of the internal revenue tax laws, enforce criminal statutes relating to these violations, and recommend prosecution as warranted. This includes the following program activities:

- *CI* 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 involving both legal and illegal sources of income and recommends prosecution as warranted. This activity also includes the investigation and prosecution of tax and money-laundering violations associated with narcotics organizations.
- *General Management and Administration* supports the headquarters management activities of strategic planning, communications, finance, and human resources for *CI* activities.
- *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 2007 Enacted <sup>1</sup>	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	\$599,878	\$573,469	\$576,785	\$593,794	\$603,466
Reimbursable Resources	33,306	32,441	32,441	32,817	33,678
Mandatory Appropriations - User Fees	0	0	0	0	0
<b>Total Resources</b>	<b>\$633,184</b>	<b>\$605,910</b>	<b>\$609,226</b>	<b>\$626,611</b>	<b>\$637,144</b>

<sup>1</sup> FY 2007 Enacted represents the approved FY 2007 Operating Plan.

Investigations Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2007 Target	FY 2008 Target	FY 2009 Target
Criminal Investigations Completed (O) (L)	4,104	4,157	4,269	4,000	4,000	4,025
Number of Convictions (Oe) (L)	2,151	2,019	2,155	2,069	2,135	2,135
Conviction Rate (Oe) (L)	91.2%	91.5%	90.2%	92.0%	92.0%	92.0%
Conviction Efficiency Rate (\$) (E) (L)	\$295,316	\$328,750	\$301,788	\$314,008	\$317,625	\$317,625

Key: E - Efficiency Measure, OI - 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 enforce the tax laws. In FY 2006, criminal investigations completed exceeded the target of 3,945 by 5 percent. Both the referral acceptance rate (71.8 percent) and total number of referrals accepted (445) were higher than last year. Abusive tax schemes and shelters were a concern in FY 2006 and remained a high investigative priority in FY 2007 due to egregious activities in areas of corporate fraud and tax avoidance of high-income individuals.

In FY 2007, the IRS continued its focus on legal source tax investigations, partnering with other law enforcement agencies to develop significant tax, money laundering, and other financial investigations that adversely affect tax administration. The IRS also took steps to combat fraudulent and financial crime schemes identified through improved case development efforts and Bank Secrecy Act (BSA) investigations. Performance levels remained high in FY 2007:

- Completed 4,269 criminal investigations, exceeding the target of 4,000.
- Maintained a conviction rate of over 90 percent.
- Increased acceptance rate by the Department of Justice to 94.6 percent, higher than the FY 2006 rate of 92.2 percent; and the acceptance rate by the U.S. Attorney increased to 90.2 percent, 2 percent higher than the 88.3 percent achieved in FY 2006.
- Obtained 2,155 convictions, exceeding the target of 2,069.
- Stopped fraudulent claims in excess of \$1 billion through IRS Fraud Detection Centers.

In FY 2009, CI will aggressively attack tax evasion and reduce the tax gap. CI will focus on abusive tax schemes, corporate fraud, nonfilers, employment tax fraud, general fraud, narcotics, tax and other financial crimes identified through Bank Secrecy Act (BSA) related examinations, and case development efforts.

**3A – Exam and Collections** (*\$4,363,826,000 in direct appropriation and \$9,905,000 from reimbursable programs*): This budget activity funds programs that enforce the tax laws through examination and collection programs that ensure proper payment and tax reporting. The budget activity also supports appeals and litigation activities associated with exam and collection. This includes the following program activities:

- *Compliance Services Management* supports management associated with compliance program activities.
- *Payment Compliance – Correspondence Collection* supports the IRS 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 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 government’s interest 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 regarding unpaid tax liabilities identified from tax returns.
- *Tax Reporting Compliance – Field Exam* compares taxpayer correct income levels and corresponding tax liabilities to ensure accuracy of taxpayer returns. This activity also provides determination letters, advance pricing agreements, and other determinations.
- *Fraud/Bank Secrecy Act* enforces the anti-money laundering provisions of the Bank Secrecy Act (BSA) of 1970, and the USA PATRIOT Act of 2001. It examines non-bank financial institutions for compliance with these laws, 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 RAs 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 and collection 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, and business system planning and embedded training.
- *Whistleblowers* provides staffing, training, and direct support to process, assess, and analyze incoming tips from individuals who identify tax problems wherever they may be encountered, including in their workplace, while conducting day-to-day personal business.
- *Communications and Liaison* coordinates local government and liaison relationships; manages congressional, state, and national stakeholder relationships and issues; coordinates crosscutting issues including managing audits 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					
Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2007 Enacted <sup>1</sup>	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	\$3,925,839	\$3,932,874	\$3,959,741	\$4,038,309	\$4,363,826
Reimbursable Resources	9,851	8,764	8,764	9,592	9,905
Mandatory Appropriations - User Fees		5,452	5,452	59,254	
<b>Total Resources</b>	<b>\$3,935,690</b>	<b>\$3,941,638</b>	<b>\$3,973,957</b>	<b>\$4,107,155</b>	<b>\$4,373,731</b>

<sup>1</sup> FY 2007 Enacted represents the approved FY 2007 Operating Plan.

Exam and Collections Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2007 Target	FY 2008 Target	FY 2009 Target
Examination Coverage - Individual (Oe) (L)	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%
Field Exam Embedded Quality (Oe) (L)	N/A	85.9%	85.9%	87.0%	87.0%	87.0%
Office Exam Embedded Quality (Oe) (L)	N/A	88.2%	89.4%	89.0%	90.0%	90.0%
Examination Quality (LMSB) - Industry (Oe) (L)	77.0%	85.0%	87.0%	88.0%	88.0%	89.0%
Examination Quality (LMSB) - Coordinated Industry (Oe) (L)	89.0%	96.0%	96.0%	97.0%	96.0%	96.0%
Examination Coverage - Business (Oe) (L)	7.8%	7.3%	6.8%	8.2%	6.6%	6.8%
AUR Efficiency (E) (L)	1,701	1,832	1,956	1,932	1,961	1,823
AUR Coverage (E) (L)	2.2%	2.4%	2.5%	2.5%	2.5%	2.5%
Examination Efficiency - Individual (E) (L)	121	128	137	136	133	134
Collection Coverage - Units (O) (L)	53.0%	54.0%	54.0%	54.0%	53.0%	53.0%
Collection Efficiency - Units (E) (L)	1,514	1,677	1,828	1,723	1,835	1,835
Field Collection Embedded Quality (O) (L)	N/A	84.2%	84.0%	86.0%	86.0%	86.0%
Automated Collection System (ACS) Accuracy (Oe)	88.5%	91.0%	92.9%	91.0%	92.0%	92.0%

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

## Description of Performance

Targeting the tax gap remained a top IRS priority for FY 2007. Total enforcement revenue was \$59.2 billion, a 75 percent increase over 2001. The steady increase in enforcement revenue is primarily a result of concerted efforts by the IRS to detect and deter non-compliance with the tax code. In FY 2007, total individual audits increased 8 percent, collection cases closed increased 12 percent, dollars collected increased 13 percent, high-income audits increased 29 percent, small business audits increased 17 percent, and corporate audits increased 3 percent from FY 2006.

In FY 2007, the IRS continued to reengineer its examination and collection procedures to reduce time, increase yield, and expand coverage. The IRS is building on its enforcement efforts with emphasis on increased audits and collection activities. Emphasizing early identification of tax liabilities through increased audits and more focused collection activities, the IRS undertook the following actions:

- Piloted new Automated Substitute for Return screening and batching procedures, with the increased efficiencies resulting in a productivity improvement of over 156 percent, from 7.5 cases per hour to 19.2 cases per hour;
- Increased detection of fraudulent activities and increased the number of recommendations for civil fraud penalties by 49 percent over the prior year level; and
- Developed an Employment Tax Strategy that includes eliminating/reducing overlaps and gaps in processes to enhance organizational effectiveness; expanding work relationships with federal and state authorities; conducting studies to better understand the tax gap; and assessing new ways to impact taxpayer behavior.

The IRS substantially enhanced its productivity by implementing technological and process improvements in the Automated Underreporter (AUR), Examination, and Compliance Services Collection Operations. Significant improvements made in FY 2007 included:

- Implemented a new AUR case selection and scoring methodology for individuals, resulting in a 20.5 percent increase in AUR assessments;
- Controlled and directed incoming Examination toll-free calls through an Intelligent Call Management system resulting in a 6.1 percent increase in the service level; and
- Automated the processing of over 43 percent of installment agreement problem cases, which freed resources to process additional installment agreement compliance work.

The IRS, through its Compliance Assurance Process (CAP) Pilot Program, continued to expand and work with large businesses to identify and resolve issues prior to return filing. The objective of the program is to reduce taxpayer burden and uncertainty while assuring tax returns are accurate prior to filing, thereby reducing or eliminating the need for post-filing examinations. CAP benefits both the IRS and the taxpayer by fostering compliance, reducing the time it takes to process a return, and improving both customer and employee satisfaction while maintaining a high level of quality.

The IRS continued to deter tax shelter abuse and tax scheme promoters through targeted audits and aggressive litigation and publicity in FY 2007. The IRS made significant progress in resolving civil matters with promoters of abusive and listed tax shelter

transactions. In addition to sizeable penalty assessments and public admissions of regrettable behavior by businesses and some of their former employees, the IRS obtained future compliance agreements from all promoters. For FY 2007, penalties assessed and collected from the program totaled over \$69 million. In addition, the IRS focused its efforts to combat abusive tax avoidance transactions (ATAT) by providing early guidance, addressing shelters at the promoter level, and increasing the strength of ATAT response. The IRS will continue to aggressively address abusive transactions through enhanced identification techniques, published guidance, traditional examination processes, alternative dispute resolutions, communication, and resource allocation.

In FY 2007, the IRS reorganized its international organization to better address the increasing scope of international tax administration where non-compliance is a significant and growing problem. In addition, the IRS developed a comprehensive strategy to identify and highlight activities that will improve customer service, enhance international tax compliance, and modernize the IRS to more effectively keep pace with globalization.

The exchange of information between a foreign revenue agency and the IRS led to the recent unraveling of an abusive cross-border tax scheme involving hundreds of taxpayers and tens of millions of dollars in improper deductions and unreported income. In late 2007, the Joint International Tax Shelter Information Centre (JITSIC) will open a second office in London and the Japanese National Tax Agency will join. JITSIC shares information and expertise in identifying and curbing tax avoidance and shelters. As collaboration between member countries continues to grow, more cross-border schemes will be uncovered, shared, and addressed.

In FY 2008, the IRS will continue to reengineer its examination and collection procedures to reduce processing time, increase yield, and expand coverage. The IRS plans to build on its enforcement efforts to further enhance early identification of tax liabilities through increased audits and focused collection activities.

Increasing IRS enforcement presence remains a priority for FY 2009. The FY 2009 Budget provides additional resources to expand enforcement efforts in key areas of the tax gap such as reporting, nonfiling, and payment. The FY 2009 request will also focus efforts on targeted enforcement in the small business and self-employed taxpayer community, improve capabilities to examine large multinational corporations, and improve tax gap research.

**3A – Regulatory** (*\$149,975,000 in direct appropriation and \$117,000 from reimbursable programs*): This budget activity funds the development and printing of published IRS guidance materials; interpretation of tax laws; advice on general legal servicing, ruling and agreements; enforcement of regulatory rules, laws and approved business practices; and supporting taxpayers in the areas of pre-filing agreements, determination letters, and advance pricing agreements. 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 2007 Enacted <sup>1</sup>	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	\$150,115	\$146,213	\$149,951	\$147,897	\$149,975
Reimbursable Resources	151	255	255	113	117
Mandatory Appropriations - User Fees					
<b>Total Resources</b>	<b>\$150,266</b>	<b>\$146,468</b>	<b>\$150,206</b>	<b>\$148,010</b>	<b>\$150,092</b>

<sup>1</sup> FY 2007 Enacted represents the approved FY 2007 Operating Plan.

Regulatory Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2007 Target <sup>1</sup>	FY 2008 Target <sup>1</sup>	FY 2009 Target <sup>1</sup>
TE/GE Determination Case Closures (O)	126,481	108,462	109,408	118,200	100,600	98,000

Key: OI - Output/Workload Measure

<sup>1</sup> Additional resources were committed in FY 2007 to TEGE determination closures to reduce the backlog of applications and bring the inventory down to a sustainable level consistent with projected annual receipts.

### Description of Performance

Maintaining a strong enforcement presence in the tax-exempt and government entities sector is particularly important given the role that a small number of these entities play in accommodating abusive transactions entered into by taxable parties. In FY 2007, the IRS expanded its enforcement presence by conducting reviews of executive compensation practices among tax-exempt organizations. New outreach tools were developed and deployed including [www.stayexempt.org](http://www.stayexempt.org), a popular tax compliance website for exempt entities; web-based tools to help tax exempt entities understand their federal tax requirements; and workshops to assist remote tribal villages in understanding federal and state employment tax and other reporting requirements.

In FY 2007, the IRS focused on improving the timeliness of the determination process for exempt organizations by eliminating the backlog of cases in this area. Over the course of FY 2007, the unassigned inventory was reduced by 35 percent, cutting 34 days from the average time in inventory.



For FY 2007, the IRS achieved 93 percent of the target of 118,200 determination case closures. This was caused by several factors. First, workload in this area is driven by external demand; for various reasons, the IRS received 12,000 fewer applications than expected. Responding to customer requests, the IRS extended certain filing deadlines. In addition, following a major revision to the user fee schedule for determination, a large number of submissions were returned to applicants due to incorrect user fees. Finally, legislative changes in the Pension Protection Act shifted workload priorities toward a number of time-consuming cases, resulting in fewer closures overall.

The IRS faces a wide variety of non-tax legal issues. In September 2007, final regulations under Treasury Circular 230 (Regulations Governing Practice Before the Internal Revenue Service) were published. These regulations address weaknesses in the current regulatory scheme to ensure that tax professionals are adhering to standards and following the law, a key objective to success in enforcing the tax laws.

In FY 2007, IRS General Legal Services (GLS) litigated cases involving practitioner who advised on questionable tax transactions, successfully defended an award protest for private debt collection services, negotiated a Memorandum of Understanding offering online tax return preparation and filing services, worked on promulgation of guidance in connection with the recently enacted whistleblower statute, and drafted informant agreements concerning the recovery of taxes due.

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

The Operations Support Budget request for FY 2009 is \$3,856,172,000 in direct appropriations and 11,989 FTE. This is an increase of \$176,113,000 or 4.8 percent and a decrease of 192 FTE over the FY 2008 enacted level of \$3,680,059,000 and 12,181 FTE.

### **Taxpayer Service and Enforcement Allocation**

The IRS allocates funding in this appropriation to either the taxpayer service or enforcement program.

The IRS allocates the Operations Support account funding and FTE into activities supporting taxpayer service and enforcement to identify the full cost of operating these programs. The IRS developed a methodology to assign the appropriation funding to the core program that these resources support, which is updated and improved on an ongoing basis. Operations Support uses several allocation methodologies:

- Costs specifically related to either a taxpayer service or enforcement activity, such as an Information Technology (IT) system used only for enforcement purposes, are allocated directly to the program supported;
- Service-wide costs, such as printing and postage, that pertain to both taxpayer service and enforcement are allocated based on historical usage; and
- Other support costs, such as physical security services and rent payments, are primarily allocated by FTE.

The Operations Support funds allocated to the taxpayer services and enforcement programs in FY 2009 use the FY 2008 President's Budget allocation methodology. In order to execute FY 2009 spending, the Administration is proposing language to adjust Operations Support allocations by up to 1 percent with prior notification to the Appropriations Committees.

## **Support of Information Technology to the Taxpayer Services and Enforcement Programs**

The IRS information technology 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 information technology 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, multi-billion 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 delivering the 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
- 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	\$000
<b>FY 2008 Enacted</b>	<b>12,181</b>	<b>\$3,680,059</b>
<b>Changes to Base:</b>		
<b>Maintaining Current Levels</b>		<b>\$82,580</b>
Pay Annualization		9,883
Pay Inflation Adjustment		25,399
Non-Pay Inflation Adjustment		47,298
<b>Transfers</b>		<b>(\$1,370)</b>
Transfer to TIGTA		(1,370)
<b>Efficiencies/Savings</b>	<b>(230)</b>	<b>(\$30,367)</b>
Efficiency Savings	(230)	(22,443)
Increase e-File Savings		(1,304)
Non-Recur Savings		(6,620)
<b>Base Reinvestments</b>		<b>\$28,141</b>
Fully Fund Postage Base		28,141
<b>Subtotal Changes to Base</b>	<b>(230)</b>	<b>\$78,984</b>
<b>Total FY 2009 Base - Current Services</b>	<b>11,951</b>	<b>\$3,759,043</b>
<b>Program Changes:</b>		
<b>Program Increases - Enforcement Initiatives</b>	<b>38</b>	<b>\$97,129</b>
Reduce the Tax Gap for Small Business / Self-Employed		33,714
Reduce the Tax Gap for Large Businesses	4	12,479
Improve Tax Gap Estimates, Measurement, and Detection of Non-Compliance	34	15,585
Increase Reporting Compliance of U.S. Taxpayers with Offshore Activity		2,622
Expand Document Matching		9,684
Implement Legislative Proposals to Improve Compliance		23,045
<b>Subtotal FY 2009 Program Changes</b>	<b>38</b>	<b>\$97,129</b>
<b>Total FY 2009 Request</b>	<b>11,989</b>	<b>\$3,856,172</b>

## 2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Operations Support	FY 2007 Enacted <sup>1</sup>	FY 2008 President's Budget	Cong. Action including Rescission	FY 2008 Enacted Level	FY 2009 Requested Level
<b>FTE</b>	12,890	12,892	(711)	12,181	11,989
<b>Object Classification:</b>					
11.1 Full-Time Permanent Positions.....	\$939,639	\$1,006,173	(\$46,018)	\$960,155	\$978,431
11.3 Other than Full-Time Permanent Positions.....	11,883	11,120	10,680	21,800	22,332
11.5 Other Personnel Compensation.....	32,757	68,257	(37,007)	31,250	32,073
11.8 Special Personal Services Payments.....	0	0	0	0	0
<b>11.9 Personnel Compensation (Total).....</b>	<b>\$984,279</b>	<b>\$1,085,550</b>	<b>(\$72,345)</b>	<b>\$1,013,205</b>	<b>\$1,032,836</b>
12.0 Personnel Benefits.....	296,239	315,559	(12,078)	303,481	309,867
13.0 Benefits to Former Personnel.....	50,343	51,853	(4,273)	47,580	48,532
21.0 Travel.....	37,794	34,315	922	35,237	36,627
22.0 Transportation of Things.....	70,539	19,970	534	20,504	21,470
23.1 Rental Payments to GSA.....	628,829	649,433	(20,674)	628,759	653,627
23.2 Rent Payments to Others.....	3,915	5	0	5	6
23.3 Communications, Utilities, & Misc.....	325,716	361,707	1,815	363,522	405,208
24.0 Printing and Reproduction.....	52,473	53,712	15	53,727	54,796
25.1 Advisory & Assistance Services.....	54,645	44,312	47,294	91,606	93,114
25.2 Other Services.....	424,290	428,496	(33,377)	395,119	427,449
25.3 Purchase of Goods/Serv. from Govt. Accts.....	60,151	61,808	(2,302)	59,506	63,838
25.4 Operation & Maintenance of Facilities.....	159,739	170,696	(2,038)	168,658	181,331
25.5 Research & Development Contracts.....	2,938	5,269	(700)	4,569	4,660
25.6 Medical Care.....	10,005	10,245	0	10,245	10,764
25.7 Operation & Maintenance of Equipment.....	60,105	68,203	(522)	67,681	70,048
25.8 Subsistence & Support of Persons.....	393	278	1,000	1,278	1,304
26.0 Supplies and Materials.....	19,006	26,782	2,947	29,729	31,014
31.0 Equipment.....	246,451	325,661	7,452	333,113	360,820
32.0 Lands and Structures.....	54,246	55,132	(3,306)	51,826	48,139
33.0 Investments & Loans.....	0	0	0	0	0
41.0 Grants, Subsidies.....	0	0	0	0	0
42.0 Insurance Claims & Indemn.....	2,739	601	108	709	722
43.0 Interest and Dividends.....	0	0	0	0	0
44.0 Refunds.....	0	0	0	0	0
91.0 Unvouchered.....	0	0	0	0	0
<b>Total Budget Authority.....</b>	<b>\$3,544,835</b>	<b>\$3,769,587</b>	<b>(\$89,528)</b>	<b>\$3,680,059</b>	<b>\$3,856,172</b>
<b>Budget Activities:</b>					
Infrastructure .....	\$845,203	\$879,672	(35,952)	\$843,720	\$883,325
Shared Services & Support .....	1,179,216	1,229,231	(58,545)	1,170,686	1,243,703
Information Services .....	1,520,416	1,660,684	4,969	1,665,653	1,729,144
<b>Total Budget Authority.....</b>	<b>\$3,544,835</b>	<b>\$3,769,587</b>	<b>(\$89,528)</b>	<b>\$3,680,059</b>	<b>\$3,856,172</b>

<sup>1</sup> FY 2007 Enacted represents the approved FY 2007 Operating Plan.

## 2.3 – Appropriation Detail Table

Dollars in Thousands

Operations Support										
Resources Available for Obligation	FY 2007 Obligations		FY 2007 Enacted <sup>1</sup>		FY 2008 Enacted		FY 2009 Request		% Change FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>										
Infrastructure		\$808,254		\$845,203		\$843,720		\$883,325	0.00%	4.69%
Shared Services and Support	5,790	1,154,724	6,622	1,179,216	5,802	1,170,686	5,699	1,243,703	-1.78%	6.24%
Information Services	6,114	1,551,603	6,268	1,520,416	6,379	1,665,653	6,290	1,729,144	-1.40%	3.81%
<b>Subtotal New Appropriated Resources</b>	<b>11,904</b>	<b>\$3,514,581</b>	<b>12,890</b>	<b>\$3,544,835</b>	<b>12,181</b>	<b>\$3,680,059</b>	<b>11,989</b>	<b>\$3,856,172</b>	<b>-1.58%</b>	<b>4.79%</b>
<b>Other Resources:</b>										
Recoveries		1,186		1,186						
Offsetting Collections - Reimbursable	272	27,776	169	27,776	176	40,661	184	41,750	4.55%	2.68%
Available multi-year/no-year funds		28,018		28,018		43,039		43,039	0.00%	0.00%
50% Carryover		11,109		11,109						
Transfers In/Out		23,500		23,500						
Mandatory Appropriations - User Fees		66,678		66,678		103,368		50,705	0.00%	-50.95%
<b>Subtotal Other Resources</b>	<b>272</b>	<b>\$158,267</b>	<b>169</b>	<b>\$158,267</b>	<b>176</b>	<b>\$187,068</b>	<b>184</b>	<b>\$135,494</b>	<b>4.55%</b>	<b>-27.57%</b>
<b>Total Resources Available for Obligation</b>	<b>12,176</b>	<b>\$3,672,848</b>	<b>13,059</b>	<b>\$3,703,102</b>	<b>12,357</b>	<b>\$3,867,127</b>	<b>12,173</b>	<b>\$3,991,666</b>	<b>-1.49%</b>	<b>3.22%</b>

**3A – Infrastructure** (\$883,325,000 in direct appropriation and \$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, protections, 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 2007 Enacted <sup>1</sup>	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	\$837,320	\$808,254	\$845,203	\$843,720	\$883,325
Reimbursable Resources	103	121	121	0	0
Mandatory Appropriations - User Fees	0	0	0	16,100	16,100
<b>Total Resources</b>	<b>\$837,423</b>	<b>\$808,375</b>	<b>\$845,324</b>	<b>\$859,820</b>	<b>\$899,425</b>

<sup>1</sup> FY 2007 Enacted represents the approved FY 2007 Operating Plan.

#### Description of Performance

In FY 2007, the IRS continued to achieve cost savings associated with an aggressive rent management strategy. These savings, coupled with savings from previous years, have helped offset the increased infrastructure costs associated with infrastructure improvement initiatives such as the new Kansas City consolidated campus.

Rent costs, including the costs of facility security, increased from \$651.4 million in FY 2006 to \$666.6 million in FY 2007. To partially fund this increase, the IRS achieved rent savings by identifying and completing 59 space reduction projects, releasing a cumulative total of 412,000 square feet. These projects have annualized savings estimated at \$8.4 million. Through September 2007, the total rent cost increased by 2.3 percent, far below the year-end target of 5.3 percent.

In addition to the rent reduction projects mentioned above, the IRS and GSA embarked on a delegated leasing initiative designed to save commission fees and achieve negotiated lease savings. Leases already in effect or proposed to commence in FY 2008 will result in projected savings of \$380,000 annually or \$1.9 million over five years for 10 projects (subject to GSA approval).

In FY 2008 and beyond, Real Estate and Facilities Management will develop a comprehensive real estate strategy, balancing mission critical planning assumptions with the condition, utility, and opportunity for project execution. The savings associated with this strategy are critical for addressing major campus construction projects as well as unfunded costs such as new mandates, rescissions, and other inflationary costs.

**3A – Shared Services and Support** (\$1,243,703,000 in direct appropriation and \$14,002,000 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, Office of Management and Budget [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.
- *Facilities Services* provides services and supplies required to manage IRS facilities.
- *Procurement* supports the procurement function of the IRS.
- *EEO Field Operations* plans and manages the IRS EEO and Diversity Program.
- *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.
- *Customer Support* plans and manages financial services including relocation, travel, imprest fund, purchase cards, corporate express, and employee clearances.
- *Treasury Complaint Centers* plans and manages the Treasury Complaint Centers.
- *Shared Support 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 residing in the Media and Publication Organization* provides operating divisions with printing and postage, including shipping of taxpayer and internal use materials.
- *Statistics of Income* provides resources for market-based research to identify compliance issues; for conducting tests of treatments to address non-compliance; and for the implementation of successful treatments of taxpayer non-compliant behavior.
- *Research* provides resources for researching annual income, financial, and tax data from tax returns filed by individuals, corporations, and tax-exempt organizations.
- *Security* protects employees, facilities and assets, and the confidentiality of taxpayer information.
- *Security Services* ensures that the IRS has effective security policies and programs in place to safeguard taxpayer records, employees, facilities, business processes, systems, and other resources. It includes operation of the Computer Systems Incident Response Center (CSIRC) and Situation Awareness and Management Centers (SAMC), coordination of service-wide disaster recovery and business continuity planning, security training and awareness, and sensitive system certification and



accreditation coordination with Treasury on the Federal Critical Infrastructure Protection Program.

- *Benefit Payments* provides resources to fund Workers' Compensation benefits and Unemployment Compensation for Federal Employees payments.
- *Shared Services* provide 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 2007 Enacted <sup>1</sup>	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	\$1,154,616	\$1,154,724	\$1,179,216	\$1,170,686	\$1,243,703
Reimbursable Resources	17,836	13,649	13,649	13,575	14,002
Mandatory Appropriations - User Fees	0	0	0	14,814	0
<b>Total Resources</b>	<b>\$1,172,452</b>	<b>\$1,168,373</b>	<b>\$1,192,865</b>	<b>\$1,199,075</b>	<b>\$1,257,705</b>

<sup>1</sup> FY 2007 Enacted represents the approved FY 2007 Operating Plan.

### 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.

Workforce planning is a significant challenge. With a diverse population of more than 100,000 employees and more than 700 locations across the country and overseas, the IRS works continuously to ensure that recruiting and training activities support a workforce that has the skills and competencies needed to accomplish the IRS mission.

To meet changing business and technological demands, the IRS initiated a program to identify targeted occupations, skill sets, and hard-to-fill positions. The program features integration of all recruitment, hiring, and compensation efforts, along with the development of new and improved methods of predicting future attrition through retirements. Developing activities specifically targeted toward mitigating the impact of retirements and attracting and retaining new hires with advanced skills continues to be critical to the successful delivery of IRS business goals.

The IRS continued to enhance and implement its human capital strategy in FY 2007. The strategy includes bringing critical personnel on board and objectives for employee training, leadership development, and workforce retention. Actions taken in FY 2007 included:

- Established a Center of Excellence Office to determine the skills and competencies for each area of expertise; and
- Developed training requirements and a new recruitment strategy.

Future efforts are aimed at synchronizing the hiring of new staff with the retirement of older staff such that adequate knowledge transfer occurs.

Security of infrastructure and IT systems remains a top priority for the IRS. In FY 2007, the IRS continued to update its systems, processes, and training efforts to ensure taxpayer information is properly safeguarded. The IRS completed all required Federal Information Security Management Act activities; contingency plan testing on the 260 applications and systems on the master inventory; and live disaster recovery testing for all major applications. The IRS also established new offices, including a new Cybersecurity organization, and governing bodies to provide direction and oversight regarding the security and protection of sensitive information. As part of its security effort to protect sensitive information, the IRS:

- Installed automatic full disk encryption on the total deployed inventory of over 52,000 IRS laptops;
- Implemented a secure electronic online solution for data exchanged with federal, state and other partners;
- Deployed mandatory information protection training for all IRS employees and contractors with access to sensitive information;
- Issued updated data protection policies, processes, and education training tools to improve employee awareness and skill levels; and
- Deployed upgraded firewalls and intrusion detection devices.

In FY 2007, the IRS began the process of validating the enterprise-wide Business Impact Analysis (BIA) to identify the effect computer application disruptions would have on the ability of the IRS to perform critical business processes. The BIA will be completed in FY 2008 and will provide the IRS with needed information to build a strong foundation for making effective risk management decisions.

Research efforts also enable the IRS to develop strategies to combat specific areas of non-compliance, improve voluntary compliance, allocate resources more effectively, and reduce the tax gap. To support these efforts, the IRS undertook significant efforts to estimate voluntary taxpayer compliance in FY 2007. A reporting compliance study for Subchapter S corporations was initiated in FY 2007. A Tax Year (TY) 2006 individual income reporting compliance study began in October 2007. In addition, the IRS updated its workload selection models for TY 2006 using data from prior reporting compliance studies, enabling the IRS to better leverage limited enforcement resources and reduce the burden on compliant taxpayers.

IRS success in improving its research capabilities was recognized in 2007 when the Compliance Data Warehouse (CDW) was named a 2007 Computerworld Honors Laureate. The CDW was nominated in the category of Government and Non-Profit Organizations for the extraordinary use of IT. The CDW offers a range of databases used by the IRS research community to support projects related to tax administration, enforcement, and customer service.

The FY 2009 Budget request will allow the IRS to increase research efforts in understanding the reasons for taxpayer non-compliance. Efforts will focus on three components affecting taxpayer filing: taxpayer burden, tax law complexity, and

contributors to taxpayer error. Understanding these factors will improve voluntary compliance by targeting resources to the areas of greatest need.

**3A – Information Services** (\$1,729,144,000 in direct appropriation, \$27,748,000 from reimbursable programs and \$34,605,000 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 also responsible for operating and administering the hardware infrastructure of mainframes, servers, personal computers, networks, and a variety of management information systems.

MITIS is composed of discrete but intertwined organizations responsible for everything dealing with information systems and technology, ranging from cyber security and networks to applications development and end user equipment and services. They are described below.

- *Cyber security* 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.
- *Modernization & IT Services (MITIS) Strategic Sourcing* funds the operations of the MITIS Office of Strategic Sourcing with oversight of all A-76 efforts in the MITIS organization.
- *National Headquarters (NHQ) ADP Management* provides for the management and oversight of investments in IT for the Chief of Staff and 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.
- *MITIS Executive Oversight* provides support to the immediate office of the Chief Information Officer, as well as the direct reports for EEO and Diversity, and the Director, Stakeholder Management (including Communications Services and Program Oversight). The program provides executive direction for the MITIS organization, enabling MITIS 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 replacement of the Service's 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 2007 Enacted <sup>1</sup>	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	\$1,510,449	\$1,551,603	\$1,520,416	\$1,665,653	\$1,729,144
Reimbursable Resources	3,330	14,006	14,006	27,086	27,748
Mandatory Appropriations - User Fees	0	66,678	66,678	72,454	34,605
<b>Total Resources</b>	<b>\$1,513,779</b>	<b>\$1,632,287</b>	<b>\$1,601,100</b>	<b>\$1,765,193</b>	<b>\$1,791,497</b>

<sup>1</sup> FY 2007 Enacted represents the approved FY 2007 Operating Plan.

### Description of Performance

IT solutions are the most effective and efficient means of increasing the number of IRS contacts with taxpayers while also offering a greater variety of faster alternatives to file and pay their tax obligations. IT solutions also enhance the IRS ability to identify non-compliance and combat tax avoidance schemes that contribute to the tax gap.

The technology environment at the IRS is extraordinarily complex because of high volumes, widely varying inputs from taxpayers (from simple records with just a few fields to complex documents of many megabytes), seasonal processing with extreme variations in processing load, transaction rates on the order of billions per year, and storage measured in trillions of bytes. Nevertheless, the IRS infrastructure modernization efforts have sustained records of achievement in implementing systems that yield tangible benefits for American taxpayers.

In FY 2007, the IRS produced the timely delivery of quality software into production in preparation for the filing season and in the midst of numerous challenges. New legislative mandates required the IRS to implement initiatives such as the Telephone Excise Tax Refund (TETR). The rollout of additional IT modernized functions such as split refunds, the late passage of “extender” legislation, and processing changes to support business needs all required coordinated development, testing, and execution of many systems.

Notable highlights of the FY 2007 filing season include:

- Delivered “Split Refunds” capability. Taxpayers filing the 1040 tax forms were given the option to split their tax refunds in up to three financial accounts. The split refunds process gives taxpayers the choice of depositing their tax refunds directly into individual retirement accounts, over 500 college savings plans, savings bonds, or a variety of other accounts. Over 83,000 taxpayer returns used the split refunds option.
- Supported E-Services application with over 236,000 registered users. The application allows tax practitioners to request Preparer Tax Identification

Numbers (PTINS), e-file applications, and transcripts; submit Powers of Attorney; and discuss tax matters electronically with the IRS. Additionally, it allows payers the ability to verify Tax Identification Numbers (TIN) and name controls prior to filing. The application received over:

- 3.9 million of TIN match requests;
- 385,000 on-line requests of PTINS;
- 219 million bulk TIN match requests; and
- One million applications for an Employee Identification Number (EIN).

For FY 2007, the IRS has made progress on FISMA compliance security metrics. The IRS has successfully completed security certification and accreditation for 98 percent of its IT systems, and is moving towards the goal of 100 percent certified and accredited.

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

## 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 2009 is \$222,664,000 in direct appropriations and 333 FTE. This is a decrease of \$44,426,000 or 16.6 percent, and 25 FTE, over the FY 2008 enacted level of \$267,090,000 and 358 FTE.

### 2.1 – Budget Adjustments Table

Dollars in Thousands

	FTE	\$000
<b>FY 2008 Enacted</b>	<b>358</b>	<b>\$267,090</b>
Changes to Base:		
Maintaining Current Levels		\$1,354
Pay Annualization		332
Pay Inflation Adjustment		1,022
Subtotal Changes to Base		\$1,354
<b>Total FY 2009 Base - Current Services</b>	<b>358</b>	<b>\$268,444</b>
Program Changes:		
Program Decreases:	(25)	(\$45,780)
Business System Modernization	(25)	(45,780)
Subtotal FY 2009 Program Changes	(25)	(\$45,780)
<b>Total FY 2009 Request</b>	<b>333</b>	<b>\$222,664</b>

## 2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Business Systems Modernization	FY 2007 Enacted <sup>1</sup>	FY 2008 President's Budget	Cong. Action including Rescission	FY 2008 Enacted Level	FY 2009 Requested Level
<b>FTE</b>	317	317	41	358	333
<b>Object Classification:</b>					
11.1 Full-Time Permanent Positions.....	\$34,504	\$35,166	\$624	\$35,790	\$33,621
11.3 Other than Full-Time Permanent Positions.....	447	475	270	745	766
11.5 Other Personnel Compensation.....	626	658	(99)	559	575
11.8 Special Personal Services Payments.....	0	0	0	0	0
<b>11.9 Personnel Compensation (Total).....</b>	<b>\$35,577</b>	<b>\$36,299</b>	<b>\$795</b>	<b>\$37,094</b>	<b>\$34,962</b>
12.0 Personnel Benefits.....	9,772	10,108	(1,957)	8,151	8,444
13.0 Benefits to Former Personnel.....	0	0	0	0	0
21.0 Travel.....	0	187	(187)	0	0
22.0 Transportation of Things.....	0	0	0	0	0
23.1 Rental Payments to GSA.....	0	0	0	0	0
23.2 Rent Payments to Others.....	0	0	0	0	0
23.3 Communications, Utilities, & Misc.....	0	0	0	0	0
24.0 Printing and Reproduction.....	0	0	0	0	0
25.1 Advisory & Assistance Services.....	0	0	0	0	0
25.2 Other Services.....	165,924	171,753	(13,839)	157,914	115,327
25.3 Purchase of Goods/Serv. from Govt. Accts.....	0	0	0	0	0
25.4 Operation & Maintenance of Facilities.....	0	0	0	0	0
25.5 Research & Development Contracts.....	0	0	0	0	0
25.6 Medical Care.....	0	0	0	0	0
25.7 Operation & Maintenance of Equipment.....	571	7,095	186	7,281	7,281
25.8 Subsistence & Support of Persons.....	0	0	0	0	0
26.0 Supplies and Materials.....	0	0	0	0	0
31.0 Equipment.....	815	56,648	2	56,650	56,650
32.0 Lands and Structures.....	0	0	0	0	0
33.0 Investments & Loans.....	0	0	0	0	0
41.0 Grants, Subsidies.....	0	0	0	0	0
42.0 Insurance Claims & Indemn.....	0	0	0	0	0
43.0 Interest and Dividends.....	0	0	0	0	0
44.0 Refunds.....	0	0	0	0	0
91.0 Unvouchered.....	0	0	0	0	0
<b>Total Budget Authority.....</b>	<b>\$212,659</b>	<b>\$282,090</b>	<b>(\$15,000)</b>	<b>\$267,090</b>	<b>\$222,664</b>
<b>Budget Activities:</b>					
IT Investments.....	\$212,659	\$282,090	(15,000)	\$267,090	\$222,664
<b>Total Budget Authority.....</b>	<b>\$212,659</b>	<b>\$282,090</b>	<b>(\$15,000)</b>	<b>\$267,090</b>	<b>\$222,664</b>

<sup>1</sup> FY 2007 Enacted represents the approved FY 2007 Operating Plan.



## 2.3 – Appropriation Detail Table

Dollars in Thousands

Business Systems Modernization										
Resources Available for Obligation	FY 2007		FY 2007		FY 2008		FY 2009		% Change	
	Obligations		Enacted <sup>1</sup>		Enacted		Request		FY 2008 to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Business Systems Modernization	353	\$158,758	317	\$212,659	358	\$267,090	333	\$222,664	-6.98%	-16.63%
<b>Subtotal New Appropriated Resources</b>	<b>353</b>	<b>\$158,758</b>	<b>317</b>	<b>\$212,659</b>	<b>358</b>	<b>\$267,090</b>	<b>333</b>	<b>\$222,664</b>	<b>-6.98%</b>	<b>-16.63%</b>
Other Resources:										
Recoveries		2,523		2,523						
Offsetting Collections - Reimbursable										
Available multi-year/no-year funds		102,516		102,516		103,822		96,039	0.00%	-7.50%
50% Carryover										
Transfers In/Out										
Mandatory Appropriations - User Fees										
<b>Subtotal Other Resources</b>	<b>0</b>	<b>\$105,039</b>	<b>0</b>	<b>\$105,039</b>	<b>0</b>	<b>\$103,822</b>	<b>0</b>	<b>\$96,039</b>	<b>0.00%</b>	<b>-7.50%</b>
<b>Total Resources Available for Obligation</b>	<b>353</b>	<b>\$263,797</b>	<b>317</b>	<b>\$317,698</b>	<b>358</b>	<b>\$370,912</b>	<b>333</b>	<b>\$318,703</b>	<b>-6.98%</b>	<b>-14.08%</b>

**3A – Business Systems Modernization** (\$222,664,000 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.

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

BSM projects are developed and funded on a useable-segment basis. Each request for project funding covers an identifiable portion of the project's development. As completed BSM projects demonstrate successful operation, their costs are then funded from the Operations Support appropriation.

Business Systems Modernization +\$222,664,000 / +333 FTE

Recognizing the long-term commitment in IT needed to meet the IRS mission, Congress and the IRS designed the BSM program to develop and implement systems equal to those achieved through private and public sector best practices, while managing the risks inherent in one of the largest, most visible, and sensitive modernization programs underway. The IRS technology environment is extremely challenging and is characterized by exceptionally high processing volumes, widely varying inputs from taxpayers (from simple records with just a few fields to complex documents of many

megabytes), seasonal processing with great variations in processing load, and transaction rates of billions per year with storage measured in trillions of bytes.

The benefits accruing from delivery and implementation of BSM projects provide value to taxpayers, the business community, and government. Many of these benefits contribute to operational improvements and efficiencies within the IRS. The BSM program has made sustained progress in realizing substantial segments of the modernization vision - a key component in the strategy to reduce the tax gap. The program will continue in this direction as the projects are incrementally developed and deployed.

BSM funding by project is shown in the chart below.

### **FY 2009 BSM Project Activities**

Dollars in Thousands

<b>Project</b>	<b>Activities</b>	<b>FY 2007 Enacted</b>	<b>FY 2008 Enacted</b>	<b>FY 2009 Budget</b>
Customer Account Data Engine	Release content master plan, including a mid-year release to add new functionality and January release adding tax law changes.	\$58,500	\$58,500	\$58,800
Accounts Management Services	Provides a Common User Interface for access and update of taxpayer accounts managed by CADE Systems and IMF/CFOL/IDRS.	0	28,983	26,158
Modernized e-File	Continue development of Forms 1040 Phase II by delivering 90 forms and schedules associated with Form 1040.	20,000	55,802	25,000
Filing & Payment Compliance	The Filing & Payment Compliance project plans no further releases.	3,500	0	0
	Core Infrastructure	43,500	39,150	32,000
	Architecture, Integration, and Management	39,500	35,100	35,000
	Management Reserve	2,310	4,310	2,300
	<b>Subtotal Capital Investments</b>	<b>\$167,310</b>	<b>\$221,845</b>	<b>\$179,258</b>
	BSM Labor	45,000	44,000	42,052
	<b>Subtotal Program Request</b>	<b>\$212,310</b>	<b>\$265,845</b>	<b>\$221,310</b>
	Maintaining Current Levels	349	1,245	1,354
	<b>Total BSM Budget Request</b>	<b>\$212,659</b>	<b>\$267,090</b>	<b>\$222,664</b>

### **Customer Account Data Engine (CADE) - \$58.8 million**

CADE is the lynchpin IRS modernization project to replace the antiquated master file. These master files are based on flat files with weekly updates achieved by batch processing of a sequential file repository, taking two weeks to update taxpayer tax accounts. This batch process compares poorly to the real-time updates provided by all other financial institutions. The delay in updating data allows data inconsistencies to develop among the various applications in use across the IRS. These inconsistencies prevent IRS employees from being able to resolve many taxpayer issues on the first attempt, which increases taxpayer burden. By providing daily or real-time updates to taxpayer accounts, CADE will enable the Accounts Management Services (AMS) project to provide real-time access to taxpayer account information containing current data.

CADE processed more than 11 million returns for Filing Season 2007 on a modernized and secure platform, including numerous schedules and forms such as Form 1040, *U.S. Individual Income Tax Return*, Form 1040-EZ, *Income Tax Return for Single Filers and Joint Filers with No Dependent*, and Form 1040-A, *U.S. Individual Income Tax Return*. In addition, CADE issued over \$11 billion in refunds. As CADE moves the IRS towards its long-term IT modernization vision, it plays a significant role in providing the technology to facilitate quick access to compliance data. Access to this data is a critical component in the effort to close the tax gap. The IRS intends to continue providing better tools to improve compliance through early detection, better case selection, and better case management. In this regard, CADE serves as the foundation of IRS modernization.

In 2009, the IRS plans to continue the development of CADE in stages. CADE will continue development by improving the infrastructure to allow continuous processing and transaction based recovery, and by adding an interface to the Integrated Data Retrieval System to provide new opportunities for business functionality. When fully operational, the CADE database will house tax returns information for more than 200 million individual and business taxpayers.

#### **Accounts Management Services (AMS) - \$26.2 million**

The IRS will continue the development and deployment of the AMS project. The ability to provide immediate access to integrated account data, enable real-time transaction processing, and settle accounts on a daily basis is critical to improving customer service and business results. Realizing these capabilities requires implementing tools that allow retention of taxpayer accounts in the modernized CADE database through on-line access, monitoring, and adjustment.

In FY 2009, IRS plans to add AMS release functionality to convert the Desktop Integration inventories to the Document Management Framework and increase the number of cross-functional capabilities with CADE. It will also create a modernized user interface for inputting agreements on CADE and/or Current Processing Environment accounts with decision support capability. AMS will develop the functionality to increase the business value by improving accuracy and efficiency with penalty abatement, balance due processing, and notice review capabilities to retain more accounts in CADE.

When completed, AMS will provide the data presentation services to display and validate changes to update taxpayer accounts. AMS will store and manage IRS activities such as work assignments, transfers, case closures, and the generation of letters to taxpayers. AMS will provide the front-end applications for adjustments, penalties, interest, abatements, credit and debit transfers, name and address changes, bankruptcies, installment agreements, changes to the automated treatment streams, and many other taxpayer account-related functions required for customer service and compliance. AMS will provide applications that monitor taxpayer accounts for follow-up activity or deferred actions.

## **Modernized e-File (MeF) - \$25 million**

The MeF project provides a standard filing structure for all IRS return types, a robust platform that can meet performance and capacity needs with enhanced and up-to-date technologies, and a greater appeal to external customers and stakeholders. With MeF, the IRS will store all tax return data in XML format in a modernized Tax Return Database (MTRDB) allowing authorized viewers of the data to see the entire tax return online over the Internet. Once fully implemented, all tax returns and transmission files will adhere to the formal IRS rules (schemas). MeF initially covered Form 1120, *U.S. Corporation Income Tax Return*; Form 1120-S, *U.S. Income Tax Return for an S corporation*; and Form 990, *Return of Organization Exempt from Income Tax*. In January 2007, the IRS also brought Form 1065, *U.S. Return of Partnership Income*, onto the modernized platform. Plans call for implementing Form 1040; Form 1041, *U.S. Income Tax Return for Estates and Trusts*; and the family of Forms 94X, *Employment/Unemployment Tax*, to the MeF environment. In January 2008, MeF Release 5 added the Foreign Tax Return (1120F) and the Non-Profit e-Postcard (990N). The 990N was a late addition to Release 5 and was the result of an e-file mandate contained in the Pension Protection Act passed in August 2006. A capacity and performance model and a series of engineering enhancement recommendations were also developed during Release 5.

In FY 2007, the IRS started development of Release 6 (1040 Phase I). Release 6 will include Form 1040 and 10 other schedules and supporting forms, including Schedule A, *Itemized Deductions*; Schedule B, *Interest and Ordinary Dividends*; and Schedule D, *Capital Gains and Losses*, as well as deliver the base infrastructure and all 1040 interfaces. Release 6 will go into production in 2009 and reach 61 percent of the individual e-File population, or approximately 55.1 million filers.

In FY 2009, the IRS will continue development of Release 7 (1040 Phase II) which initiated development in FY 2008. Release 7 will roll out an additional 90 supporting schedules and forms that will expand the reach of MeF to 99 percent of the e-File population, or approximately 93.7 million filers.

## **Core Infrastructure - \$32.0 million**

Core infrastructure provides critical services in architecture, engineering, and deployment of a standardized, consolidated, virtualized, and secure modernized production environment for use by major and non-major projects. The continued development and management of this infrastructure aligns with the IRS Modernization Vision & Strategy (MV&S) by incorporating the identification and development of common infrastructure, security, and application integration services for use and re-use by major and non-major projects. By leveraging this shared infrastructure, projects can speed time to delivery and reduce application development and maintenance costs.

A significant portion of the IRS technology infrastructure supporting the core tax processing systems is composed of incompatible mainframe computers, mid-range systems, multiple workstation configurations, and insufficient security controls. Most of these systems are incompatible due to dissimilar operating systems, hardware configurations, software configurations, and business applications. Stand-alone networks

further complicate access to these systems, especially by IRS employees who need to use several systems to perform their jobs – including resolving taxpayers’ problems. The nature of the IRS legacy infrastructure requires significant time and money to manage, maintain, and update these systems and networks. While the IRS has done much to improve and modernize this infrastructure, more work is needed. Once modernized, the environment needs to be continually refreshed as new technologies become available to support the business needs of the IRS and improve compliance to reduce the tax gap.

### Infrastructure Shared Services

Resources will deliver fully-integrated shared IT development and production infrastructure, which includes hardware, software, shared applications, data, telecommunications, security, and an enterprise approach to systems and operations management. These funds support the identification and management of project-related infrastructure requirements and the engineering and acquisition of all components, hardware, and software, needed for the development, test, and production environments. Technical guidance and direction is provided to all projects, along with a level of support services, which enables all projects to use the common integrated and shared infrastructure. This approach results in overall reductions in time and dollars to develop, deploy, and maintain the infrastructure and business applications that use the infrastructure.

Core infrastructure activities include the continued management of, and enhancements to, the development, integration, and test environment for the applications using the modernized environment. This approach allows the IRS to develop infrastructure and common service solutions usable across multiple projects, extending into the legacy environments. By leveraging this shared infrastructure, projects can speed time to delivery and reduce application development and maintenance costs, as well as eliminate unnecessary duplicative capabilities.

IRS will further develop and enhance the shared enterprise infrastructure services in support of the increased number of major and non-major projects requiring use of the modernized infrastructure in support of business requirements. Integral to the success of these projects is the need to provide core infrastructure engineering services in capacity planning and performance engineering, as well as in implementing performance monitoring tools and processes to ensure availability and reliability of IRS systems and applications, to include use of IRS portals and access to needed services and data. This increase is necessary to support the identification, engineering, and development of additional infrastructure, security, and application services for planned re-use by Modernization Vision & Strategy (MV&S) projects in support of a Service Oriented Architecture (SOA).

## Development, Integration, Testing (DITE)

Funding will support a number of projects that utilize the DITE to help address development, integration and testing needs; maintain Federal Information Security Management Act compliance using updated security monitoring tools; and provide a virtualized environment for remote application developers. DITE is a standardized development and test environment comprised of all of the modernized infrastructure components and applications that are needed by projects planning to use and integrate into the modernized production environment. DITE uses streamlined processes and standard tools that enable thorough development and testing in a controlled environment ensuring that projects work effectively and seamlessly within the modernized production environment. Its primary components are a Virtual Development Environment (VDE) and an Enterprise Integration and Test Environment (EITE). The VDE provides a software development environment, enabling geographically distributed developers access to standardized tools, information, and services in support of the modernization projects. The EITE provides a more structured, production-like, comprehensive environment to support integration and testing of projects before deployment into production.

## **Architecture, Integration & Management (AI&M) - \$35.0 million**

AI&M provides management operations essential to delivering a program of the magnitude, nature, and complexity of BSM. To date, overall financial performance continues to demonstrate successful, sound, and sustainable BSM financial management discipline. Each primary AI&M component performs a different and critical role. Major AI&M components are:

- **Architecture & Integration (A&I):** Ensures system solutions meet business needs and provides a single authoritative source of guidance for effectively integrating each project as it moves from the development environment to the business environment. A recurring theme for activities in this area is to develop management processes in a manner that facilitates their extension and adoption into non-major projects.
- **Business Integration (BI):** Ensures BSM services are aligned with each IRS operating unit's vision and enable projects to deliver desired business results. BI activities include the following areas: Modernization Vision and Strategy, Demand Management, Cost Estimation, Transition Management, Business Rules and Requirements Management, and Budget Management. BI delivers enterprise-wide processes and standards that enable the IRS to define, manage, and successfully deliver its IT portfolio.
- **Management Processes (MP):** 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 and compliance

with program oversight requirements. The dynamic nature of modernization drives BSM to continually assess its operation and implement improvements.

- **Program Management (PM):** Provides a single point of accountability for contractor activities. BSM PM operations will continue to focus on sustaining improvements to program performance, improving management process disciplines, and ensuring delivery of taxpayer benefit. In terms of program performance, the emphasis is on delivery of projects on time, on budget, and at or above quality targets. BSM PM will also continue to work to eliminate barriers to effective competition of business solutions. PM activities include four main areas: Program Executive Management, Business Services, Contracts and Procurement, and Document Management.
- **Federally Funded Research & Development Center (FFRDC):** Provides national experts in systems engineering, architectural design and development, IT, security, and other technical disciplines that are critical to modernization success. FFRDC's broad visibility, deep domain knowledge, and objectivity allow it to provide an independent voice to executive management staff and is widely viewed as a source of management guidance on difficult issues.

#### **BSM Labor - \$43.4 million**

Of the \$43.4 million, \$42 million is for BSM labor and \$1.4 million is for labor inflation adjustments. These funds provide for government labor costs associated with the development of the BSM projects.

#### **Management Reserve - \$2.3 million**

Funds will be used to cover unanticipated cost adjustments for the BSM projects.

### 3.2.9 – Budget and Performance Plan

Dollars in Thousands

Business Systems Modernization					
Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2007 Enacted <sup>1</sup>	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	\$113,702	\$158,758	\$212,659	\$267,090	\$222,664
Reimbursable Resources	0	0	0	0	0
Mandatory Appropriations - User Fees	0	0	0	0	0
<b>Total Resources</b>	<b>\$113,702</b>	<b>\$158,758</b>	<b>\$212,659</b>	<b>\$267,090</b>	<b>\$222,664</b>

<sup>1</sup> FY 2007 Enacted represents the approved FY 2007 Operating Plan.

Business Systems Modernization Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2007 Target	FY 2008 Target	FY 2009 Target
BSM Project Cost Variance by Release/Subrelease E	N/A	*	*	10.0%	10.0%	10.0%
BSM Project Schedule Variance by Release/Subrelease E	N/A	*	*	10.0%	10.0%	10.0%

\* Cost and Schedule variance is based on +/- 10% and is reported on major project segments.

### Description of Performance

Increased reliance on technology and its impact on business processes and the ability to maintain a talented workforce are positively changing how IRS employees conduct business and deliver services. For FY 2007, 92 percent of the major project segments were within the target of +/- 10 percent cost variance, and 77 percent of the major project segments were within the +/- 10 percent schedule variance.

The IRS has made progress in meeting project deliverables and has continued to build foundational processes, controls and governance that are essential to continued success in managing the complex system development efforts. In FY 2007, the IRS implemented a tiered, enterprise-wide governance model for its IT investment projects. The new governance structure incorporates variance and risk thresholds and effectively promotes portfolio management, control, and accountability.

The IRS also expanded the scope of its five-year IT Modernization Vision & Strategy that addresses priorities for modernizing front-line tax administration functions to include domains for security and internal management portfolios in order to put in place the capability for future enhancements. The strategy guides IT investment decision-making for FY 2007. Important aspects include: establishing partnerships among IT and business leadership; leveraging existing systems; emphasizing the delivery of smaller, incremental releases; and unifying the portfolio-level view of investments.



Significant modernization accomplishments for FY 2007 include:

- Processed over 11 million returns and issue refunds of \$11.6 billion in the Customer Account Data Engine (CADE), including filing season changes and capabilities to handle the Telephone Excise Tax Refund and the 1040 schedules.
- Delivered Modernized e-File (MeF) Release 4.0, which enhanced electronic filing capabilities for Partnership Returns (Forms 1065, *U.S. Return of Partnership Income*, and 1065-B, *U.S. Return of Income for Electing Large Partnership*) and made all required extender legislation changes, meeting the mandate for taxpayers with 100 or more partners to file electronically. MeF received over two million corporate, non-profit, and partnership forms.
- Delivered Filing & Payment Compliance Release 1.2, which transferred over 51,000 cases to Private Debt Collectors, resulting in the collection of more than \$31 million.
- Deployed the first two releases of the Accounts Management Services (AMS) system which is designed to enable authorized users to resolve taxpayer issues by accessing integrated account data. AMS builds the applications and databases that enable IRS employees to use the data in CADE to facilitate faster, more accurate issue resolution and results in quick and accurate access to authoritative account information in response to customer inquiries. AMS delivered functionality to provide daily rather than weekly updates to the authoritative account and began the Domain Architecture to describe the business vision and supporting conceptual technical architecture that will drive AMS releases for the next five years.

In addition to the key modernization projects, several initiatives and improvements were undertaken in 2007 to effectively integrate the systems with the legacy production environment and improve the technology infrastructure. New and improved processes were also put in place to better integrate business and technology strategies and allow the IRS to operate more efficiently with improved productivity. The IRS:

- Institutionalized the use of Enterprise Architecture into the Modernization Vision & Strategy process (and received the prestigious E-Gov award as the Best Civilian Agency to use Enterprise Architecture for Government Business Transformation).
- Completed the Enterprise Service Oriented Architecture strategy and established the process to identify Enterprise Common Services in order to achieve operation excellence and cost savings.
- Delivered high-priority portal platform improvements and stabilized operations to meet near term needs for the 2007/2008 filing seasons for tax practitioners and internal IRS users.
- Integrated the Enterprise Application Integration Broker into the core infrastructure to enable the use of common services to leverage data and applications between legacy and modernized environments.

- Expanded the Infrastructure Center of Excellence to include configuration management, measurement and analysis, capacity planning and performance engineering, and project monitoring and control.

Tax administration in the 21st century requires improved IT solutions for the IRS. For FY 2008 and FY 2009, the IRS is committed to continuing to make improvements in technology by:

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

As the IRS continues to upgrade and modernize its IT infrastructure and systems in FY 2009, it will reduce taxpayer burden by increasing and improving services offered to taxpayers and delivering the taxpayer service and enforcement programs more effectively and efficiently.

## 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 insurance tax credit included in P.L. 107-210, the Trade Adjustment Assistance Act (Trade Act of 2002).

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

The HITCA Budget request for FY 2009 is \$15,406,000 in direct appropriation and 16 FTE. This is an increase of \$171,000 or 1.1 percent, and a decrease of 1 FTE, over the FY 2008 enacted level of \$15,235,000 and 17 FTE.

### 2.1 – Budget Adjustments Table

Dollars in Thousands

	FTE	\$000
<b>FY 2008 Enacted</b>	<b>17</b>	<b>\$15,235</b>
Changes to Base:		
Maintaining Current Levels		\$322
Pay Annualization		20
Pay Inflation Adjustment		53
Non-Pay Inflation Adjustment		249
Efficiencies/Savings	(1)	(\$151)
Efficiency Savings	(1)	(151)
Subtotal Changes to Base	(1)	\$171
<b>Total FY 2009 Base - Current Services</b>	<b>16</b>	<b>\$15,406</b>
Program Changes:		
Subtotal FY 2009 Program Changes		
<b>Total FY 2009 Request</b>	<b>16</b>	<b>\$15,406</b>

## 2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Health Insurance Tax Credit Administration	FY 2007 Enacted	FY 2008 President's Budget	Cong. Action including Rescission	FY 2008 Enacted Level	FY 2009 Requested Level
<b>FTE</b>	17	17	0	17	17
<b>Object Classification:</b>					
11.1 Full-Time Permanent Positions.....	\$2,312	\$2,395	\$0	\$2,395	\$2,335
11.3 Other than Full-Time Permanent Positions.....	0	0	0	0	0
11.5 Other Personnel Compensation.....	22	23	0	23	24
11.8 Special Personal Services Payments.....	0	0	0	0	0
<b>11.9 Personnel Compensation (Total).....</b>	<b>\$2,334</b>	<b>\$2,418</b>	<b>\$0</b>	<b>\$2,418</b>	<b>\$2,359</b>
12.0 Personnel Benefits.....	358	371	0	371	352
13.0 Benefits to Former Personnel.....	0	0	0	0	0
21.0 Travel.....	144	148	0	148	150
22.0 Transportation of Things.....	0	0	0	0	0
23.1 Rental Payments to GSA.....	192	198	0	198	202
23.2 Rent Payments to Others.....	0	0	0	0	0
23.3 Communications, Utilities, & Misc.....	4	0	0	0	0
24.0 Printing and Reproduction.....	5	0	0	0	0
25.1 Advisory & Assistance Services.....	0	0	0	0	0
25.2 Other Services.....	11,812	12,093	0	12,093	12,335
25.3 Purchase of Goods/Serv. from Govt. Accts.....	0	0	0	0	0
25.4 Operation & Maintenance of Facilities.....	0	0	0	0	0
25.5 Research & Development Contracts.....	0	0	0	0	0
25.6 Medical Care.....	0	0	0	0	0
25.7 Operation & Maintenance of Equipment.....	0	0	0	0	0
25.8 Subsistence & Support of Persons.....	0	0	0	0	0
26.0 Supplies and Materials.....	7	7	0	7	8
31.0 Equipment.....	0	0	0	0	0
32.0 Lands and Structures.....	0	0	0	0	0
33.0 Investments & Loans.....	0	0	0	0	0
41.0 Grants, Subsidies.....	0	0	0	0	0
42.0 Insurance Claims & Indemn.....	0	0	0	0	0
43.0 Interest and Dividends.....	0	0	0	0	0
44.0 Refunds.....	0	0	0	0	0
91.0 Unvouchered.....	0	0	0	0	0
<b>Total Budget Authority.....</b>	<b>\$14,856</b>	<b>\$15,235</b>	<b>\$0</b>	<b>\$15,235</b>	<b>\$15,406</b>
<b>Budget Activities:</b>					
Health Insurance Tax Credit Administration.....	\$14,856	\$15,235		\$15,235	\$15,406
<b>Total Budget Authority.....</b>	<b>\$14,856</b>	<b>\$15,235</b>	<b>\$0</b>	<b>\$15,235</b>	<b>\$15,406</b>

<sup>1</sup> FY 2007 Enacted represents the approved FY 2007 Operating Plan.

## 2.3 – Appropriation Detail Table

Dollars in Thousands

Health Insurance Tax Credit Administration										
Resources Available for Obligation	FY 2007		FY 2007		FY 2008		FY 2009		% Change	
	Obligations		Enacted <sup>1</sup>		Enacted		Request		to FY 2009	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>										
Health Insurance Tax Credit Administration	10	\$14,850	17	\$14,856	17	\$15,235	16	\$15,406	-5.88%	1.12%
<b>Subtotal New Appropriated Resources</b>	<b>10</b>	<b>\$14,850</b>	<b>17</b>	<b>\$14,856</b>	<b>17</b>	<b>\$15,235</b>	<b>16</b>	<b>\$15,406</b>	<b>-5.88%</b>	<b>1.12%</b>
<b>Other Resources:</b>										
Recoveries										
Offsetting Collections - Reimbursable										
Available multi-year/no-year funds										
50% Carryover										
Transfers In/Out										
Mandatory Appropriations - User Fees										
<b>Subtotal Other Resources</b>	<b>0</b>	<b>\$0</b>	<b>0</b>	<b>\$0</b>	<b>0</b>	<b>\$0</b>	<b>0</b>	<b>\$0</b>	<b>0.00%</b>	<b>0.00%</b>
<b>Total Resources Available for Obligation</b>	<b>10</b>	<b>\$14,850</b>	<b>17</b>	<b>\$14,856</b>	<b>17</b>	<b>\$15,235</b>	<b>16</b>	<b>\$15,406</b>	<b>-5.88%</b>	<b>1.12%</b>

**3A – Health Insurance Tax Credit Administration** (\$15,406,000 in direct appropriation): The HITCA budget activity funds costs to administer a refundable tax credit for health insurance to qualified individuals.

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

The Trade Act of 2002 required the IRS to develop and operate a system to provide an advance, refundable tax credit for certain individuals who receive a trade readjustment allowance or benefit from the Pension Benefit Guaranty Corporation (PBGC). This activity maintains the administrative and direct support for the HITCA program office and the staff charged with administering 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 2007 Enacted <sup>1</sup>	FY 2008 Enacted	FY 2009 Request
Appropriated Resources	\$19,993	\$14,850	\$14,856	\$15,235	\$15,406
Reimbursable Resources	0	0	0	0	0
Mandatory Appropriations - User Fees	0	0	0	0	0
<b>Total Resources</b>	<b>\$19,993</b>	<b>\$14,850</b>	<b>\$14,856</b>	<b>\$15,235</b>	<b>\$15,406</b>

<sup>1</sup> FY 2007 Enacted represents the approved FY 2007 Operating Plan.

Health Insurance Tax Credit Administration Budget Activity Measure	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2007 Target	FY 2008 Target	FY 2009 Target
Cost per Taxpayer Served (\$)	N/A	\$13.71	\$14.90	\$14.25	\$14.25	\$14.25
Sign-up Time (days) - Customer Engagement	98.1	98.7	93.3	97.0	97.0	97.0

#### Description of Performance

The Department of Labor, state workforce agencies, and the PBGC are responsible for determining potentially eligible HCTC taxpayers. The IRS administers the HCTC by working with health plan administrators to arrange direct payment of health plan premiums.

In FY 2007, the IRS processed approximately 8.6 million HCTC eligibility records, made nearly 175,000 HCTC payments on behalf of taxpayers, handled almost 100,000 inbound HCTC telephone calls, and mailed over 400,000 pieces of outbound correspondence. In addition, the IRS maintained a HCTC program customer satisfaction level of 90 percent.

The FY 2007 cost per participant served was \$14.90, which was higher than the year-end target of \$14.25 due to a recent large print order. In addition, the sign-up time was 93.3 days, which was 4 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).

The IRS also implemented new business processes to generate efficiencies, improve call handle time, and automate manual processes. In addition, the IRS completed a comprehensive study of enrollment time, a critical factor in determining access to the credit by potential enrollees, and continues to work with the Department of Labor to improve access to the credit. The IRS continues to look at ways to reduce the cost of program administration beyond the 50 percent already achieved since the program was introduced in 2003.

In future years, the IRS will maintain a balanced approach to administering the HITCA program by communicating program changes, encouraging eligible taxpayers to comply, and working closely with other Departments to ensure eligible individuals receive the HCTC. Current enrollment in the HCTC program has been stable at 15,000 to 16,000 participants claiming the advance credit each month.

## **Section 4 – Supporting Materials**

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### **4A – Human Capital Strategy Description**

#### **Introduction**

With over 94,000 employees located nationwide, the IRS is the largest bureau in the Department of the Treasury. Over 70 percent of the IRS budget funds human capital costs. The large seasonal workforce accounts for over 24 percent of the IRS employee population during peak workload seasons.

The IRS is focusing on workforce retention and replenishment, leadership succession planning, and competency gap assessment and resolution. To ensure strategic direction of human capital management, the IRS established four human capital strategic goals:

- Goal 1:** Continually assess and shape the workforce to efficiently accomplish the IRS mission
- Goal 2:** Increase employee proficiency and engagement to enhance tax law compliance
- Goal 3:** Leverage human capital technology to reduce burden
- Goal 4:** Enable quick and agile management action to achieve business goals

The FY 2008 human capital priorities supporting these goals include:

- Continued emphasis on customer service and satisfaction;
- Timely communication and guidance;
- Streamlining of processes;
- Continual employee engagement to improve business results; and
- Expanding the IRS look at technology.

#### **Recruitment**

The IRS continues to place significant focus on recruitment and hiring of mission-critical talent from both internal and external sources. The IRS planning and review process ensures evaluation of short- and long-term hiring goals and objectives to determine resource allocation and operational activities of the strategic recruitment and hiring office are on target. The IRS also has developed and implemented a multi-year recruitment and marketing plan to target a diverse applicant pool, coupled with a comprehensive assessment strategy to identify applicants with the knowledge, skills, and abilities necessary to meet the current and future needs of the business. In addition, the IRS continues to refine and implement corporate hiring goals and strategies.

The IRS consistently emphasizes the need to review and improve its manager-to-employee span of control and to continue to redirect needed resources to front-line operations. The IRS also increased its use of workforce planning tools to develop a more robust link between business plans (e.g., examination plans) and workforce

replenishment. The IRS workforce plan and the resulting framework document outline the mechanism to incorporate the workforce strategy into the planning and budgeting processes.

## Retention

The IRS is addressing the human capital impact of increasing employee retirements, workforce migrations within and outside the IRS, and other broad-based workforce issues. The number of IRS retirement eligible employees has grown over the past five years and is expected to continue to grow. Approximately 3 percent of IRS employees migrate to a new position each year and create competency gaps. This is particularly evident in the enforcement and compliance programs.

Currently, 39 percent of IRS executives and 20 percent of other IRS managers are eligible for retirement and they are retiring at a higher rate than the non-management workforce. The IRS is identifying retention tools and working to establish consistent and objective standards for utility. Consistent monitoring and evaluating will ensure relevance to existing needs and objectives and ensure close linkage to IRS competency based workforce initiatives.

**Full-Time Permanent IRS Employees "On Board" and Eligible to Retire as of December 8, 2007**

Fiscal Year	Executive		Manager		Other		Total	
	Number of Employees	Percent	Number of Employees	Percent	Number of Employees	Percent	Number of Employees	Percent
2008	99	39.1%	1,845	23.0%	11,709	16.3%	13,653	17.1%
2009	27	10.7%	456	5.7%	3,139	4.4%	3,622	4.5%
2010	23	9.1%	450	5.6%	3,055	4.3%	3,528	4.4%
2011	8	3.2%	401	5.0%	3,104	4.3%	3,513	4.4%
2012	14	5.5%	404	5.0%	2,907	4.1%	3,325	4.2%
2013 and Beyond Not Eligible *	82	32.4%	4,474	55.7%	47,716	66.6%	52,272	65.4%
<b>Total</b>	<b>253</b>	<b>100.0%</b>	<b>8,031</b>	<b>100.0%</b>	<b>71,633</b>	<b>100.0%</b>	<b>79,917</b>	<b>100.0%</b>

\* includes employees such as reemployed CSRS annuitants and "no code applies" employees.

The IRS-wide strategic approach to employee retention is a priority and will encompass on-going identification of skill sets and positions in need of retention effort and utilization of appropriate retention tools to ensure that the IRS is thought of as an employer of choice.



## The Office of Personnel Management's Strategic Management of Human Capital Areas

- 1. Strategic Alignment:** To strategically and tactically meet human capital challenges, the IRS developed Human Capital Strategic and Implementation Plans to align human capital management with the agency's mission. These plans set forth a clear line of sight between the achievement of the Treasury Human Capital Strategic Goals, the IRS Strategic Goals and its Human Capital Strategic Goals, the President's Management Agenda, and the Human Capital Assessment and Accountability Framework. Specifically, the Human Capital Strategic Implementation Plan establishes measures for monitoring the IRS performance in achieving specific objectives, processes, and projects.

The four Human Capital Strategic Goals are the foundation of the IRS Human Capital Strategy. This corporate approach for strategically managing human capital ensures that the IRS builds and maintains the workforce needed to carry out its mission in an efficient and effective manner therefore "Linking Human Achievement with Business Results."

The IRS workforce plan describes the effective management of all key IRS positions. Focusing on mission critical occupations, the plan will be used in the planning and budgeting cycle to align hiring levels with the IRS Human Capital Strategic and Implementation Plans. The IRS is well underway in the development of a Workforce Planning Framework for IRS-wide implementation. This framework will ensure the consistency in how the IRS acquires and manages needed talent.

- 2. Leadership and Knowledge Management:** The comprehensive corporate Leadership Succession Program of the IRS will promote the replenishment of talented leaders as the IRS mitigates the anticipated impact of retirements, including training of current and potential leaders to ensure they possess the needed competencies. The cornerstone for this training is the establishment of an IRS Leadership Competency Model describing the behaviors required for leadership success in the IRS. The competencies are linked to IRS Managers' Performance Plan Core Responsibilities and drive all aspects of IRS leadership selection, development, evaluation, and compensation.

In the summer of 2007, the IRS launched an automated Leadership Succession Review (LSR) Process and Training Program that will enable the IRS to identify talent for leadership positions IRS-wide. LSR will detect gaps in leadership bench strengths for critical positions and target management training and development.

The IRS is establishing best practices and using innovative approaches within its succession management program for the Senior Executive Service (SES) to identify, recruit, and develop talented leaders. These efforts are critical as the IRS faces an upcoming shortage of leaders due to the baby boomer retirement wave and increased competition for senior leadership talent from both the private and public sectors. As a result, the IRS is transitioning to a new streamlined method of identifying, selecting, and developing individuals for the SES.

- 3. Results-Oriented Performance Culture:** One of the methods the IRS uses to link performance with compensation is paybanding. The IRS implemented pay-for-performance payband systems for its front-line managers, department managers, senior managers, and senior executives. Under the new payband systems, compensation is linked to performance. These performance-based increases replace the annual adjustments paid under the Federal General Schedule pay system. Program evaluations are underway to ensure a solid foundation in performance management and its critical linkage to pay.
- 4. Talent Management:** The IRS made significant strides in the identification of the competencies needed, both by its leadership and mission critical occupations, throughout the IRS. The identified competencies are used for recruitment, selection, and development purposes. Career path information is available online to employees to provide identification of the competencies needed to successfully qualify for, and perform in, the career of their choice. To further the IRS evaluation of its workforce's competencies, the Competency Assessment Center (CAC) is provided as an online portal for employee assessments on various competencies. To date, IRS launched two assessments on Individual Taxpayer Advisory Specialists (formerly Taxpayer Resolution Representative) and Special Investigators through this portal.
- 5. Accountability:** The IRS Human Capital Strategic Accountability Framework encompasses the IRS Human Capital Strategic Plan, tactical Implementation Plan, Program Assessments, Delegated Examining Unit Reviews and Performance Indicators and Targets to monitor and ensure the accomplishment of long-range goals and objectives. It also aligns with Treasury and the Office of Personnel Management's Presidential Management Agenda requirements.

## **4B – Information Technology (IT) Strategy**

### Modernization Vision and Strategy (MV&S)

The IRS implemented an information technology (IT) investment strategy, known as the Modernization Vision & Strategy (MV&S), which identifies potential IRS IT investments in business domains directly related to front-line tax administration functions such as submission processing, managing taxpayer accounts, customer service, reporting compliance, filing and payment compliance, and criminal investigation. In addition, there are five crosscutting service domains – enterprise data, IT service management, security and privacy, IT human capital management, and common business services - that may be leveraged across both the technical and business domains to identify opportunities for projects across the business to use common solutions, platforms, data sources, and system components.

The IRS regularly updates the MV&S to address both the full scope of tax administration functions and changing business priorities, including planning for the consolidation, retirement, and potential reuse of many legacy systems. The IRS has recently completed the third phase of the MV&S approach.

During the first year of implementing the MV&S, the IRS focused on the business priorities needed to enhance and improve service and enforcement capabilities. IT also introduced new investment decision support programs that included solution concept and project estimation services. By applying a more uniform, disciplined, and rigorous approach to the development of solutions concepts and project estimates, future investment decisions can be based on data that are more reliable and consistent.

In the second year, the MV&S focused on expanding the business scope to include internal management and security and privacy domains. In addition, the service domains were further defined to address crosscutting technical opportunities, expand the common business services which identify opportunities, leverage services that support multiple domains and data, and focus on all aspects of data management. Technical domains also were introduced and high-level strategies were formulated. The technical domains are Applications Development; Enterprise Networks; Enterprise Services; End User Equipment and Services; and Enterprise Operations. These domains focus on the delivery of base products and services such as end-user support, networks, and storage.

The IRS is entering the third year of the MV&S and the strategy will expand to represent and include all technology services and products delivered by the IRS. The technical and service domains will propose potential projects and initiatives using the solution concept and project estimation services in order to ensure discipline, consistency, and uniformity across all IT investments. New business domains, including functions that support tax administration such as the Taxpayer Advocate and Chief Counsel, will be added and will build upon the fundamental principle of domain strategies driving investments. The IRS will begin developing domain architectures for each of the major business areas in tax administration, thus providing a framework for diagnosing, analyzing, and solving specific business issues that result from common architecture misalignments.

In the long term, the MV&S will build out the domain architectures, improve the IT services and products, refine roles and responsibilities, and ultimately define a comprehensive IT investment portfolio that integrates budget formulation and execution.

#### Information Technology Major IT Investment Portfolio

The IRS is submitting 33 IT investments for inclusion in the FY 2009 IT portfolio. All support the mission and strategic goals of the IRS. These investments will include routine system maintenance to sustain “steady state” capacities as well as larger-scale efforts to develop, modernize, or enhance IT system capabilities. Below are brief descriptions of some of the major investments (excluding the business modernization projects, which are described separately in the Business Systems Modernization section).

- **Automated Collection System (ACS)** – ACS is a centralized production system located at the Martinsburg Computing Center. ACS controls the Integrated Data Retrieval System (IDRS) balance due and nonfiler cases requiring telephone contact with the taxpayer for resolution. ACS uses case management abilities to contact taxpayers, review their case histories, and issue notices, liens, or levies to resolve the cases. Taxpayer contact is accomplished through telephone calls via Predictive Dialer and through correspondence to taxpayers and third parties.
- **Business Master File (BMF) and Employee Master File (EPMF)** – These are the authoritative data stores for taxpayers’ accounts other than Individual Filers. The BMF contains the tax records of businesses, tax exempt organizations, estates, and gift tax filers. Accounts are updated, taxes are assessed, and refunds are generated as required each tax filing period.
- **Correspondence Examination Automated System (CEAS)** – CEAS provides phases of unattended case processing for discretionary inventories, workload resolution, issue, document, and inventory management. The CEAS system will incrementally replace the Reports Generation Software applications for campus reporting compliance as the inventory management/report writing system for all campus examination work.
- **Correspondence Imaging System (CIS)** – CIS improves the quality of customer service by providing on-line access to images of taxpayer correspondence. This will aid in the efficient resolution of subsequent telephone and written inquiries. CIS provides customer service representatives with an online ability to view, read, forward, save, retrieve, print, and manage incoming taxpayer inquiries.
- **Electronic Management System (EMS)** – This is a “front-end” processing system that receives, validates, stores, and forwards taxpayer filings to the mainframe Electronic Filing (ELF) systems and acknowledges electronic files containing tax documents. EMS is the IRS main processing system for electronic information exchanges between the IRS and external trading partners.

EMS receives sensitive but unclassified tax information, performs validation for each form type/format, provides a unique acknowledgement receipt, and rejects transmissions not meeting validation requirements. Valid transmission files are made available for subsequent retrieval and processing by the mainframe ELF systems. These subsequent systems return acknowledgement files to EMS. The acknowledgements are sent to taxpayers in the same format as originally transmitted.

- **Enterprise Data Access Strategy (EDAS)** - Formally referred to as the Enterprise Data Warehouse, the EDAS provides tax exempt and government entities customers with electronically filed business returns in a relational format while also giving the IRS a consolidated database of tax return and account data. By analyzing the data on EDAS, the IRS can implement initiatives to improve tax compliance in one area that does not lead to a decrease in compliance in another area, thereby affecting the IRS ability to reduce the tax gap.
- **Integrated Customer Communications Environment (ICCE)** – ICCE provides interactive services (applications) in support of taxpayers, practitioners, and employees through multiple contact channels, including telephones and the web. ICCE interactive services include Automated Self Service Applications that help resolve tax law, compliance, collections, and refund issues as well as other inquiries. Where automated assistance is insufficient or not desirable, ICCE interactive services gather information from taxpayers/practitioners to help route the contact to the best possible non-automated assistance. ICCE focuses on interactive services that require access to taxpayer account information.
- **Integrated Collection System (ICS)** – ICS provides workload management, case assignment/tracking, inventory control, electronic mail, case analysis tools, and capabilities to support the Collection fieldwork. ICS is part of the IRS plan for overall automation of its activities. The objective of ICS is to deliver a computer system to automate many labor-intensive collection tasks.
- **Integrated Data Retrieval System (IDRS)** – IDRS is an IRS mission-critical system consisting of databases and programs supporting IRS employees working active tax cases. IDRS manages data retrieved from the Tax Master Files allowing IRS employees to take specific actions on taxpayer account issues, track status, and post updates back to the Master Files. IDRS provides for systemic review of case status.
- **Interim Revenue Accounting Control System (IRACS)** – IRACS records tax revenue owed to the federal government and maintains records of assessments, collections, accounts receivables, refunds, over-assessments, and other elements of revenue accounting. All data entry funds contain validity and consistency checks to help ensure that the integrity of the database is protected from invalid, unbalanced, and duplicate data. IRACS provides ongoing maintenance of data to support the daily operations including maintenance of the existing application, annual updates, and answering queries from IRS customers.

- **Individual Master File (IMF)** – This is the authoritative data store for taxpayers’ accounts of individuals and sole proprietorships. The IMF project maintains the IMF data. IMF accounts are updated, taxes are assessed, and refunds are generated as required each tax filing period.
- **Information Returns Processing (IRP)** – IRP consist of a group of compliance projects providing data and support for the IRS to administer the U.S. tax system efficiently and effectively. IRP processes more than one billion information documents each year and maintains a data store of more than eight billion information documents. IRP performs compliance analyses with these documents and Master File account data. IRP also provides data and analyses to business functions throughout the IRS, as well as external federal and state trading partners.
- **Integrated Submission and Remittance Processing (ISRP)** – ISRP is a mission-critical mixed life cycle project that provides both individual and business taxpayers a method to file paper tax returns. ISRP provides a method to process remittances and provides for the processing of various forms at eight submissions processing sites throughout the country. As ISRP data entry operators enter the information from the various paper documents, it is converted into electronic data that are used by downstream operations such as financial information systems. The processing capacity and performance of ISRP supports the mandatory processing timeliness requirements imposed by Congress and other agencies for the processing of tax returns, providing the taxpayers their refunds and notices, as well as depositing the revenue.

Additionally, ISRP provides remittance data, including check images, to the Remittance Transaction Research system for customer service representatives to search through electronically archived remittances. The performance gap in services offered by ISRP is reflected in the ability to process paper. Modernization partially replaces ISRP through electronic filing. The strategies resulting from Tax Administration Vision and Strategy eGOV are expected to replace ISRP fully by year 2012. Until that time, ISRP is needed to fill the gap.

- **Service Center Recognition/Image Processing System (SCRIPS)** – SCRIPS is a data capture, management, and storage system that uses high speed scanning and digital imaging technology to process tax documents. The system does character recognition from the imaged documents and stores images of the returns for access from internal IRS organizations. The perfected data are sent downstream for processing on the IRS Mainframe systems and Master File storage.
- **Tax Return Database (TRDB)** – The TRDB is a centralized corporate database containing the data submitted by taxpayers on their federal tax returns. The TRDB receives the return data from a variety of electronic submission systems, including those filed using an authorized e-file provider, through an online filing company or via a federal/state program.

## 4.1 – Summary of IT Resources Table

Dollars in Thousands

Information Technology Investments							
Major IT Investments / Funding Source	Budget Activity	FY 2006 & Earlier Enacted	FY 2007 Enacted	FY 2008 Enacted	% Change from FY07 to FY08	FY 2009 Requested	% Change from FY08 to FY09
Account Management Services (AMS) - Major	Information Technology Investments	11.800	1.570	44.270	2719.7%	47.949	8.3%
IRS BSM 20-0921-0-1-803	Information Technology Investments	11.800	0.000	37.520	100.0%	37.660	0.4%
IRS Taxpayer Services 20-0912-0-1-803		0.000	0.000	0.000	0.0%	3.360	100.0%
IRS Operations Support 20-0919-0-1-803	Information Services	0.000	1.570	6.750	329.9%	6.929	2.7%
Appeals Automation Environment (AAE)	Information Services	25.531	13.243	13.741	3.8%	14.089	2.5%
Automated Collection System (ACS) - Major	Information Services	8.674	4.843	4.613	-4.7%	4.723	2.4%
Business Master File	Information Services	51.887	12.284	13.121	6.8%	13.464	2.6%
Common Services (Portal)	Information Services	0.000	0.000	30.772	100.0%	34.132	10.9%
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		0.000	0.000	0.000	0.0%	3.360	100.0%
IRS Operations Support 20-0919-0-1-803	Information Services	0.000	0.000	30.772	100.0%	30.772	0.0%
Computer Security Audit Trails - (CSAT)	Information Services	0.000	0.000	0.000	0.0%	0.000	0.0%
Correspondence Examination Auto Support - Major Wintel (CEASMW)	Information Services	0.000	7.473	5.530	-26.0%	6.418	16.1%
IRS Operations Support 20-0919-0-1-803	Information Services	0.000	5.343	4.932	-7.7%	5.804	17.7%
IRS Operations Support (EITC) 20-09E9		0.000	2.130	0.598	-71.9%	0.614	2.7%
Correspondence Imaging System (CIS) - Release 2 - Major	Information Services	10.626	10.297	6.937	-32.6%	7.090	2.2%
Counsel Automated Systems Environment (CASE)	Information Services	27.036	28.498	27.501	-3.5%	28.150	2.4%
Criminal Investigation Management Information System (CIMIS) - Major	Information Services	0.000	3.086	1.361	-55.9%	0.561	-58.8%
IRS Enforcement 20-0913-0-1-999		0.000	0.800	0.815	1.9%	0.561	-31.2%
IRS Operations Support 20-0919-0-1-803		0.000	2.286	0.546	-76.1%	0.000	-100.0%
Customer Account Data Engine (CADE)	Information Technology Investments	448.979	122.380	80.158	-34.5%	80.722	0.7%
IRS BSM 20-0921-0-1-803	Information Technology Investments	396.179	112.877	68.000	-39.8%	68.300	0.4%
IRS Taxpayer Services 20-0912-0-1-803		8.665	2.230	2.320	4.0%	2.340	0.9%
IRS Operations Support 20-0919-0-1-803	Information Services	44.135	7.273	9.838	35.3%	10.082	2.5%
e-Services	Information Services	71.750	14.063	15.090	7.3%	15.407	2.1%
Electronic Fraud Detection System (EFDS)	Information Services	197.026	11.325	12.374	9.3%	12.640	2.1%
IRS Operations Support 20-0919-0-1-803	Information Services	134.096	7.825	8.874	13.4%	9.070	2.2%
IRS Operations Support (EITC) 20-09E9		62.930	3.500	3.500	0.0%	3.570	2.0%
Electronic Management System (EMS)	Information Services	183.310	8.898	6.848	-23.0%	6.993	2.1%
End to End Publishing - Major	Information Services	11.127	4.854	1.955	-59.7%	1.825	-6.6%
IRS Operations Support 20-0919-0-1-803	Information Services	11.127	4.854	0.439	-91.0%	1.159	164.0%
IRS Taxpayer Services 20-0912-0-1-803		0.000	0.000	1.516	100.0%	0.666	-56.1%
Enterprise Data Access Strategy (EDAS) (Formerly: Enterprise Data Warehouse)	Information Services	6.953	7.035	5.421	-22.9%	5.559	2.5%
IRS BSM 20-0921-0-1-803		0.000	0.000	0.000	0.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803		6.953	7.035	5.421	-22.9%	5.559	2.5%

## Continuation – 4.1 – Summary of IT Resources Table

Dollars in Thousands

Examination Desktop Support System (EDSS) - Release 2	Information Services	13.060	4.834	8.129	68.2%	8.078	-0.6%
IRS Enforcement 20-0913-0-1-999		0.000	0.000	2.664	100.0%	3.504	31.5%
IRS Operations Support 20-0919-0-1-803	Information Services	13.060	4.834	5.465	13.1%	4.574	-16.3%
Excise Files Information Retrieval System (ExFIRS) - Major	Information Services	0.000	0.471	0.000	-100.0%	0.000	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	93.267	19.342	5.709	-70.5%	5.834	2.2%
IRS BSM 20-0921-0-1-803	Information Technology Investments	80.536	19.342	0.000	-100.0%	0.000	0.0%
IRS Taxpayer Services 20-0912-0-1-803		0.662	0.000	0.240	100.0%	0.240	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	12.069	0.000	5.469	100.0%	5.594	2.3%
Financial Management Information System (FMIS)	Information Services	2.468	5.863	5.619	-4.2%	5.748	2.3%
Individual Master File (IMF)	Information Services	37.637	12.603	11.869	-5.8%	12.172	2.6%
Information Returns Processing (IRP)	Information Services	25.290	7.590	7.115	-6.3%	7.306	2.7%
Integrated Collection System (ICS)	Information Services	16.588	8.872	7.745	-12.7%	7.945	2.6%
Integrated Customer Communications Environment (ICCE)	Information Services	338.681	16.981	14.653	-13.7%	14.977	2.2%
Integrated Data Retrieval Systems (IDRS)	Information Services	78.955	17.645	15.741	-10.8%	16.151	2.6%
Integrated Financial System/CORE Financial System (IFS)	IRS Business Systems Modernization	269.308	16.552	15.123	-8.6%	15.435	2.1%
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		43.628	3.689	0.000	0.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	225.680	12.863	15.123	17.6%	15.435	2.1%
Integrated Submission and Remittance Processing System (ISRP)	Information Services	30.325	16.555	16.774	1.3%	17.123	2.1%
Interim Revenue Accounting Control System (IRACS) - BAC 99	Information Services	0.672	0.812	0.935	15.1%	3.774	303.6%
Modernized e-File (MeF)	Information Technology Investments	259.086	58.650	86.049	46.7%	56.023	-34.9%
IRS BSM 20-0921-0-1-803	Information Technology Investments	212.788	45.420	61.300	35.0%	30.500	-50.2%
IRS Taxpayer Services 20-0912-0-1-803		0.000	0.460	7.360	1500.0%	7.534	2.4%
IRS Enforcement 20-0913-0-1-999		3.057	0.776	0.928	19.6%	0.677	-27.0%
IRS Operations Support 20-0919-0-1-803	Information Services	43.241	11.994	16.461	37.2%	17.312	5.2%
Service Center Recognition/Image Processing System (SCRIPS)	Information Services	42.365	16.951	15.539	-8.3%	15.862	2.1%
Tax Return Database (TRDB) - BAC 99	Information Services	22.367	4.836	4.039	-16.5%	4.141	2.5%
Travel Reimbursement and Accounting System (TRAS) - BAC 99	Information Services	1.521	1.428	1.350	-5.5%	0.000	-100.0%
<b>Subtotal, Major IT Investments</b>		<b>2,294.216</b>	<b>459.834</b>	<b>486.081</b>	<b>5.7%</b>	<b>470.291</b>	<b>-3.2%</b>
<b>Non-Major IT Investments</b>		<b>464.189</b>	<b>486.662</b>	<b>547.301</b>	<b>12.5%</b>	<b>564.893</b>	<b>3.2%</b>
<b>Infrastructure Investments</b>		<b>827.632</b>	<b>796.235</b>	<b>924.599</b>	<b>16.1%</b>	<b>948.875</b>	<b>2.6%</b>
IRS/Data Center Systems and Services (Consol)	Information Services	247.191	323.021	431.237	33.5%	438.570	1.7%
IRS/Telecommunications Systems Services	Information Services	231.262	213.293	254.205	19.2%	265.059	4.3%
IRS/End User Systems and Services	Information Services	349.179	259.921	239.157	-8.0%	245.246	2.5%
<b>Enterprise Architecture</b>		<b>4.242</b>	<b>4.391</b>	<b>4.654</b>	<b>6.0%</b>	<b>4.793</b>	<b>3.0%</b>
<b>Total IT Investments</b>		<b>3,590.279</b>	<b>1,747.122</b>	<b>1,962.635</b>	<b>12.3%</b>	<b>1,988.852</b>	<b>1.3%</b>

<sup>1</sup> The prior year resources for Electronic Federal Tax Payments (EFTPS) major project merged with Enrolled Practitioners Program System (EPPS) non major.



## 4.2 – PART Evaluation Tables

<b>PART Name:</b>	Tax Collection
<b>Year PARTed:</b>	FY 2002
<b>Rating</b>	Results Not Demonstrated

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

### OMB Major Findings/Recommendations

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

### Bureau Actions Planned or Underway

1. Introduce risk-based approaches using reengineering and technology modernization efforts to target specific taxpayers with the most effective collection procedure (i.e., notice, phone call, or field visit).

IRS is developing enhancements to the Inventory Delivery System that will provide better case routing to improve case selection, delivery, and treatment. Also, IRS is developing a plan to deploy a rules engine to simplify routing changes and flexibility in order to provide enhancements that ensure the right cases at the right time to the right treatment stream that is effective and increases collections and improves compliance.

2. Legislation has been approved that allows IRS to hire private collection agency contractors (PCAs) to secure payment in some cases. The legislation includes strong taxpayer rights protections. The contractors will be paid from receipts based on actual collections. PCAs cannot accept direct payment or use enforcement tools available to IRS (e.g. liens, levies and seizures). PCA employees are subject to the same taxpayer protection and privacy as the IRS.
3. Improve Collection selection criteria and filters for balance due and nonfiler cases, including identifying and addressing potential high income nonfilers.

New techniques were tested to route cases by source of assessment with results available

beginning in November 2008. If analysis of results is favorable, the Collection Inventory Delivery System will be updated with the routing routines. To address nonfilers, the IRS approved a Service-wide Nonfiler Strategy in July 2007 and established a Nonfiler Governance Council that will stand up in February 2008. The Council will build nonfiler workplans by August 2008.

4. Improve program performance by implementing new tools in 2007 to segment collection workload according to risk to ensure IRS takes the right action to secure delinquent taxes.

In May 2007, the Collection Governance Council agreed to the Collection Inventory (CACI) recommendations. New case routing rules are being tested to determine best routing for specific types of cases. In August 2007, IRS increased the threshold for cases assigned to the Automated Collection System (ACS) to \$5,000 for cases with two or fewer modules. A new case coding routine was implemented to prioritize assignment to the field when real estate equity is greater than \$50,000. In 2008, the IRS will continue to test new treatments streams between ACS and field.

<b>PART Name:</b>	Earned Income Tax Credit
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<b>Year PARTed:</b>	FY 2002
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<b>Rating</b>	Ineffective
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This program administers the earned income tax credit (EITC), which rewards work and lifts families out of poverty. The program seeks to maximize participation of eligible taxpayers and reduce payments to ineligible taxpayers.

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

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

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

1. IRS will require high-risk EITC applicants to pre-certify that the children claimed on their return 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).

EITC overclaim estimates are currently measured through National Research Program (NRP) study, which looks at prior year return information and economic modeling to account for tax law changes. Starting in 2009, the IRS new multi-year NRP studies with EITC-specific components will yield annual estimates of EITC error starting with TY 2006 and provide detailed information on areas of error. This new data point will allow for more directed compliance treatments than in the past.

2. 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.

3. Improve program performance by identifying paid tax return preparers with high EITC error rates and using education and enforcement procedures to improve their performance.

IRS will continue implementing its updated Concept of Operations (CONOPS), which outlines a holistic approach to address the various influences affecting EITC error rates by return preparers. With the CONOPS' main focus on paid preparers, IRS will continue identification, testing, analysis and implementation of preparer compliance treatments and outreach that affect behavior.

<b>PART Name:</b>	Submission Processing
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<b>Year PARTed:</b>	FY 2003
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<b>Rating</b>	Moderately Effective
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This program processes 224 million tax returns and 1.5 billion information returns (such as bank reports on taxpayer's interest income) each year and issues 109 million refunds. In 2005, more than half of individual tax returns were submitted electronically.

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

1. More Americans are electronically filing their taxes. Electronic filing is growing more than 10 percent per year. However, this growth is not sufficient for IRS to meet the legislative goal of 80 percent electronic filing by 2007. Congress has not yet acted on the Administration's proposals to accelerate the increase in electronic filing.
2. Every return converted from paper to electronic filing saves the IRS \$2.15 in processing costs. More importantly, electronically filed returns have a less than 1 percent error rate compared to 5 percent for paper filed returns, saving taxpayers time and money. Finally, according to the annual American Customer Satisfaction Results report, electronic filers have high satisfaction rates.
3. Based on the recently completed IRS tax gap study, approximately 13 percent of refund dollars (excluding earned income tax credit refunds) are paid in error. With current third party reporting and technology, IRS is unable to identify and prevent these errors during processing.

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

1. Improve program performance by seeking legislative changes to promote electronic filing, including greater authority to require electronically filed returns.

Although the Administration has continued its proposals to accelerate the increase in electronic filing, Congress has not yet acted on those proposals. At the current growth rate, the IRS projects the 80 percent electronic filing rate will be achieved in 2012.

2. Improve performance by setting goals by 2007 for reduced taxpayer filing burden resulting from the time and expense of preparing and filing their returns.

IRS and its contractor continue to work on a model of compliance burden among small business taxpayers. The small business study focuses on the burden that occurs in the pre-filing and filing periods and extends to burdens associated with not only the individual's tax return but also to employment and excise tax requirements. Preliminary estimates were released in FY 2007 and IRS intends to have the model in full production by the summer of 2008 and to publish burden estimates using the model late in 2008. An upcoming S-Corp burden reduction project in January 2008 will provide alternative methods of relief for those taxpayers who file late Forms 1120S (small business elections). The IRS also plans an Employment Tax Return project that involves the design of new forms by 2009 that will be used to correct employment tax reporting errors.

or to claim refunds. The new forms are designed to reduce burden for taxpayers who need to correct their returns or claim refunds for overpayment.

3. Improve program performance by using a single cost based efficiency measure by 2008 (cost per return processed).

The IRS has established an office responsible for developing a managerial cost accounting program and issued a service-wide cost policy in August 2007. At this time, managerial cost accounting is in its initial stages and actions are focused on identifying the systems and methodology to appropriately match cost and performance information. Until the objectives of the service-wide cost program have been clearly defined and determinations made on how costs will be accumulated at the bureau level, there are no pending activities associated with developing cost-based measures for specific programs. Specific improvement actions will be more clearly defined in the future and this improvement action will be re-activated.

4. 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.

IRS will finalize plans and costing estimates to modernize the submission processing function. The vision of the future system, Modernized Submission Processing (MsP), will process Form 1040 tax returns, information returns, and miscellaneous documents (processed via the Service Center Recognition/Image Processing System-SCRIPS) submitted via paper, utilizing a state-of-the-art, efficient image and data extraction system using Optical Character Recognition technology to extract data electronically. With a phased approach, MsP will replace current paper processing to achieve the Submission Processing domain vision strategy.

<b>PART Name:</b>	Taxpayer Service
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<b>Year PARTed:</b>	FY 2004
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<b>Rating</b>	Adequate
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This program reduces taxpayer burden by providing assistance on tax law and account issues in a professional and courteous manner. In 2005, the IRS answered 59 million calls, served 6.6 million taxpayers in walk-in offices, and had almost 116 million downloads from its forms, instructions and publications web site.

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

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

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

1. Improve program performance by converting to cost based efficiency measures for the 2008 budget (e.g., cost per call answered) and adding efficiency measures for service processes for management.

The IRS has established an office responsible for developing a managerial cost accounting program and has issued a service-wide cost policy in August 2007. At this time, managerial cost accounting is in its initial stages and actions are focused on identifying the systems and methodology to appropriately match cost and performance information. Until the objectives of the service-wide cost program have been clearly defined and determinations made on how costs will be accumulated at the bureau level, there are no pending activities associated with developing cost based measures for specific programs. Specific improvement actions will be more clearly defined in the future and this improvement action will be re-activated.

2. Explore the mix of service options (phones, walk-in, internet, volunteer services) to ensure that the most efficient and effective means is used to deliver service.

During 2006 - 2007, the IRS delivered Phases 1 and 2 of the Taxpayer Assistance Blueprint (TAB) Report to Congress. The report provides results, actions, and recommendations on the appropriate mix of service options (phones, walk-in, internet, and volunteer services) to ensure that the most efficient and effective means are used to deliver services. The report includes the TAB Strategic Plan, which provides a portfolio

of over 50 recommended service investments that balance taxpayer needs and preferences with government value. Integration of the TAB Strategic Plan into the IRS Strategic Planning process will begin in January 2008. The significant recommended service investments scheduled for implementation in FY 2008 include providing toll-free callers with an Estimated Wait Time (EWT) while on hold for toll-free applications. IRS plans to collect and analyze the data on accuracy of EWT and the impact on taxpayer behavior and use the results to design an optimum strategy and goals for EWT. In addition, implementation of Contact Analytics (CA) will increase the ability to effectively identify and respond to customer service problems. CA will expand functionality with additional software that captures data for all calls on all Toll-free product lines. Capabilities of CA include recording of all contacts and the ability to store the recording for analysis and tracking across the network resulting in improved taxpayer service. 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 the 2007 filing season (January through June 2007), the application provided information to 30 million taxpayers, which is approximately a 28 percent increase from the same period for 2006. In FY 2008, IRS will further expand online refund inquiry capabilities by introducing a version of "Where's My Refund?" for Spanish-speaking taxpayers. Beginning in FY 2008, the IRS deployed the Facilitated Self Assistance Research Project (FSRP) at 15 Taxpayer Assistance Centers (TAC). FSRP provides taxpayers with the ability to help themselves to IRS services from internet-connected computers located in the Taxpayer Assistance Centers (TAC) via IRS.gov. Analysis of results from the first 15 sites will be used to determine further deployment.

3. Improve program performance by researching the impact of taxpayer service programs on voluntary compliance and reporting findings by 2008.

IRS plans to research the impact of taxpayer service programs on voluntary compliance and reporting findings in FY 2008. The effect of service on taxpayer compliance will be examined by focusing on the following four areas: meeting taxpayer needs by providing the right channel of communication, better understanding taxpayer burden, understanding taxpayer needs through the errors they make, and the impact of service on overall levels of voluntary compliance. The research will attempt to quantify the relationship between services provided and overall compliance.

4. Improve the accuracy and consistency of tax law information provided to taxpayers by developing and implementing a single tool for use by walk-in and telephone assistors.

The IRS is developing an on-line interactive tool that combines the content of the Probe & Response Guide (P&R Guide) used by toll-free telephone assistors and the Publication Method Guide (PMG) used by Taxpayer Assistance Center (TAC) assistors into one tool for use when answering tax law questions. The tool supports the TAB initiative to provide consistent, quality service to taxpayers across different service delivery channels.



**PART Name:** Taxpayer Advocate Service

**Year PARTed:** FY 2004

**Rating:** Moderately Effective

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

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

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

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

1. Improve program performance by developing a unit cost measure for its casework by 2008.

Phase I of a new time reporting system was implemented that gives TAS the ability to automatically capture the amount of time spent on cases, from receipt through closure, when a case is accessed through TAMIS. The system provides for reporting time by case characteristics such as criteria code (the reason a case is accepted), core issue (the problem type), and type of system user (e.g., case advocate, manager, analyst, etc.). The work request for Phase II is complete and, when implemented, will provide a graphical front-end screen that allows users to capture time spent on cases when TAMIS is not used (e.g., research, telephone calls, etc.). The Phase II WR was submitted with an expected implementation date of December 2008. TAS must have time data along with fiscal data and case complexity results 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. In FY 2009, TAS will track reliability and utility of Phase II time data results and results from case advocacy cost indicators and explore opportunities for integrating the data with performance metrics.

2. Improve program performance by exploring other means to measure effectiveness in solving systemic problems leading to taxpayer hardship. IRS will report its findings in 2006 for possible inclusion in its FY 2008 Budget (findings delayed until 2007).

During FY 2007, TAS implemented a formal quality review process and established baseline measures for quality and timeliness of closed Advocacy Projects and Immediate Interventions.<sup>1</sup> FY 2008 targets for TAS's quality measures have been developed and have been shared with the IRS Oversight Board. TAS also developed and administered its first internal customer satisfaction survey and will analyze results during FY 2008. TAS is baselining data for efficiency and effectiveness and plans to establish FY 2009-2011 performance targets by the end of FY 2008.

TAS is also working to develop a set of outcome measures to track progress on improving case referrals from IRS Operating Divisions and is conducting a study with Wage & Investment on the referral of amended returns due to processing delays. Throughout FY 2008, TAS will continue to identify similar efforts with other Divisions.

### 3. Improve financial information as part of the IRS-wide financial management improvements.

The IRS has established an office responsible for developing a managerial cost accounting program and issued a service-wide cost policy in August 2007. At this time, managerial cost accounting is in its initial stages and actions are focused on identifying the systems and methodology to appropriately match cost and performance information. Until the objectives of the service-wide cost program have been clearly defined and determinations made on how costs will be accumulated at the bureau level, there are no pending activities associated with developing cost-based measures for specific programs. Specific improvement actions will be more clearly defined in the future and this improvement action will be re-activated.

### 4. Improve program performance by improving case quality to 91.5 percent by 2006, 93 percent by 2009, and 95 percent by 2014.

TAS fell just short of the goal in FY 2007 with a cumulative quality rate of 90.5 percent due to rising case receipts, complexity of case issues, and reduced staffing. From 2004 to 2007, case receipts increased 47 percent while the number of advocates to work cases decreased by 18 percent. TAS's case quality index goal for FY 2009 has been changed to 91.7 percent.

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<sup>1</sup>Advocacy Projects are issues submitted by taxpayers, practitioners, and IRS personnel that suggest that a law, regulation, or IRS procedure is creating a systemic problem for taxpayers. An Immediate Intervention is an administrative issue, identified internally or externally, that causes immediate, significant harm to multiple taxpayers and demands an urgent response.

**PART Name:** Criminal Investigations

**Year PARTed:** FY 2005

**Rating** Moderately Effective

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

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

1. The tax gap, the difference for a given year between taxes legally owed and taxes actually paid, for 2001 (latest available figure) is estimated to be \$345billion.<sup>2</sup> Criminal Investigation is one of the major IRS programs intended to minimize this revenue loss.
2. Research suggests that higher levels of criminal sentences lead to higher tax compliance. IRS has succeeded in raising convictions in recent years. They rose from 1,926 in 2002 to 2,215 in 2005. However, they remain low by historical standards (in 1996 convictions totaled 2,915).
3. IRS has set long-term goals and efficiency measures. However, it has difficulty measuring compliance in a timely manner due to the complexity and expense involved and in holding employees accountable for performance due to legal restrictions.

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

1. Implement Criminal Investigation Management Information System (CIMIS) enhancements to address the consolidation of areas, offices, and the movement of workgroups.

Currently, CIMIS supports closing organizations, but not moving, merging, and splitting organizations. CIMIS release 2.2 will provide the capability to define moves, merges and splits and have the new organization structure reflected in user interfaces, reports and scoping logic. This CIMIS enhancement will allow CI the flexibility to adjust the organizational structure to more effectively and efficiently track performance and strategic goals. The enhancement is scheduled to be implemented by Q4 FY 2008.

2. Implement the Investigative Scanning and Document Management System (ISDM). The ISDM will increase efficiency and effectiveness of CI employees by enabling them to image, view, search, and manage all types of documentation generated and received during the course of criminal investigations. ISDM will allow employees to scan paper documents, converting them to an electronic format and linking them to on-going investigations. With the enhancement, employees can apply key word identifiers to enhance search and indexing capabilities allowing CI Special Agents to more efficiently

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<sup>2</sup> This figure has been updated to the most current data and differs from what is published on the OMB ExpectMore.gov website. The tax gap as measured does not include the criminal sector, but tax fraud prosecutions have a large indirect effect on compliance.

gather, organize and summarize evidence. Design of the enhancement and prototype will be developed in FY 2008 and the initial roll-out to selected field office will occur during FY 2009. Final roll-out and training will continue through FY 2010, with all field offices completed as funding is applied. The ISDM is part of the Enterprise Content Management (ECM) effort sponsored by the Treasury Department under the Terrorism and Financial Intelligence (TFI) Domain for Law Enforcement.

3. Implement a pilot program to improve the effectiveness of the Suspicious Activity Report (SAR) Review Teams.

SAR Review Teams review reports from financial institutions detailing suspicious monetary transactions. Review of the reports often leads to significant tax, money laundering, and narcotic investigations. The pilot program will maximize resources through co-location, use of deputized state and local officers, and strong U.S. Attorney Office support to increase the efficiency and effectiveness of the SAR Review Teams. The pilot will be implemented in seven CI offices by the end of FY 2008, with additional offices to be included in FY 2009. If the pilot is successful, it will result in the increased identification and prosecution of administrative criminal tax, money laundering, and currency crime investigations. It will also enhance the notification of law to individuals on currency transaction legislations and benefit compliance with regulations and strengthen future criminal investigations by documenting knowledge.

<b>PART Name:</b>	Examinations
<b>Year PARTed:</b>	FY 2005
<b>Rating</b>	Moderately Effective

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

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

1. The tax gap, the difference for a given year between taxes legally owed and taxes actually paid, for 2001 (latest available figure) is estimated to be \$345 billion.<sup>3</sup> Examination is one of the major IRS programs intended to minimize this revenue loss.
2. After dropping substantially in the late 1990s, IRS audit rates have begun to rise and will continue to increase, largely through productivity growth. IRS audit rates have grown from a low of 1.49 percent (i.e., less than two returns in one hundred audited) in 2001 to 3.09 percent in 2005.
3. IRS has set long-term goals and efficiency measures. However, it has difficulty measuring compliance in a timely manner due to the complexity and expense involved and in holding employees accountable for performance due to legal restrictions. It also needs cost based efficiency measures.

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

1. Research tax compliance of S-corporations (a popular business form where profits are passed through to the owners and taxed only once) based on a statistically valid sample of the filing population.

By June 2008, the S-corp compliance study will be completed. Design of sampling and exam procedures have been completed to generate the data for the study and the sample has been identified. The IRS is on target for completion of data collection in FY 2008. Results will be analyzed and tax gap estimates will be updated to help in the understanding of compliance issues.

2. Improve tools for selecting the most productive audit cases by 2007 using the detailed compliance information gathered in the recent individual tax gap study.

On October 2007, selection, classification and auditing of individual returns based on updated selection scores (DIF) began with results available to begin evaluating effectiveness of new scoring by October 2008. By September 2009, the IRS will use information from the Subchapter S-corps National Research Project to enhance return selection and examination. Returns selected for examination in late FY 2007 will begin

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<sup>3</sup> This figure has been updated to the most current data and differs from what is published on the OMB ExpectMore.gov website.

to show results in late FY 2008. IRS anticipates improved selection and possible reductions in "no change" rates.

3. Improve program performance by introducing cost based efficiency measures by 2008 (e.g., enforcement revenue/program budget).

The IRS has established an office responsible for developing a managerial cost accounting program and issued a service-wide cost policy in August 2007. At this time, managerial cost accounting is in its initial stages and actions are focused on identifying the systems and methodology to appropriately match cost and performance information. Until the objectives of the service-wide cost program have been clearly defined and determinations made on how costs will be accumulated at the bureau level, there are no pending activities associated with developing cost-based measures for specific programs. Specific improvement actions will be more clearly defined in the future and this improvement action will be re-activated.

4. Undertake compliance study on individual income tax returns.

In October 2007, IRS began reporting for the Tax Year (TY) 2006 individual income tax returns, and by October 2008 will begin reporting for the TY 2007 individual income tax returns. IRS has completed the design of procedures for sampling on the TY 2006 returns, has already identified 95.5 percent of the sample, and has completed classification of 81 percent of the sample.

5. Explore methods for measuring the impact of Examination on compliance. New efforts could include studies of the impact of audits on future compliance of audited taxpayers and attitude surveys.

By September 2008, IRS will increase the number of Schedule C audits by 7 percent to address the individual business income underreporting gap. By September 2009, IRS will add another 5 percent to the increase. IRS also plans to update current tax gap estimates using new and existing data. By June 2008, the S-corp compliance study results will be released and used to update payment compliance estimates, and by June 2009, both payment and filing estimates will be updated.

**PART Name:** Retirement Savings Regulatory Program

**Year PARTed:** FY 2006

**Rating** Adequate

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

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

1. The IRS 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 their intended purposes. Tax breaks to retirement plans to encourage savings total more than \$100 billion per year.
2. Preliminary data from the program's compliance study shows that retirement plans are in compliance with legal standards 80 percent of the time.<sup>4</sup> The IRS is working to improve this level by increasing enforcement efforts and improving targeting. This compliance study is a critical element in this effort because it gives the IRS better information on the sources of non-compliance.
3. IRS has had trouble processing requests for regulatory approval from retirement plans in a timely manner (less than 120 days). It is working to improve its performance in this area by implementing a new staggered schedule for retirement plan renewal requests and improving productivity.

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

1. Introducing cost based efficiency measures by 2008.

The IRS has established an office responsible for developing a managerial cost accounting program and issued a service-wide cost policy in August 2007. At this time, managerial cost accounting is in its initial stages and actions are focused on identifying the systems and methodology to appropriately match cost and performance information. Until the objectives of the service-wide cost program have been clearly defined and determinations made on how costs will be accumulated at the bureau level, there are no pending activities associated with developing cost based measures for specific programs. Specific improvement actions will be more clearly defined in the future and this improvement action will be re-activated.

2. Implement electronic case file development system to improve timeliness and efficiency of the examination process.

Milestones:

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<sup>4</sup> Further study shows the baseline for compliance with legal standards has been reduced to 73 percent.

January 2008 - Implement release to address technical and performance issues with application

March 2008 - Complete training and roll-out of system to all groups.

3. Implement staggered amendment process and review initial experience to further enhance determination processing efficiency.

Milestones:

March 2008 - Complete review of first set of pre-approved plan applications for defined contribution plans.

April 2008 - Initiate technical review for defined benefit pre-approved plan applications.

December 2008 - Develop recommendations to refine staggered amendment process.

4. Streamline voluntary compliance program and expand access for small businesses.

Milestones:

June 2008 - Issue new procedures to make it easier for small employers to self-correct plan defects.

September 2008 - Expand marketing and outreach to promote voluntary compliance options to small business owners.



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

**Year PARTed:** FY 2006

**Rating:** Results Not Demonstrated

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

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

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

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

1. Work with other participating federal agencies to develop long term goals by 2011 that capture the program's success in providing access to the tax credit to potential beneficiaries.

In FY 2007, IRS completed a study of the time it takes individuals to enroll in the program once they receive the program kit. Results indicate participants can be enrolled and receive their first payment within 26 days (on average). IRS continues to work with DOL, state agencies, and the Pension Benefit Guaranty Corporation to understand the timelines and the steps necessary to encourage participation and improve access to the credits in an effort to identify the objectives to measure.

2. Work with partner federal agencies to find ways to improve access to the tax credit for eligible workers.
3. Continue to focus on administrative changes to lower program cost and improve taxpayer service.

HCTC will implement cost efficient processes such as systemic performance testing and automation of manual processes. Improvements will include automation of critical repeatable processes necessary as participation increases. For this aged program, technical and process improvements have been identified to promote economies of scale to drive down costs and new efficiency-focused processes and technology is planned to

allow for systemic processing of annual premium changes, reducing costs associated with participants for whom a payment has not been made to a health plan administrator for three consecutive processing cycles. Also, IRS plans to streamline processing of payments by automating manual processes and accounting entries to eliminate manual work. IRS will also continue to identify data retrieval enhancements that allow the customer service representatives to provide consistent and timely customer service. As participation increases, technology costs will drop through continuous data management, archiving, and virtualization efforts. In FY 2008, HCTC will continue to look for opportunities to automate business processes and improve operations. HCTC will examine opportunities to improve the infrastructure and business system processes, including a payment processing solution, an automated premium increase solution, automation of the refund process, simplification of re-registration processes, and expansion of fax channels. New self-service channels are planned that provide taxpayers with more efficient assistance through web applications.

### 4.3 – IRS Performance Measure Table and Data Dictionary Link

The following table shows IRS performance measures achieved and projected from FY 2006 through FY 2009.

IRS Performance Measures

Performance Measures	Type of Measure	FY 2006 Actual	FY 2007 Actual	FY 2007 Planned	FY 2008 Planned	FY 2009 Planned
Customer Service Representative Level of Service	Oe, L	82.0%	82.1%	82.0%	82.0%	82.0%
Customer Contacts Resolved per Staff Year	E	7,414	7,648	7,702	8,000	8,100
Percent of Eligible Taxpayers Who File for EITC	Oe	*	*	75% - 85%	75% - 80%	75% - 80%
Customer Accuracy - Tax Law (Phones)	Ot	90.9%	91.2%	91.0%	91.0%	91.0%
Customer Accuracy - Accounts (Phones)	Ot	93.2%	93.4%	93.3%	93.5%	93.7%
Timeliness of Critical Filing Season Tax Products to the Public	Ot	83.0%	83.5%	85.2%	86.0%	86.0%
Timeliness of Critical Other Tax Products to the Public	Ot	61.2%	84.0%	79.6%	86.0%	86.0%
Percent Individual Returns Processed Electronically	Oe, L	54.1%	57.1%	57.0%	61.8%	64.7%
Cost per Taxpayer Served (\$) (HCTC)	E	\$13.71	\$14.90	\$14.25	\$14.25	\$14.25
Sign-Up Time (Days) - Customer Engagement (HCTC)	Ot	98.7	93.3	97.0	97.0	97.0
Percent of Business Returns Processed Electronically	Oe, L	16.6%	19.1%	19.5%	20.8%	22.8%
Refund Timeliness - Individual (Paper)	Ot	99.3%	98.9%	99.2%	98.4%	98.4%
Taxpayer Self-Assistance Rate	E, L	46.8%	49.5%	48.6%	51.5%	52.5%
Examination Coverage - Individual	Oe, L	1.0%	1.0%	1.0%	1.0%	1.0%
Field Exam Embedded Quality	Oe, L	85.9%	85.9%	87.0%	87.0%	87.0%
Office Exam Embedded Quality	Oe, L	88.2%	89.4%	89.0%	90.0%	90.0%
Examination Quality - Industry	Oe, L	85.0%	87.0%	88.0%	88.0%	89.0%
Examination Quality - Coordinated Industry	Oe, L	96.0%	96.0%	97.0%	96.0%	96.0%
Examination Coverage - Business	Oe, L	7.3%	6.8%	8.2%	6.6%	6.8%
Examination Efficiency - Individual	E, L	128	137	136	133	134
Automated Underreporter Efficiency	E, L	1,832	1,956	1,932	1,961	1,823
Automated Underreporter Coverage	E, L	2.4%	2.5%	2.5%	2.5%	2.5%
Collection Coverage (Units)	Ot, L	54.0%	54.0%	54.0%	53.0%	53.0%
Collection Efficiency (Units)	E, L	1,677	1,828	1,723	1,835	1,835
Field Collection Embedded Quality	Ot, L	84.2%	84.0%	86.0%	86.0%	86.0%
Automated Collection System Accuracy	Oe	91.0%	92.9%	91.0%	92.0%	92.0%
Criminal Investigations Completed	Ot, L	4,157	4,269	4,000	4,000	4,025
Number of Convictions	Oe, L	2,019	2,155	2,069	2,135	2,135
Conviction Rate	Oe, L	91.5%	90.2%	92.0%	92.0%	92.0%
Conviction Efficiency Rate (\$)	E, L	\$328,750	\$301,788	\$314,008	\$317,625	\$317,625
TE/GE Determination Case Closures	Ot	108,462	109,408	118,200	100,600	98,000
BSM Project Cost Variance by Release/Subrelease	E	**	**	10.0%	10.0%	10.0%
BSM Project Schedule Variance by Release/Subrelease	E	**	**	10.0%	10.0%	10.0%

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

\* The IRS is revising the methodology for estimating the eligibility rate. Data is not available.

\*\* The Cost and Schedule Variance is based on +/- 10 percent and reported on several project releases/subreleases.

### Data Dictionary Link for Performance Measures

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

[http://www.irs.gov/pub/irs-utl/2008\\_data\\_dictionary.pdf](http://www.irs.gov/pub/irs-utl/2008_data_dictionary.pdf)

## 4.4 – Summary of IRS FY 2009 Budget Request

<b>Bureau: Internal Revenue Service</b>																
<b>Summary of IRS 2009 Budget Request</b>																
FY 2008 Enacted																
	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT		TAXPAYER SERVICE		ENFORCEMENT		TOTAL					
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE				
	\$2,150,000	31,218	\$4,780,000	47,349	\$3,680,059	12,181	\$3,612,833	36,066	\$6,997,226	54,682	\$2,677,090	358	\$15,235	17	\$10,892,384	91,123
<b>Changes to Base:</b>																
Maintaining Current Levels			\$126,003		\$82,580		\$86,261		\$177,048		\$1,354		\$322		\$264,985	
Pay Annualization	14,435		33,184		9,883		18,332		39,170		332		20		57,854	
Pay Inflation Adjustment	38,823		87,006		25,399		48,838		102,390		1,022		53		152,303	
Non-Pay Initiation Adjustment	1,468		5,813		47,298		19,091		35,488				249		54,828	
Transfers			(\$1,000)		(\$1,370)		(\$523)		(\$1,847)						(\$2,370)	
Transfer to TIGTA					(1,370)		(523)		(847)						(1,370)	
Transfer to FinCEN			(1,000)						(1,000)						(1,000)	
Efficiencies/Savings	(\$14,969)	(207)	(\$48,762)	(538)	(\$30,367)	(230)	(\$37,415)	(298)	(\$56,683)	(677)	\$1,354		(\$151)	(1)	(\$94,249)	(976)
Efficiency Savings			(48,762)		(22,443)		(14,522)		(56,683)				(151)		(71,356)	
Increase e-File Savings	(8,996)	(207)			(1,304)		(10,300)		(207)						(10,300)	
Non-Recur Savings	(5,973)				(6,620)		(12,593)								(12,593)	
Reinvestments	\$4,463	30			\$28,141		\$19,294	30	\$13,310						\$32,604	30
Increase Efficiency through Submission Processing Consolidations							2,006		2,457		2,006				2,006	
Address Correspondence Inventory							2,457		30		2,457				2,457	30
Fully Fund Postage Base					28,141		14,831		13,310						28,141	
<b>Subtotal Changes to Base</b>	\$44,220	(177)	\$76,241	(538)	\$78,984	(230)	\$67,617	(268)	\$131,828	(677)	\$1,354		\$171	(1)	\$200,970	(946)
<b>Total FY 2009 Base - Current Services</b>	\$2,194,220	31,041	\$4,856,241	46,811	\$3,759,043	11,951	\$3,680,450	35,798	\$7,129,054	54,005	\$2,668,444	358	\$15,406	16	\$11,093,354	90,177
<b>Program Changes</b>																
<b>Program Decreases:</b>																
Taxpayer Assistance Centers and Outreach							(31,200)		(262)						(31,200)	
Taxpayer Advocate Service							(7,711)		(25)						(7,711)	
Volunteer Income Tax Assistance Grants Program							(8,000)		(8,000)						(8,000)	
Business Systems Modernization											(45,780)				(45,780)	
<b>Subtotal, Program Decreases</b>							(\$46,911)		(287)						(\$92,691)	
<b>Program Increases:</b>																
<b>Enforcement Initiatives</b>																
Reduce the Tax Gap for Small Business / Self-Employed			132,093		33,714		2,691		165,807						168,498	
Reduce the Tax Gap for Large Businesses			57,009		12,479				69,488						69,488	
Improve Tax Gap Estimates, Measurement, and Detection of Non-Compliance			35,473		15,585				51,058						51,058	
Increase Reporting Compliance of U.S. Taxpayers with Offshore Activity			11,075		2,622				13,697						13,697	
Expand Document Matching			25,376		9,684				35,060						35,060	
Implement Legislative Proposals to Improve Compliance					23,045				23,045						23,045	
<b>Subtotal, Program Increases</b>	\$2,691	38	\$261,026	2,981	\$97,129	38	\$2,691	38	\$358,155	3,019					\$360,846	3,057
<b>Subtotal FY 2009 Program Changes</b>	(\$44,220)	(249)	\$261,026	2,981	\$97,129	38	(\$44,220)	(249)	\$358,155	3,019					\$268,155	2,745
<b>Total FY 2009 Request</b>	\$2,150,000	30,792	\$5,117,267	49,792	\$3,856,172	11,989	\$3,636,230	35,549	\$7,487,209	57,024	\$2,222,664	333	\$15,406	16	\$11,361,509	92,922