

Internal Revenue Service

Mission Statement

Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

Program Summary by Appropriations Account

Dollars in Thousands

Appropriations	FY 2009		FY 2010	FY 2011		
	ARRA	Enacted ^{1,2}	Enacted	Request	\$ Change	%
Internal Revenue Service						
Taxpayer Services		\$2,293,000	\$2,278,830	\$2,321,975	\$43,145	1.89%
Enforcement		5,117,267	5,504,000	5,797,400	293,400	5.33%
Operations Support		3,867,011	4,083,884	4,108,000	24,116	0.59%
Business Systems Modernization		229,914	263,897	386,908	123,011	46.61%
Health Insurance Tax Credit Administration	80,000	15,406	15,512	18,987	3,475	22.40%
Total Appropriated Resources	\$80,000	\$11,522,598	\$12,146,123	\$12,633,270	\$487,147	4.01%
FTE		94,189	95,070	96,419		1.42%

¹ FY 2009 Enacted excludes the Recovery Act, Administration Expenses account, funded in the Treasury Departmental Offices (\$122M).

² FY 2009 Enacted represents the approved FY 2009 Operating Plan.

FY 2011 Priorities

The IRS collects the revenue that funds the government and administers the nation's tax laws. In FY 2009, the IRS collected \$2.345 trillion in taxes (gross receipts before tax refunds), 95 percent of federal government receipts. In order to protect the flow of revenues to the government, the IRS pursues a robust service and enforcement agenda. The service agenda supports and protects the trillions in revenue that already comes into the Treasury every year from hundreds of millions of taxpayers. The enforcement agenda vigorously pursues those who evade their responsibility to pay the taxes they owe.

In its FY 2011 request, the IRS seeks additional funding for:

- **Taxpayer Service** – Increase the telephone level of service and improve the IRS website where an increasing percentage of taxpayers find the help they need;
- **Enforcement** – Expand efforts to address offshore tax evasion and expand the focus on corporate and high-wealth returns; and
- **Business Systems Modernization** – Complete the new taxpayer account database.

Table of Contents

Section 1 – Purpose	1
1A – Description of Bureau Vision and Priorities	1
1B – Program History and Future Outlook	8
Section 2 – Budget Adjustments – Internal Revenue Service	13
Program Summary by Appropriations Account and Budget Activity	13
2.1 – Budget Adjustments Table	14
2A – Budget Increases and Decrease Description	15
Efficiencies and Savings	18
Program Reinvestment	20
Program Decrease	20
<i>Reduce Taxpayer Service Grant and Advocacy Programs</i>	<i>20</i>
Program Increases	21
<i>Improve IRS.gov</i>	<i>21</i>
<i>Increase Telephone Level of Service</i>	<i>25</i>
<i>Address Business and Individual International Compliance</i>	<i>26</i>
<i>Reduce the Reporting Compliance Tax Gap</i>	<i>33</i>
<i>Reduce the Nonfiling and Underpayment Tax Gap</i>	<i>37</i>
<i>Support for Increased Enforcement Activities</i>	<i>40</i>
<i>Maintain Recovery Act Staffing</i>	<i>41</i>
<i>Continue Migration from Aging Tax Administration System</i>	<i>44</i>
2.2 – Operating Levels Table	50
2.3 – Appropriation Detail Table	51
2B – Appropriation Language and Explanation of Changes	52
2C – Legislative Proposals	56
Section 3 – Budget and Performance Plan	58
Taxpayer Services	58
2.1 – Budget Adjustments Table.....	59
2.2 – Operating Levels Table.....	60
2.3 – Appropriation Detail Table	61
3A – Pre-Filing Taxpayer Assistance and Education	61
3.2.1 – Budget and Performance Plan.....	62
3B – Filing and Account Services	64
3.2.2 – Budget and Performance Plan.....	65
Enforcement	67
2.1 – Budget Adjustments Table.....	68
2.2 – Operating Levels Table.....	69
2.3 – Appropriation Detail Table	70
3C – Investigations	70
3.2.3 – Budget and Performance Plan.....	71
3D – Exam and Collections	72
3.2.4 – Budget and Performance Plan.....	74
3E – Regulatory	77
3.2.5 – Budget and Performance Plan.....	77

Operations Support	79
2.1 – Budget Adjustments Table.....	80
2.2 – Operating Levels Table.....	81
2.3 – Appropriation Detail Table	82
3F – Infrastructure.....	82
3.2.6 – Budget and Performance Plan.....	83
3G – Shared Services and Support.....	83
3.2.7 – Budget and Performance Plan.....	85
3H – Information Services	87
3.2.8 – Budget and Performance Plan.....	90
Business Systems Modernization.....	91
2.1 – Budget Adjustments Table.....	92
2.2 – Operating Levels Table.....	93
2.3 – Appropriation Detail Table	94
3I – Business Systems Modernization	94
3.2.9 – Budget and Performance Plan.....	102
Health Insurance Tax Credit Administration.....	104
2.1 – Budget Adjustments Table.....	105
2.2 – Operating Levels Table.....	106
2.3 – Appropriation Detail Table	107
3J – Health Insurance Tax Credit Administration	107
3.2.10 – Budget and Performance Plan.....	108
Section 4 – Supporting Materials	110
4A – Human Capital Strategy.....	110
4B – Information Technology (IT) Strategy.....	115
4.1 – Summary of IT Resources Table	117
4.2 – Assessment and Improvement Actions	120
4.3 – IRS Performance Measure Table.....	129
4.4 – Cost of IRS Operating Activities	130
4.5 – Summary of IRS FY 2011 Budget Request	131

Section 1 – Purpose

1A – Description of Bureau Vision and Priorities

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

The IRS Strategic Plan goals and objectives are:

IRS Strategic Goals

Improve Service to Make Voluntary Compliance Easier

Enforce the Law to Ensure Everyone Meets Their Obligation to Pay Taxes

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

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

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

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

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

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

FY 2011 Budget Request

The FY 2011 President's Budget Request for the IRS is \$12,633.3 million, \$487.1 million, or 4.0 percent more than the FY 2010 enacted level.

Appropriation Account	(\$ in Millions)
Taxpayer Services	\$2,322.0
Enforcement	5,797.4
Operations Support	4,108.0
Business Systems Modernization	386.9
Health Insurance Tax Credit Administration	<u>19.0</u>
Total	\$12,633.3

The \$487.1 million increase consists of:

- \$32.4 million for changes to the base:
 - \$219.5 million for the pay raise and inflation;
 - \$3.5 million to support the American Recovery and Reinvestment Act (Recovery Act) Health Coverage Tax Credit (HCTC) Program Expansion; and
 - -\$190.6 million for efficiency savings and non-recur activities.
- \$454.7 million for program changes:
 - \$2.8 million for a submission processing consolidation reinvestment;
 - -\$9.0 million reallocation from the Taxpayer Advocate Service (TAS) and Low-Income Taxpayer Clinic (LITC) Grants program, Tax Counseling for the Elderly (TCE) program, and the Volunteer Income Tax Assistance (VITA) Grants program relative to 2010 enacted levels to improve service performance by increasing the telephone level of service;
 - \$45.9 million to increase the telephone level of service and to improve and redesign the IRS.gov website;
 - \$247.4 to reduce the tax gap by investing in a strong compliance program; and
 - \$167.6 million to complete development of the new taxpayer account database and continue investments in electronic filing systems.

The IRS requests \$2.8 million to fund one-time separation costs associated with the September 30, 2011, closure of the Atlanta submission-processing site. An additional \$20.9 million is requested to improve telephone level of service, increasing the level of service performance target to 75 percent from 70 percent in FY 2009 and 71 percent in FY 2010. This includes a program increase of \$11.9 million, and a \$9 million reallocation from TAS and the LITC, TCE, and VITA grant programs. Without the reallocation within the Taxpayer Services account, the IRS will achieve a lower telephone level of service, currently estimated to be 74 percent, meaning fewer taxpayers will be able to get through to the toll-free line. To continue the effort to move taxpayer service to the internet, and to support the Treasury effort to increase paperless transactions, an additional \$25 million in Operations Support will be invested in improvements to the IRS.gov website infrastructure and to redesign the IRS.gov website to meet taxpayer needs and growing demand for more electronic services.

The IRS requests \$247.4 million for investments in strong compliance programs, including a robust international enforcement initiative to address offshore tax evasion. The additional enforcement initiatives will address underreporting of income associated with international activities and expand enforcement efforts on noncompliance among corporate and high-wealth taxpayers and the complex business enterprises they control (including corporations, partnerships, and trusts). These enforcement investments will bring in \$1.9 billion, in additional annual enforcement revenue, with a return on investment (ROI) of 9.3 to 1, once new hires reach full potential in FY 2013. This estimate does not account for the deterrent effect of IRS enforcement programs, conservatively estimated to be at least three times larger than the direct revenue impact.

Data and technology are central to the future of tax administration. The IRS requests \$167.6 million to fund completion of the new taxpayer account database and continue investments in electronic filing systems. Completion of the core taxpayer account database is the cornerstone of IRS IT modernization that will expedite refunds to 140 million individual taxpayers and a prerequisite for other major initiatives such as significant expansion of online paperless services. It will allow the IRS to expand its online services to manage increasing taxpayer service demands. In addition, next generation, more sophisticated compliance systems require the relational database structure and movement away from the legacy data storage model. The ability of the IRS to support increasingly complex taxpayer service and compliance initiatives will be severely limited until the new taxpayer account database is completed.

Reducing the Tax Gap

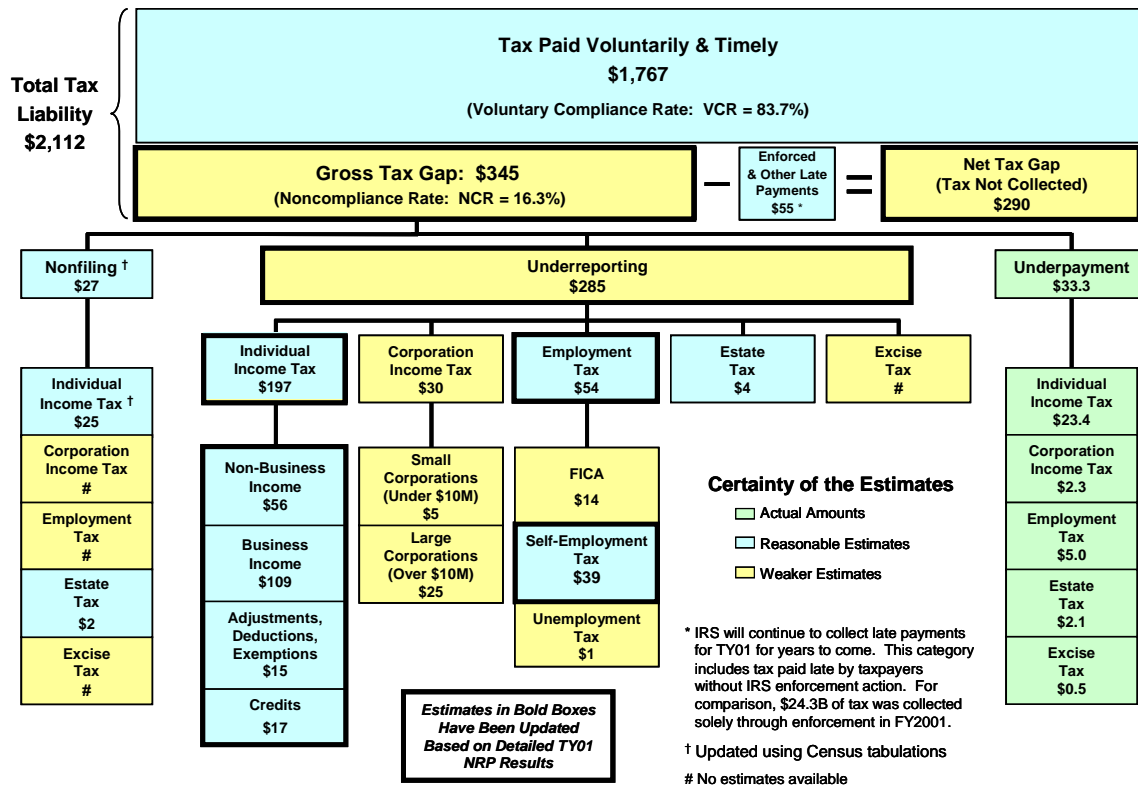
Recent investments in IRS enforcement programs have yielded significant increases in enforcement revenue. Enforcement revenue was \$48.9 billion in FY 2009 for a total IRS-wide return on investment (ROI) of 4.2 to 1. This number reflects only the direct revenue collected and does not take into account the deterrent effect of IRS enforcement programs such as Criminal Investigation.

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

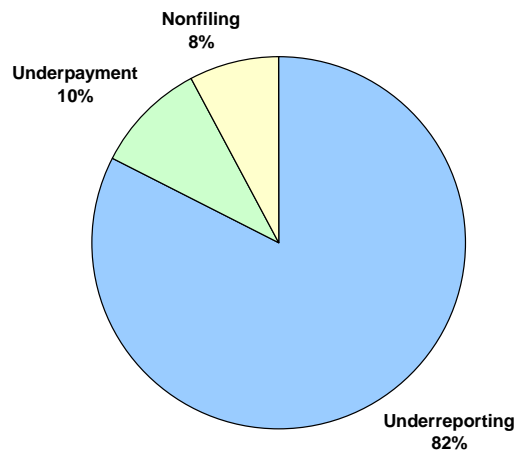
The three components of the tax gap are:

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

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



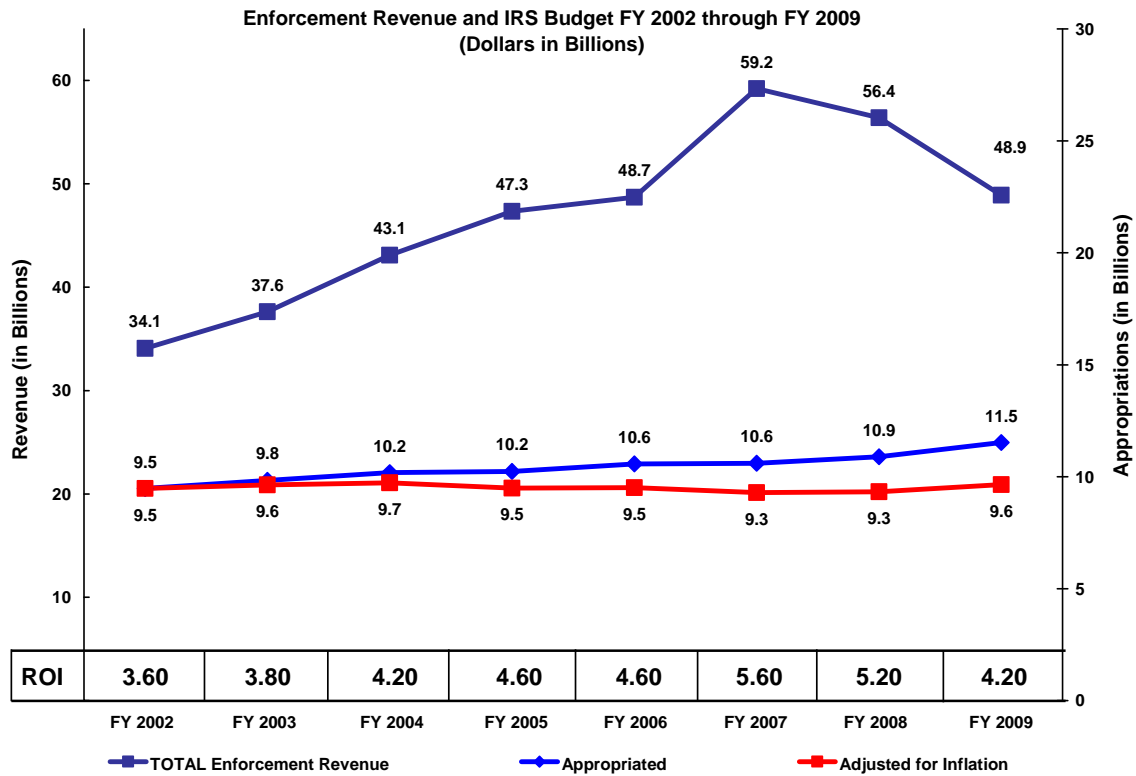
Underreporting tax liability comprises 82 percent of the gross tax gap (\$285 billion). The remainder is almost evenly divided between nonfiling (8 percent) and underpaying (10 percent). The IRS remains committed to finding ways to increase compliance and reduce the tax gap, while minimizing the burden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



Taxpayer Service and Enforcement Programs Complement Each Other

The IRS serves individuals, businesses, non-profit organizations, and processed more than 236 million tax returns in 2009. The system of voluntary tax compliance requires the IRS to excel in taxpayer service for those who are trying to meet their obligations under the law and provide a robust enforcement program for those who shirk their responsibilities to their fellow citizens. Most taxpayers comply with the law by filing returns and paying their taxes on time, but some do not comply because they do not understand their obligations under the complex tax laws. Noncompliance 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.

Vigorous enforcement encourages voluntary compliance for those taxpayers who seek to avoid meeting their tax obligations under the law, further increasing revenue. IRS enforcement activities remain a high priority.



Increased resources for IRS enforcement programs yield a positive ROI. As shown in the table below, the proposed IRS FY 2011 enforcement initiatives will generate \$1,946.2 million, an ROI of 9.3 to 1, in additional annual enforcement revenue once the new hires reach full potential in FY 2013. In addition to direct revenue, IRS enforcement activities yield indirect revenue by deterring noncompliance, and this effect is estimated to be at least three times the direct revenue impact.

Return on Investment for IRS Enforcement Initiatives

Dollars in Millions						
	First Year (FY 2011)			Full Performance (FY 2013)		
FY 2011 Enforcement Investment	Cost	Revenue	ROI	Cost	Revenue	ROI
All Enforcement Initiatives	\$247.4	\$719.8	2.9	\$209.6	\$1,946.2	9.3
Direct Revenue Producing Initiatives	\$236.9	\$719.8	3.0	\$200.6	\$1,946.2	9.7
Address Business and Individual International Compliance	121.1	300.8	2.5	101.3	812.2	8.0
Reduce the Reporting Compliance Tax Gap	77.7	211.7	2.7	65.8	659.6	10.0
Reduce the Nonfiling and Underpayment Tax Gap	38.1	207.3	5.4	33.5	474.4	14.2
Other Enforcement Initiatives	\$10.5	\$0.0	0.0	\$9.0	\$0.0	0.0

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

In January 2010, the IRS announced multiple recommendations to increase oversight of federal tax return preparers, including new registration, testing, and continuing education requirements. The recommendations are intended to better leverage the tax return preparer community with the twin goals of increasing taxpayer compliance and ensuring uniform and high ethical standards of conduct for tax return preparers. Planning and regulation preparation will proceed in FY 2010 with primary implementation of the initial changes anticipated in FY 2011.

Helping taxpayers understand their obligations under the tax law is critical to improving compliance and addressing the tax gap. To this end, the IRS remains committed to a balanced program of assisting taxpayers to understand the tax law and remit the proper amount of tax and to pursue cases for which noncompliance is willful, even to the point of criminal tax evasion. The IRS remains committed to improving voluntary compliance and reducing the tax gap through both taxpayer service and enforcement.

1B – Program History and Future Outlook

The IRS helps taxpayers understand and comply with federal income tax laws. Each year, IRS employees make millions of contacts with taxpayers and businesses. Thus, it is essential that correspondence, including e-notices, exam and collection notices and other tax-related correspondence, provide clear and accurate information to taxpayers.

Taxpayer Service

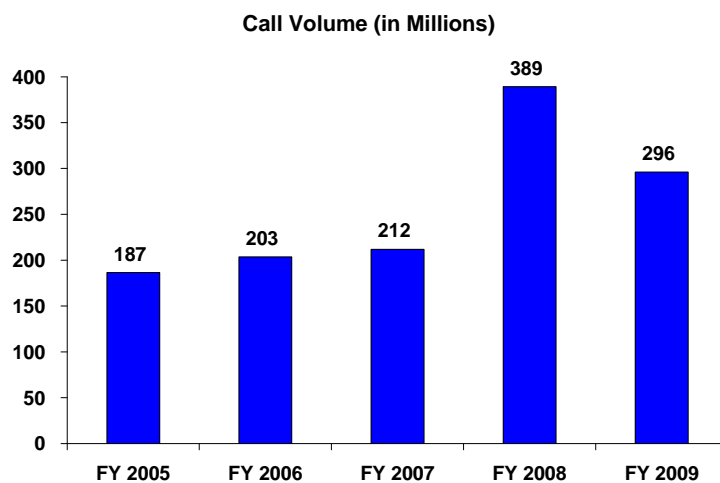
In FY 2009, the IRS Commissioner chartered a Taxpayer Communications Taskgroup (TACT) to study and improve the clarity, accuracy, and effectiveness of written communications to taxpayers. As a result of the TACT efforts, the IRS reduced the number of inserts included with the balance due notice from 13 to two, reducing the amount of paper while improving clarity and readability. This streamlining effort eliminated more than 16 million pieces of paper per year and also reduced IRS annual postage costs by \$570,000. In addition, the IRS rolled out in January 2010 nine redesigned notices as part of the TACT effort to improve IRS correspondence. The nine notices account for approximately two million pieces of correspondence and were rewritten to provide a clear and simple explanation of the purpose of the notice and what actions the taxpayer must take to resolve the issue.

In FY 2009, the IRS continued to improve its services by providing year-round assistance to millions of taxpayers through multiple channels. Demand for telephone services remained high as taxpayers called to obtain information regarding economic stimulus payments, new Recovery Act credits, and prior year adjusted gross income (AGI) numbers needed for electronic filing. The significant increases in call demand stressed existing resources, resulting in a lower customer level of service. Despite the high call volume, the IRS continued to focus on the accuracy of information provided to taxpayers as both Toll-Free Tax Law and Toll-Free

Accounts Accuracy performance surpassed FY 2008 record-breaking numbers. The following chart shows the call volume from FY 2005 through FY 2009.

The Budget provides a significant investment to increase level of service by adding resources to meet the ever increasing demand and continuing to make efficiency improvements such as

automated self-service applications that allow taxpayers to obtain information on less complex issues such as refund inquiries. These improvements free up staff to deal with the



more complex tax law issues stemming from the passage of the Recovery Act and the Worker, Homeownership, and Business Assistance Act of 2009.

In FY 2009, there were more than 296 million visits to IRS.gov. Taxpayers visited the website to obtain information on the Recovery Rebate Credit, to determine if they qualify for the Earned Income Tax Credit (EITC), to track the status of their refunds using the *Where's My Refund?* application, and to get the most up-to-date information on Recovery Act credits they may be entitled to. More than 54 million taxpayers used *Where's My Refund?*, a 39 percent increase over the same period last year. During FY 2009, the IRS received more than 296 million calls and helped more than 6.2 million taxpayers at 401 Taxpayer Assistance Centers. The Budget will continue supporting these self-service options as well as support the development of additional enhancements such as calculators, on-line tools and information on new legislation in an easy, accessible format. In addition, the Budget supports a multi-year effort to improve the IRS.gov website to meet taxpayer needs and the growing demand for more electronic services. The new web environment will improve customer satisfaction by providing an enhanced look and feel, making navigation on the site easier, and improve the user's ability to locate desired information and access applications.

Despite these challenges, the IRS delivered another successful filing season. During FY 2009, the IRS received 144.4 million individual returns, 11.2 million fewer than 2008, when millions of taxpayers filed solely to receive an Economic Stimulus Payment. The number of refunds issued increased 3.5 percent to 111.4 million. The percentage of individual returns filed electronically reached 66 percent, with more than 95 million individual tax returns filed electronically, compared to 89.6 million in 2008, an increase of 6 percent. During 2009, home computer filing increased to more than 32.2 million, an increase of 19 percent.

The IRS provided extensive media coverage and expanded electronic outreach activities to make taxpayers aware of new credits, deductions, and exclusions for which they qualified. A second *Super Saturday* event was held in FY 2009, and the IRS provided more than 11,000 taxpayers with tax assistance and return preparation. The event was the largest one-day outreach service event in IRS history.

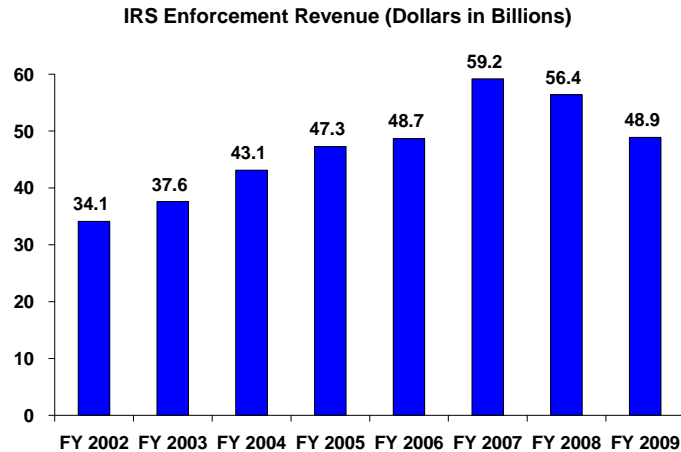
The IRS also provided assistance to million of taxpayers by expanding partnerships with nonprofit and community organizations, opening more than 12,100 free tax preparation sites nationwide.

Enforcement

Enforcement of the tax laws is an integral component of the IRS effort to enhance voluntary compliance. IRS enforcement activities, such as examination and collection, target elements of the tax gap and remain a high priority. In FY 2009, the IRS expanded its enforcement presence in the international field, continued to pursue high-wealth, noncompliant taxpayers, and initiated action to better leverage the tax return preparer community.

Total enforcement revenue was \$48.9 billion in FY 2009. The IRS showed steady progress in increasing its audit coverage:

- Total individual audits increased 2.6 percent;
- Automated Underreporter (AUR) contact closures increased 2.6 percent;
- High-wealth audits increased 11.2 percent; and
- Large corporate audits increased 2.6 percent compared to 2008, a significant achievement given the size (more than \$10 million) and complexity of these corporate entities.



In FY 2009, the IRS placed extraordinary focus on detecting and bringing to justice those who hide assets overseas to avoid paying tax. As part of an overall IRS strategy to improve offshore compliance, the IRS implemented initiatives to identify U.S. taxpayers who engaged in offshore tax evasion schemes. In August 2009, the IRS reached agreement with Swiss authorities that will result in the IRS receiving an unprecedented amount of information on taxpayers who evaded their tax obligations by hiding money offshore at UBS. This represents a major step forward for the IRS in its efforts to combat offshore tax evasion and will send a clear message to people hiding income and assets offshore that the IRS will vigorously pursue tax cheats, no matter how remote or secret the location.

At the same time, the IRS established an offshore voluntary disclosures/penalty framework for taxpayers to disclose their offshore activities. The framework provided taxpayers the opportunity to:

- Calculate the total cost of resolving all offshore tax issues;
- Become compliant with U.S. tax laws;
- Make voluntary disclosures that will be used to further the IRS understanding of how foreign accounts and foreign entities are promoted to U.S. taxpayers as ways to avoid or evade tax; and
- Provide data to be used in developing additional IRS strategies to inhibit promoters and facilitators from soliciting new clients.

As a result of the offshore voluntary disclosure program that ran through October 15, 2009, more than 14,700 taxpayers with offshore accounts came forward to disclose information bringing them back into the U.S. tax system. A key aspect of future international offshore work will be mining the information from people who came

forward to identify financial institutions, advisors, and others who promoted or otherwise helped U.S. taxpayers hide assets and income offshore.

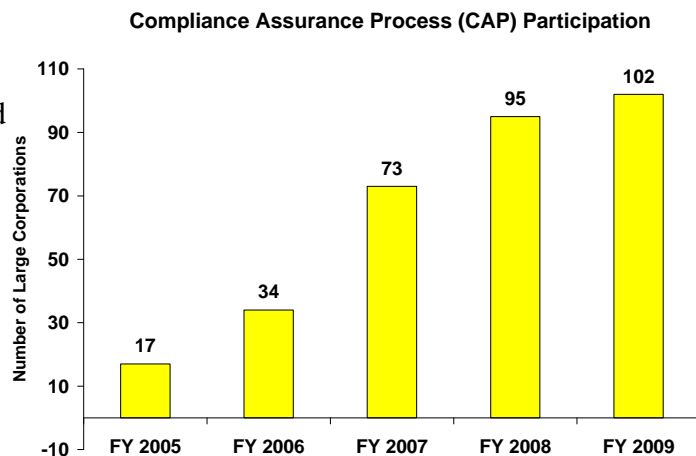
In FY 2009, the IRS continued to investigate tax, money laundering, and other financial crimes that adversely affect tax administration. Performance levels for the criminal investigation program remained high during FY 2009, with 3,848 completed criminal investigations and 2,105 convictions.

Maintaining a strong enforcement presence in the tax-exempt sector is important to ensure that charitable organizations are not used for non-charitable or illegal purposes. During FY 2009, the IRS increased tax-exempt and government entities compliance contacts by 10 percent over FY 2008 levels.

The Compliance Assurance Process (CAP) is a method of resolving tax issues through open and transparent interaction between the IRS and large corporations to identify and resolve issues before the filing of the return. CAP involves some of the largest U.S. corporations.

CAP participation expanded from 17 corporations in 2005 to 102 corporations in 2009 and is expected to become a permanent program for Tax Year (TY) 2010.

The CAP program 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.



Research allows the IRS to target specific areas of noncompliance to improve voluntary compliance and allocate resources more effectively to reduce the tax gap. Improved research data also refine the workload selection models to reduce audits of compliant taxpayers and ultimately help the IRS achieve high rates of return from its enforcement programs. Current National Research Program (NRP) efforts include analyzing individual income tax returns for tax years 2006 through 2008 as part of on-going reporting compliance studies. An employment tax reporting compliance study is in the planning stages. Results from these studies will be used to develop additional approaches to addressing the tax gap. In addition, efforts are underway to develop models to measure compliance time and expenses for small business taxpayers who file income and employment tax returns.

Information Technology (IT) Infrastructure

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 many megabytes in size), seasonal processing with extreme variations in processing load, transaction rates on the order of billions per year, and storage measured in trillions of bytes. The IRS continues to improve the information technology infrastructure leading to greater efficiency and productivity.

The IRS continues to replace its IT infrastructure using an ongoing review process that prioritizes funding of business needs. In FY 2009, 49 percent of IRS IT hardware assets were aged, with an average of 12 percent becoming aged each year. The IRS spent more than \$170 million to replace more than 53,720 of these aged assets. The 53,720 aged assets that were replaced included network equipment, end-user equipment, and servers and storage equipment.

Business System Modernization

IRS modernization efforts continue to focus on core tax administration systems designed to provide more sophisticated tools to taxpayers and to IRS employees. The following highlights the IRS accomplishments in FY 2009:

- *Customer Account Data Engine (CADE)* – In FY 2009, CADE posted more than 40.0 million returns and issued 34.9 million refunds, totaling \$58.6 billion. In addition, the IRS revised its CADE strategy to implement a new taxpayer account database by the end of 2011 for the 2012 filing season. The new database will allow the migration of all 140 million individual taxpayers to a modernized, relational database that will support daily processing and result in faster refunds for all individual refund filers.
- *Modernized e-File (MeF)* – The IRS deployed MeF Release 5.5 that included the redesigned Form 990, *Return of Organization Exempt from Income Tax*, in time for the filing season. MeF processed Form 1120 and 990 returns at much higher volumes than expected. The volume of Form 1120 returns increased 38 percent and Form 990 increased 307 percent from 2008. Returns submitted through MeF have an average 7 percent processing error rate, compared to 19 percent for transcription-based paper processing. MeF return receipts increased to about 4.5 million.
- *Account Management Services (AMS)* – The IRS completed the 2009 releases of AMS, providing additional real-time address changes to CADE by the conversion of account transcripts from paper to electronic format. AMS processed more than 2.3 million accounts since deployment and more than 2.2 million electronic transcript cases were distributed. In addition, AMS delivered the capability to update account address data on a daily cycle. AMS added a new component to its organization in FY 2009, the Integrated Automation Technologies (IAT) Branch. The IAT developed tools to support the implementation of Recovery Act including the First-Time Home Buyer Credit tool, which systematically researches amended returns for specific criteria to identify unallowable or fraudulent claims.

Section 2 – Budget Adjustments – Internal Revenue Service

The IRS Budget Request for FY 2011 is \$12,633,270,000 in direct appropriations and 96,419 FTE. This is an increase of \$487,147,000 or 4.01 percent, and 1,349 FTE more than the FY 2010 enacted budget of \$12,146,123,000 and 95,070 FTE.

Program Summary by Appropriations Account and Budget Activity

Dollars in Thousands

Appropriations Internal Revenue Service	FY 2009		FY 2010	Request	FY 2011	
	ARRA	Enacted ^{1,2}	Enacted		\$ Change	% Change
Taxpayer Services		\$2,293,000	\$2,278,830	\$2,321,975	\$43,145	1.89%
Pre-filing Taxpayer Assistance and Education		661,000	685,063	693,753	8,690	1.27%
Filing and Account Services		1,632,000	1,593,767	1,628,222	34,455	2.16%
Enforcement		\$5,117,267	\$5,504,000	\$5,797,400	\$293,400	5.33%
Investigations		611,601	637,694	651,966	14,272	2.24%
Exam and Collections		4,355,186	4,706,350	4,974,618	268,268	5.70%
Regulatory		150,480	159,956	170,816	10,860	6.79%
Operations Support		\$3,867,011	\$4,083,884	\$4,108,000	\$24,116	0.59%
Infrastructure		875,538	900,852	889,929	(10,923)	-1.21%
Shared Services and Support		1,269,642	1,296,629	1,337,776	41,147	3.17%
Information Services		1,721,831	1,886,403	1,880,295	(6,108)	-0.32%
Business Systems Modernization		\$229,914	\$263,897	\$386,908	\$123,011	46.61%
Health Insurance Tax Credit Administration	\$80,000	\$15,406	\$15,512	\$18,987	\$3,475	22.40%
Total Appropriated Resources	\$80,000	\$11,522,598	\$12,146,123	\$12,633,270	\$487,147	4.01%
Total FTE		94,189	95,070	96,419		1.42%

¹ FY 2009 Enacted excludes the Recovery Act, Administration Expenses account, funded in the Treasury Departmental Offices (\$122M).

² FY 2009 Enacted represents the approved FY 2009 Operating Plan.

2.1 – Budget Adjustments Table

Dollars in Thousands

Internal Revenue Service

	FTE	Amount
FY 2009 Enacted	94,189	\$11,522,598
FY 2010 President's Budget Request	95,081	\$12,126,000
Congressional Action	(11)	20,123
FY 2010 Enacted Budget (P.L. 111-117)	95,070	\$12,146,123
Changes to Base:		
Maintaining Current Levels		\$219,523
Pay Annualization		47,473
Pay Inflation Adjustment		119,537
Non-Pay Inflation Adjustment		36,121
FERS Increased Participation		16,392
Other Adjustments	(318)	\$3,494
Resource Adjustment to Support Recovery Act-HCTC Program Expansion		3,494
Technical FTE Adjustments	(318)	
Efficiencies/Savings	(472)	(\$190,638)
Non-Recur Savings		(32,680)
Increase e-File Savings	(472)	(22,808)
IT Infrastructure and Process Improvements		(75,000)
Reduce Procurement/Contracting		(25,000)
Reduce Printing, Travel, and Training		(10,000)
Reduce Tuition Assistance Program		(5,150)
Eliminate Selective Mailing of Forms and Publications		(20,000)
Subtotal Changes to Base	(790)	\$32,379
Total FY 2011 Base	94,280	\$12,178,502
Program Changes:		
Program Reinvestment:		\$2,792
Submission Processing Consolidation (Atlanta)		2,792
Program Decrease:		(\$9,000)
Reduce Taxpayer Service Grant and Advocacy Programs		(9,000)
Program Increases:		
Taxpayer Service Initiatives		\$45,945
Improve IRS.gov		25,000
Increase Telephone Level of Service		20,945
Enforcement Initiatives	1,983	\$247,446
Address Business and Individual International Compliance	781	121,086
Reduce the Reporting Compliance Tax Gap	700	77,679
Reduce the Nonfiling and Underpayment Tax Gap	406	38,181
Support for Increased Enforcement Activities	65	5,000
Maintain Recovery Act Staffing	31	5,500
Business Systems Modernization (BSM) Initiative	156	\$167,585
Continue Migration from Aging Tax Administration System	156	167,585
Subtotal Program Changes	2,139	\$454,768
Total FY 2011 Request	96,419	\$12,633,270
Adjustments to Request		
User Fees		194,100
Total FY 2011	96,419	\$12,827,370

2A – Budget Increases and Decrease Description

Treasury Strategic Goals and Outcome

The IRS FY 2011 initiatives support the Treasury Strategic Goal of *Effectively Managed U.S. Government Finances* and the Treasury Strategic Outcome of *Revenue collected when due through a fair and uniform application of the law*.

The table that follows lists FY 2011 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 five year period.

Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2010 Enacted	FY 2011 Request	Percent Change
Revenue collected when due through a fair and uniform application of the law	11,876,695	12,361,836	4.1%
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	269,428	271,434	0.7%
Total Request	\$12,146,123	\$12,633,270	4.0%

Treasury High Priority Performance Goals

The IRS budget request includes resources to achieve the following FY 2011 Treasury High Performance Goals:

Increase voluntary tax compliance

- Make progress against the Tax Gap through improved service and enhanced enforcement of the tax laws:
 - Achieve more than four million document matching closures in FY 2011 (where IRS information does not match taxpayer reported information).
- Assist Americans in voluntarily meeting their tax obligations:
 - Increase individual income tax filers' American Customer Satisfaction Index to 69 percent; and
 - Improve telephone level of service to 75 percent by the end of FY 2011.

Significantly increase the number of paperless transactions with the public

- Increase individual e-File rate to 81 percent in 2011.

Initiative Costing Methodology

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

Total Changes to Base +\$32,379,000 / -790 FTE

Maintaining Current Levels (MCLs) +\$219,523,000 / 0 FTE

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

- \$47,473,000 to fund annualization of the 2.0 percent January 2010 federal pay raise in FY 2011;
- \$119,537,000 to fund the assumed 1.4 percent January 2011 federal pay raise;
- \$36,121,000 to fund the 1.1 percent FY 2011 non-pay inflation adjustment for items such as rent, utilities, communications, contracts, travel, supplies, and equipment; and
- \$16,392,000 to fund the increase in agency retirement contribution percentages for GS employees from 11.2 percent to 11.5 percent for FY 2011 as required by Office of Personnel Management.

Other Adjustments +\$3,494,000 / -318 FTE

Resource Adjustment to Support Recovery Act-HCTC Program Expansion
+\$3,494,000 / 0 FTE

This temporary base increase will provide additional contractor funding for the continued support, sustainability, administration and operation of the Health Coverage Tax Credit (HCTC) program. Taxpayer participation in the HCTC program is expected to grow because of the American Recovery and Reinvestment Act of 2009 (Recovery Act) (Public Law 111-5). The additional resources will allow the IRS to serve the increasing number of taxpayers: including handling phone calls, processing enrollment documents, and processing payments to health plans. The increased workload stems from the Recovery Act legislation expanding the scope and scale of the HCTC and job losses from the economic downturn.

Participation in the HCTC program is increasing. The number of individuals claiming the monthly HCTC has increased by more than 50 percent, from 13,600 in December 2008 to approximately 20,600 in November 2009. Additionally, the work required to deliver the HCTC Program effectively is growing. For example, HCTC received more than two to three times the number of calls and registration attempts in October 2009 than in October 2008. The trend appears to be accelerating, as the past three months have been the busiest in the program's history.

Technical FTE Adjustments
\$0 / -318 FTE

This adjustment reflects permanent changes to ensure FTE levels are fully funded in the base budget.

Efficiencies and Savings
-\$190,638,000 / -472 FTE

Non-Recur Savings
-\$32,680,000 / 0 FTE

This is the net reduction of non-recurring, one-time costs associated with the IRS FY 2010 enforcement initiatives (e.g., IT equipment and training).

Increase e-File Savings
-\$22,808,000 / -472 FTE

This decrease is a result of savings from increased electronic filing (e-File), which is projected to lead to fewer returns filed on paper in FY 2011. The number of electronically filed returns is expected to increase substantially in FY 2011 with the enactment of the Worker, Homeownership, and Business Assistance Act of 2009 (Public Law 111-92). This legislation requires tax return preparers who file more than 10 individual tax returns during a calendar year to file electronically. As taxpayers file fewer returns on paper and file more returns electronically, the IRS requires fewer resources to process paper returns. The projected decrease in paper return filing and increase in electronic filing translates into a reduced need of 472 FTE in submission processing, generating a savings of \$22.8 million. The IRS will reinvest \$2.8 million of the savings to cover the costs of *Submission Processing Consolidation (Atlanta)*.

Information Technology (IT) Infrastructure and Process Improvements
-\$75,000,000 / 0 FTE

The IRS will reduce costs through process improvements in IT infrastructure. Initiatives such as the Information Technology Infrastructure Library (ITIL) will allow the IRS to improve the quality of IT services. In addition, the IRS is working to achieve a Capability Maturity Model Integrated (CMMI) certification that will yield efficiencies in software engineering.

Reduce Procurement/Contracting
-\$25,000,000 / 0 FTE

In accordance with Presidential guidance on controlling contracting costs, the IRS will generate savings by improving the effectiveness of existing acquisition practices and reducing the cost of contracts.

Reduce Printing, Travel and Training
-\$10,000,000 / 0 FTE

The IRS will generate printing savings of \$6 million by reducing agency-wide printing of selected internal manuals, selected training materials, and other items. The IRS will generate travel savings of \$2 million by reducing non-case related travel, as well as training savings of \$2 million by reducing non-technical training.

Reduce Tuition Assistance Program (TAP)
-\$5,150,000 / 0 FTE

The TAP provides funding to employees for courses that support both career development and the IRS mission. Funding is provided for college tuition/fees and books for approved participants. The IRS was projected to spend \$10.3 million on the TAP program in FY 2011. The restructuring of this program will generate a savings of \$5.2 million.

Eliminate Selective Mailing of Forms and Publications
-\$20,000,000 / 0 FTE

The projected savings of \$20 million will be generated by:

- **Eliminating Non-Mandated Notice Inserts**
The IRS mails more than 200 million notices each year that weigh from one ounce to three ounces. About a third of taxpayer notices weigh two or more ounces. By eliminating inserts, the notice could fall into a lower weight category and thereby save the IRS 12.5 cents per notice.
- **Eliminating Automatic Mailing of Form 1040, U.S. Individual Tax Return, Tax Packages**
Each year the IRS mails more than 17 million tax packages to taxpayers who have not used e-filing software or a tax practitioner. By eliminating the automatic distribution of Form 1040 tax packages, the IRS could save postage costs of 44 cents per package.
- **Eliminating the Automatic Mailing of Business Tax Products**
Each year the IRS mails out more than 31 million business tax products. By eliminating the automatic distribution of business tax products the IRS could save about 26 cents per package in postage costs.

Program Reinvestment

+\$2,792,000 / 0 FTE

Submission Processing Consolidation (Atlanta)

+\$2,792,000 / 0 FTE

Increased use of e-File has led to consolidation of the individual return processing sites. A portion of the *Increased e-File Savings* will be reinvested to fund one-time separation costs associated with the September 30, 2011 closure of the Atlanta submission processing site. As the Atlanta consolidation approaches, the IRS will continue to assist employees in finding employment either in or outside the organization.

Program Decrease

-\$9,000,000 / 0 FTE

Reduce Taxpayer Service Grant and Advocacy Programs

-\$9,000,000 / 0 FTE

The funds provided in FY 2010 included an additional \$3,500,000 to expand the Taxpayer Advocate Service (TAS) case processing activities, an additional \$500,000 to increase the Low-Income Taxpayer Clinic (LITC) grants program, an additional \$1,000,000 to increase the Tax Counseling for the Elderly (TCE) program, and an additional \$4,000,000 to increase the Volunteer Income Tax Assistance (VITA) grants program. This program decrease will realign the programs to the 2009 enacted level so that the IRS can reallocate these resources to fund the *Increase Telephone Level of Service* initiative.

Program Increases

+\$460,976,000 / +2,139 FTE

Improve IRS.gov

+\$25,000,000 / 0 FTE

INITIATIVE SUMMARY

This initiative requests \$25 million to initiate the migration of IRS web content and applications from the current outdated portal infrastructures to a new consolidated IRS web environment. These funds will allow the IRS to complete the first phase of the migration of the taxpayer-facing content and applications and to initiate the second phase of the migration that includes the incremental build-out of the new environment for the Registered User Portal that provides secure public and partner-facing portals.

INITIATIVE DETAIL

The IRS web environment consists of the three portals:

- **Public User Portal** – Communicates non-sensitive information to taxpayers, tax practitioners, businesses, and government partners in a readily-available format;
- **Registered User Portal** – Provides tax administration services to taxpayers, tax practitioners, businesses and government partners in a secure portal environment utilizing the proper identification; and
- **Employee User Portal** – Enables IRS employees to access tax administration services in order to assist taxpayers, tax practitioners, businesses and government partners in a secure portal environment.

In FY 2011, the IRS plans to build a new infrastructure for hosting the taxpayer-facing public portal of the IRS.gov website, including a new Content Management System (CMS). The CMS is a tool that will allow IRS to manage and update IRS.gov content in a real-time environment. In FY 2012, the IRS plans to expand the new IRS web environment infrastructure to host the applications currently on the Registered User Portal and the Employee User Portal.

The IRS will complete the consolidation of all IRS.gov content and applications in the three existing portal environments into the new web environment infrastructure in three phases. This FY 2011 initiative supplies the funding needed to complete Phase 1 and initiate Phase 2.

Phase	Portal	Fiscal Year
1	Public User Portal	2011
2	Registered User Portal	2011/2012
3	Employee User Portal	2012

Phase 1 – Public User Portal (\$4.1 million / 0 FTE)

This initiative will complete Phase 1 and allow IRS to make full use of the new infrastructure and transition the IRS.gov web site content and applications to the new environment. To successfully migrate IRS.gov content and applications to the new web environment, this initiative will fund the following three major activities:

IRS.gov Information Model will configure the new CMS to accommodate the new, more robust IRS.gov architecture. This will establish a much more flexible structure for the new CMS database than the current Content Management Application (CMA) allows. The IRS will then be able to enhance IRS.gov content at the same time it is being migrated from the current CMA.

IRS.gov Redesign will make use of added flexibility provided by the new CMS in managing design elements of the site. This will result in enhanced look, feel, and navigation on the site thereby improving user ability to locate desired information. By leveraging the new web environment, the IRS will ensure that IRS.gov can adapt to meet user expectations. As use of the internet grows, taxpayers form expectations about their “user experiences” based on web sites they visit, and those expectations directly affect their willingness to use a web site to address their needs. The current design uses architecture from 2001 and a display design from 2005. IRS.gov is a highly-used, cost-effective channel for providing information to taxpayers; however, to maintain its effectiveness, IRS.gov must continue to evolve to meet taxpayer expectations.

IRS.gov Usability will enable the IRS to create a mobile usability lab to test and assess the design and user interface of the new site during development to allow continuous improvement of IRS.gov. Online tools and tax information on IRS.gov result in fewer telephone calls, both to the IRS.gov Help Desk and the toll-free tax assistance lines. User-experience management will result in cost savings for new web applications and other functionality by reducing the need to make costly post-launch fixes.

Phase 2 – Registered User Portal (\$20.9 million / 0 FTE)

This initiative also will allow the IRS to begin the second phase of migration by incrementally building the new consolidated web environment for hosting secure public/partner-facing applications that are hosted on the Registered User Portal and transitioning approximately 35 percent of the current Registered User Portal applications to the new environment.

The Registered User Portal includes three “self-authenticating” applications that taxpayers and tax professionals can access without pre-registration (generally through “shared secrets” known by both IRS and the user), and two major categories of applications that require pre-registration and approval by IRS.

The three self-authenticating applications are:

- Where’s My Refund? – Allows authorized users to look up the status of refunds reported on their (or their client’s) tax return;
- Online EIN Application – Allows users to apply online for a new Employer Identification Number and in most cases receive the new number immediately; and
- Online Payment Agreement – Allows qualified users who cannot pay the entire amount of taxes owed to apply online for a payment agreement that will allow them to make payments over time.

The two categories of partner-facing applications requiring pre-registration are:

- Modernized e-File – Allows authorized partners to transmit electronic tax returns to IRS for processing. This environment is an enhanced replacement of the legacy e-File environment).
- e-Services – Allows authorized partners to access a suite of applications that enable them to conduct business electronically with IRS. Specific e-Services applications include:
 - Registration – Allows tax professionals to register online to gain access to other e-Services applications (for which they meet standard requirements).
 - Online e-file Application – Allows tax professionals to apply online to become an authorized e-File Electronic Return Originator (ERO).
 - TIN Matching Application – A pre-filing service offered to payers and/or authorized agents who submit any of six information returns subject to backup withholding, allowing users to compare payee Taxpayer Identification Number and name combinations before submitting information returns.
 - Disclosure Authorization – Allows eligible tax professionals to complete authorization forms, view and modify existing forms, and receive

acknowledgement of accepted submissions immediately. Disclosure Authorization allows tax professionals to submit Form 2848, *Power of Attorney and Declaration of Representative*, and Form 8821, *Tax Information Authorization* electronically. This e-service expedites processing and issues a real-time acknowledgment of accepted submissions.

- Electronic Account Resolution – Allows tax professionals to expedite closure on clients’ account problems by electronically sending and receiving account related inquiries. Tax professionals may inquire about individual or business account problems, refunds, installment agreements, missing payments or notices. The IRS response is delivered to an electronic secure mailbox within three business days.
- Transcript Delivery System – Allows eligible tax professionals with a Power of Attorney authorization on file with the IRS to request and receive account transcripts, wage and income documents, tax return transcripts, and verification of non-filing letters for a client.

After running a pilot with one self-authenticating application and one registered user application. The IRS will migrate up to 35 percent of the Registered User Portal applications. In FY 2012, migration of the remaining Registered User Portal applications would be completed and the transition of all Employee User Portal applications to the new web environment would occur.

EXPECTED BENEFITS

This initiative will leverage the new IRS web environment to improve self-service, reduce taxpayer burden, increase compliance, reduce costs, and continue to position IRS.gov as the preferred choice for taxpayer service. It will improve customer satisfaction with IRS.gov, including navigation, content quality, and search capabilities. The initiative will also support the Department of the Treasury’s efforts to increase the number of paperless transactions with the public, including progress toward the High-Priority Performance Goal of 81 percent of individual returns e-filed by the end of FY 2011.

Transitioning IRS.gov taxpayer-facing content and applications to the new web environment will:

- Replace infrastructure that has reached its end-of-life or end-of-support period;
- Allow IRS.gov to meet the changing needs and rising expectations of its customers and increase customer satisfaction; and
- Establish user experience standards and techniques that will be used to continually make improvements to content and applications in the new web environment.

Increase Telephone Level of Service

+\$20,945,000 / 0 FTE

INITIATIVE SUMMARY

Recent legislation has led to an unprecedented demand for telephone services over the past few years. In addition, the additional complexity of – and time needed to resolve – many phone calls, resulted in a decline in the telephone level of service. This initiative will improve the telephone level of service from a projected 71 percent in FY 2010 to a target of 75 percent in FY 2011 through a program increase of \$11.9 million and a \$9.0 million reallocation from TAS and the LITC, TCE and VITA grant programs. Without the \$9.0 million reallocation, the FY 2011 level of service performance target would be 74 percent.

INITIATIVE DETAIL

This initiative provides funding for the extension of seasonal employees and overtime in FY 2011 to allow the IRS to increase the telephone level of service, respond to increased workload, and enhance taxpayer service. The IRS has dealt with significant challenges during the past several years because of the economic downturn and legislative mandates. From FY 2006 to FY 2009, demand for assistor services on the telephone lines increased by more than 30 percent, from 45 million to more than 60 million.

The IRS effectively addressed some of the rising demand by automating certain taxpayer and employee activities, including the web-based *Where's My Refund?* and Employee Identification Number (EIN) applications, and integrated automation technology tools. These efficiency improvements were not sufficient to offset the increased workload demands. In addition, the composition of the workload has become more complex because of the increased automation of the less complex issues.

The telephone Level of Service (LOS) performance measure remained above 80 percent from FY 2003 through FY 2007. With the increasing demand for services, the LOS steadily declined and customer wait times increased. In FY 2009, LOS was 70 percent with a customer wait time of approximately nine minutes. As wait times increase and LOS decreases, retries from callers increase demand and further erode telephone performance.

EXPECTED BENEFITS

This investment will allow the IRS to achieve a 75 percent LOS and maintain a 94 percent Customer Satisfaction for Toll Free Telephone Service. Without the \$9 million reallocation from the TAS and the LITC, TCE and VITA grant programs, the IRS will achieve a 74 percent LOS and without the additional \$11.9 million the IRS will achieve a 72 percent LOS.

Address Business and Individual International Compliance

+\$121,086,000 / +781 FTE

INITIATIVE SUMMARY

This initiative requests an increase of \$121.1 million and 781 FTE to support the Presidential priority to address offshore tax evasion and builds on the IRS FY 2010 international enforcement initiative. It will allow the IRS to continue its multi-year investment in international tax compliance activities. It increases coverage of the most strategically important international issues, including large enterprises with international components operated by businesses and investors through multiple interrelated financial and tax entities and high-wealth individuals and the complex business enterprises they control. Once the new hires reach full potential in FY 2013, they will increase the examination of these types of returns by 4,864 and will produce an additional \$812.2 million in estimated revenue for a return on investment (ROI) of 8.0 to 1.

The IRS resources needed to carry out this initiative are shown below:

Dollars in Thousands

Position Type/Other Costs	FY 2011	
	FTE	Dollars
Revenue Agent	442	\$70,454
Appeals Officer	8	1,352
Customer Service Representative	40	3,593
Tax Compliance Officer	57	6,031
Special Agent	51	11,838
Attorney	82	16,374
Other Support Staff	69	6,515
Data Capture Process Improvements	29	2,200
Research Technology	3	2,729
Total	781	\$121,086

INITIATIVE DETAIL

The use of multi-tiered structures and transactions surfaces repeatedly in high-profile areas such as multinational corporations, financial vehicles, high-wealth individuals, and the use of domestic and international tax avoidance or evasion strategies. The IRS will increase coverage by addressing the compliance risk of the entire global enterprise with emphasis on the pass-through entity components of these businesses. Many high-wealth individuals have global business and financial interests or are involved in international transactions affecting their U.S. tax liability. To achieve proper risk assessment in complex enterprises, each component tax return needs to be identified and evaluated in terms of the information available across all of the tax returns filed by the enterprise. In addition, the IRS will expand the pre-filing compliance review processes, such as the

Compliance Assurance Program, to detect high-risk issues through improved data gathering and analysis that will complement increased corporate governance.

Complex enterprises and transactions affect both domestic entities and global enterprises. In-depth analysis of the international and domestic components of foreign structures will improve the IRS ability to address both foreign enterprise and foreign resident compliance for complex reporting, filing, and payment avoidance tactics in a global environment.

Underreporting – Improve Identification and Coverage of Complex Enterprise Structures and Transactions (+\$82.5 million / +566 FTE)

The first component of this initiative will allow the IRS to address underreporting and improve voluntary compliance. The 566 FTE will play a vital role in addressing these issues on the increasing number of business and individual returns with international features.

This initiative will combine skills of Tax Compliance Officers (TCO) and Revenue Agents (RA) as well as international examiners, flow-through return and financial products specialists, valuation experts, research analysts, technical advisors and subject matter experts to enable the IRS to increase its ability to ensure proper tax reporting of complex structures and transactions. This initiative will allow the IRS to:

- Examine highly complex returns to address the non-compliant entities;
- Address compliance risk at the enterprise level;
- Increase coverage of pass-through entities;
- Expand Enterprise Risk Assessment of high-wealth individuals;
- Expand the Compliance Assurance Program to detect high-risk issues through improved data analysis that will complement increased corporate governance;
- Address laws and regulations that have not kept pace with developments in business structures such as limited liability companies (LLCs), series LLCs (an LLC that organizes itself with separate pools of assets and liabilities that stands alone economically within a single LLC entity), and targeted allocations that do not follow the regulatory safe harbor for special allocations; and
- Enable the IRS to better address foreign resident compliance.

Partnerships, LLCs, S Corporations, and Trusts, are “pass-through” entities. The pass-through entity does not pay taxes on its income; instead, a pass-through entity is a legal form where income “passes through” to investors. The pass-through entity files an information return to the IRS and provides a Schedule K-1, *Shareholder’s/Beneficiary’s/ Partner’s Share of Income, Deductions, Credits*, to each owner allocating the share of certain specified income, loss, deduction, and credit items. The pass-through entity is frequently owned by individuals. The S Corporation may be owned only by individuals

and certain trusts for individuals. Partnerships may be owned by individuals, corporations, partnerships, and trusts.

The complexity of enterprise structures and transactions reduces transparency and creates opportunities for underreporting and non-reporting. The enormous amount of money that flows through pass-through entities and is held in different countries adds to the complexity of tax administration and increases the opportunities for underreporting of income. In tax year 2006, these pass-through entities filed 10.8 million returns (Forms 1065, *U.S. Return of Partnership Income*; Forms 1120S, *U.S. Income Tax Return for an S Corporation*; and Forms 1041, *U.S. Income Tax Returns for Estates & Trusts*) with total income of \$4.1 trillion and ordinary business income (taxable income for Forms 1041) available to shareholders/beneficiaries of more than \$753 billion. The IRS projects a small increase, 1.2 percent, in total Form 1120, *U.S. Corporation Income Tax Return*, filings from FY 2007 through FY 2015. In contrast, the pass-through entity population increase for the same period is expected to be much larger. For example, Forms 1120S are projected to increase by 38.1 percent, and Forms 1065 are projected to increase 49.1 percent.

In recent years, the IRS has observed the following trends:

- In tax year 2007, partnership returns indicated that 72.1 percent of the pass-through entity filing population are multi-tiered in such a way that the entities themselves are either members/partners/shareholders of higher-level entities, or have members/ partners/shareholders that are pass-through entities themselves;
- In tax year 2006, more than 3.1 million partnerships earned ordinary business income of more than \$369 billion for their individual partners;
- In tax year 2006, more than 4 million S Corporations earned ordinary business income of approximately \$302 billion for their individual shareholders; and
- In tax year 2006, almost 3.7 million Estates and Trusts earned nearly \$82.3 billion in taxable income for their beneficiaries.

Complex enterprises often operate in multiple jurisdictions. The entity might choose a structure regarded as a corporation in the U.S. and a partnership in another country, or the reverse. Such hybrid structures must be considered in a risk assessment. An indicator of risk for international aspects of complex enterprises is found in the December 2008 Government Accountability Office (GAO) report GAO-09-157, *Large U.S. Corporations and Federal Contractors with Subsidiaries in Jurisdictions Listed as Tax Havens or Financial Privacy Jurisdictions*. The report indicates that 83 of the 100 largest publicly-traded U.S. corporations, in terms of 2007 revenue, reported having subsidiaries in jurisdictions listed in low-or-no tax countries or financial privacy jurisdictions. The requirement of Schedule M-3, *Net Income(Loss) Reconciliation*, Part I lines 5 and 6 to disclose related-party information, including foreign entities, will increase transparency and will improve the identification of risks on the entire enterprise structure.

Complex business structures are not limited to the corporate arena. Tax-exempt organizations and employee pension plans may initiate complex business arrangements of their own, or they may be used in complex arrangements by third parties for the purposes of tax avoidance. This initiative will provide additional examination resources to improve the IRS ability to detect, pursue, and rectify noncompliance using certain tax-exempt arrangements. Some potential areas for increased scrutiny and enforcement include:

- Rollovers as business startup (ROBS) plans are established to allow plan participants to access qualified plan retirement funds while avoiding the assessable taxes and penalties that are attached to the distribution. Funds are used to startup a new business;
- Maintenance of domestic trusts by foreign entities sponsoring qualified pension plans;
- Use of disregarded entities by charities and other exempt organizations;
- Transfers of highly appreciated property to charitable family-limited partnerships, a large percentage of which is then gifted to genuine charitable (501(c)) organizations; and
- Transferring ownership of gifts-in-kind through multiple charities to inflate charitable activities on Form 990, *Return of Organization Exempt from Income Tax*.

Data Capture Process Improvements (+\$2.2 million / +29 FTE)

The second component of this initiative includes 29 FTE for data capture to support critical compliance information systems. This will allow the IRS to increase the use of existing systems to capture other electronic data through scanning and imaging of residual paper documents. These residual paper returns include international information returns, paper-filed Schedule M-3s, certain flow-through filings, and returns not mandated to be filed electronically. Capturing the data will allow better and quicker identification of abusive transactions related to complex enterprise structures and transactions.

Combat Multi-Jurisdictional Tax Evasion Schemes (+\$12.3 million / +56 FTE)

The last component of this initiative funds additional Special Agents to combat tax evasion involving taxpayer entities or transactions that are complex and multi-jurisdictional. These entities have an international nexus requiring sensitive cross-border coordination by providing resources to:

- Develop and coordinate investigations through two expanded Criminal Investigation (CI) task forces focusing on taxpayers and transactions with an international nexus:

- The International Task Force, located on the East Coast, with a geographic focus on Europe and the Middle East; and
- The Pacific Rim Task Force located on the West Coast, with a geographic focus on Pacific Rim countries, particularly those in Southeast Asia.
- Handle the increased investigative workload in Field Offices generated from:
 - Expanded examinations of international transactions on large and mid-size complex business returns, individual foreign residents and nonresident aliens, and small pass-through entities and corporations with significant international activity;
 - Expanded attaché presence overseas;
 - Expanded international task forces; and
 - The IRS Whistleblower Program.

Tax planning is becoming increasingly focused on worldwide tax rate minimization. As a result, taxpayers often have an incentive to adopt structures (parallel banking schemes, such as the Black Market Peso Exchange) or arrangements (abusive trust transactions) that maximize U.S. expenses or shift income abroad. While many cross-border transactions are clearly addressed under U.S. domestic law or treaty provisions, others involve emerging issues that may constitute unacceptable tax avoidance or evasion and pose an increasingly serious risk to the U.S. tax base.

In addition to protecting the tax base, these resources will allow the IRS to work more effectively with other Department of the Treasury organizations, the Department of Justice, and other law enforcement partners to combat corporate fraud, terrorist financing and financial aspects of other criminal activity. Globalization of the world economy and financial systems has allowed tax evaders and money launderers to exploit domestic and international funds transfer methods to hide illicit and untaxed monies. Money laundering allows criminals and criminal organizations to conceal illegal income in an untaxed underground economy and is an essential part of many tax evasion schemes.

CI's International Task Force has been very successful in developing working relationships with many sources from which it receives information to develop investigations. Current investigations have the potential of additional forfeitures of hundreds of millions of dollars. Additionally, the policies of some offshore banks likely will change as they are held accountable. While the taskforce has been very successful, many potential cases were not pursued because of insufficient resources.

The Pacific Rim Grand Jury Task Force will target offshore financial schemes involving individuals using foreign financial accounts, credit or debit cards, trusts, corporations, partnerships, and other entities. It will analyze leads, investigate subjects and coordinate judicial actions across the U.S. for these complex and multi-jurisdictional cases.

There is a significant positive spillover effect on tax compliance when successful criminal enforcement actions are reported in the media. Recent successes with complex, sensitive international investigations have led to increases in voluntary disclosures. This initiative will allow the IRS to increase its ability to identify and pursue remedies for emerging complex international issues that may constitute unacceptable tax avoidance or evasion. Prosecutions with the associated publicity will allow the IRS to maximize the deterrent effect of its activities, increase voluntary disclosures, increase numbers of potential tax evaders identified, and increase tax revenue dollars collected. Remedies also will include increased seizure of assets where appropriate, and the application of pressure for policy changes by financial institutions in tax haven countries through increased legal actions that hold them accountable by all legal means.

This initiative will increase the number of investigations worked in the complex international arena, and will result in 51 more case closures in FY 2013.

OTHER DIRECT COSTS

The IRS Appeals division (+\$1.7 million / +10 FTE) The IRS activity associated with this initiative will generate a minimum of 81 new Partnership, S Corporation and C Corporation cases and 84 related cases to Appeals. Although the increase in the number of cases is small, the workload increase is substantial, with each case and tiered entity requiring, on average, several hundred hours of work. An additional ten Appeals Officer positions are required to work the projected additional 165 cases.

The Taxpayer Advocate Service (TAS) (+\$0.1 million / +1 FTE) will ensure the IRS follows appropriate procedures and does not create unnecessary burden or compromise taxpayer rights. TAS uses a workload projection model to project TAS inventory based on expected IRS operating division work. Applying this ratio to the FY 2011 increase yields an additional 159 TAS cases attributable to this initiative.

The IRS Office of Chief Counsel (+\$19.6 million / +116 FTE) Counsel will provide increased legal advice and assistance to the teams and technical advisors engaged in these complex examinations. Counsel attorneys will assist in all phases of the examination process. They will assist in the development of technical advice, litigation positions, and published guidance to address significant issues arising from the increased coverage of complex enterprises and high-risk taxpayers. The complex nature of the taxpayers and returns examined under this initiative will generate highly technical questions that will need to be addressed on a national level.

The IRS Office of Research Analysis and Statistics (+\$2.7 million / +3 FTE) The identification of abusive transactions in corporations, partnerships, high-wealth individuals, and tax-exempt entities is extremely difficult. Many schemes are complex and frequently cross-operational boundaries. The economic enterprise of many abusive transactions does not correlate to the IRS data structure of Individual and Business Master Files (IMF and BMF) which were not designed to identify abuse hidden in the relationship between the entities. Rather, these master files process tax return data on a

given taxpayer, one at a time. The volume of data associated with schemes can be so voluminous that the analysis of the data and the presentation of its complexities in an understandable, cohesive manner can only be accomplished using advanced computer technologies.

This initiative funds the technology needed for examiners to use specialized tools and technologies to detect unknown abuses and trends.

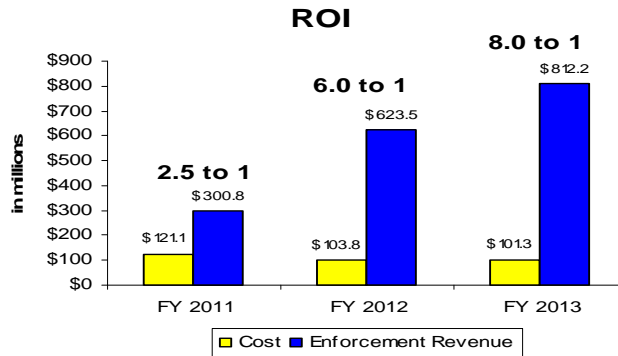
Combining tools for a focused strategy to identify tax avoidance transactions is a key element in the initiative to promote compliance with large and wealthy taxpayers. The applications will provide research capabilities to all parts of the IRS that need to address complex entities. A variety of workload selection and issue detection models will provide a queue of cases to be reviewed by issue specialists. Existing workload selection rules and filters will be augmented with additional data sources to develop a case file.

This research will:

- Allow the IRS to identify abusive transactions and emerging trends;
- Promote collaboration for cases that cross operating divisions;
- Centralize several disparate data sets into a cohesive data sharing strategy; and
- Eliminate the need for separate, narrowly-focused applications by creating an enterprise-wide database with technologies that can be used by all divisions working complex cases involving flow-through and high-wealth issues.

EXPECTED BENEFITS

Once the new hires reach full potential in FY 2013, they will increase the number of examinations of corporate, pass-through, international, individual and other related returns by 4,864, producing an additional \$812.2 million in revenue and provides an expected ROI of 8.0 to 1.



Reduce the Reporting Compliance Tax Gap

+\$77,679,000 / +700 FTE

INITIATIVE SUMMARY

This initiative requests an increase of \$77.7 million and 700 FTE to improve compliance by increasing audit coverage in critical areas including business and high-income audits. The additional resources will increase enforcement capacity to reduce the reporting compliance tax gap. Individual return filings from FY 2008 through FY 2011 are expected to grow 5 percent. The IRS needs these additional examination resources to maintain the current audit coverage rate of approximately 1 percent for individual returns. Once the new hires reach full potential in FY 2013, this initiative will produce 305,600 more audits, producing additional annual enforcement revenue of \$659.6 million with an ROI of 10.0 to 1 by increasing:

- Examinations of businesses, high-income individuals, and specialty program returns;
- Audits involving flow-through entities; and
- Coverage of the Automated Underreporter (AUR) Program

INITIATIVE DETAIL

Underreporting Compliance (+\$59.0 million / +527 FTE)

This initiative will increase staff by 212 Revenue Agents (RAs), 36 Tax Compliance Officers (TCOs), 90 Specialty Field Examination Attorneys, RAs and TCOs, 125 Correspondence Examination Tax Examiners, and 64 support personnel. These resources will preserve the balanced coverage approach of all taxpayer segments with a focus on addressing high-risk tax gap areas. In FY 2011, this increase will generate additional revenue of \$109.2 million, and once staff reach full potential in FY 2013, this investment would produce 71,600 more audits and generate \$433.9 million each year.

Field Examination

The RAs will focus on high-priority segments of the tax gap such as Abusive Tax Avoidance Transactions (ATAT), structured transactions, and corporate and high-income examinations involving flow-through entities (e.g., trusts, partnerships, and S Corporations).

The RAs and TCOs FTE will examine an additional 5,800 individual income tax returns and 900 business income tax returns in FY 2011. Once new hires reach full potential in FY 2013, this investment is projected to generate additional revenue of \$210.7 million and produce an additional 8,100 individual return audits and 1,200 business return audits.

Specialty Tax Programs

Specialty Programs address the tax gap by examining tax returns and addressing compliance issues in the Employment, Excise, and Estate and Gift Tax Programs.

- *Employment Tax Program* - The Employment Tax Program will work with external stakeholders to update and improve the voluntary tip agreements offered to taxpayers and to develop new agreements that improve compliance and reduce taxpayer burden. The program will address additional workload from large and medium-sized business nonfilers and the Combined Annual Wage Report program. It will focus on the major reporting compliance areas of fringe benefits, officer compensation, tip audits and worker classification.

The additional Employment Tax RA and TCO FTE will conduct approximately 7,500 more tax audits in FY 2011 and generate \$14.5 million more in revenue. Once new hires reach full potential in FY 2013, this investment is projected to generate additional revenue of \$31.1 million and produce an additional 8,300 return audits.

- *Excise Tax Program* - Excise taxes are taxes paid on purchases of a specific good, such as gasoline. Excise taxes are often included in the price of the product. There are also excise taxes on activities, such as on wagering or on highway usage by trucks. In FY 2011, the IRS will continue to address the fuel tax gap and extend tax compliance efforts by establishing an international group focusing on foreign insurance products and foreign entities owing aviation tax.

The additional Excise Tax RAs and TCOs FTE will conduct approximately 600 new examinations in FY 2011 generating \$2.9 million in revenue. Once new hires reach full potential in FY 2013, this investment is projected to generate additional revenue of \$6.7 million and produce an additional 800 return audits.

- *Estate and Gift Program* - There has been erosion in the estate tax audit rate because filing volumes have not declined as expected, and the planned 28 percent coverage rate for estates of more than \$5 million is projected to slip to 22 percent in FY 2009 and FY 2010.

Additional resources in FY 2011 would restore the 28 percent coverage rate for estates of more than \$5 million. The additional attorneys will conduct approximately 100 audits in FY 2011, generating revenue of \$11.6 million. Once new hires reach full potential in FY 2013, this investment is projected to generate additional revenue of \$25.6 million and produce an additional 200 return audits.

Correspondence Examination

The Correspondence Examination program addresses the tax gap through increased enforcement presence in priority segments of individual reporting compliance, including itemized deductions and education credits. These resources will deter more taxpayers from evading their tax obligations, and thereby support the IRS goal of increased voluntary compliance. The additional FTE will examine approximately 20,000 more

cases in FY 2011 with an estimated \$73.5 million in additional revenue. Once new hires reach full potential in FY 2013, this investment is projected to generate additional revenue of \$159.8 million and produce an additional 53,000 individual return audits.

Automated Underreporter (AUR) (+\$10.6 million / +116 FTE)

The objective of the AUR program is to minimize revenue loss through document matching of taxpayer account information. Approximately 7.7 million Small Business/Self-Employed (SB/SE) taxpayers may currently misreport their income based on third party information returns. Of those, the SB/SE AUR program processes approximately 2.5 million taxpayer cases, leaving an unaddressed gap of 5.2 million taxpayers.

This investment will increase staff resources by 110 Tax Examiners and 6 support FTE, who will reconcile approximately 193,000 additional tax returns, generating approximately \$102.5 million in revenue. Once new hires reach full potential in FY 2013, this investment is projected to produce an additional 234,000 individual return audits, generating \$225.7 million in revenue.

Implement Legislative Proposals to Improve Compliance (+\$2.1 million / +19 FTE)

The IRS will establish a new unit in the AUR program to implement the requirements contained in Section 3091 of the Housing and Economic Recovery Act of 2008 (Public Law 110-289). This legislation requires merchant payment card and third party network card entities to report the amount of transactions and the name, address and Taxpayer Identification Number (TIN) of each payee receiving payments from reportable transactions. This new AUR unit will test and validate the software and evaluate the new procedures essential to working with business taxpayers before full implementation of this new document-matching program in FY 2012.

OTHER DIRECT COSTS

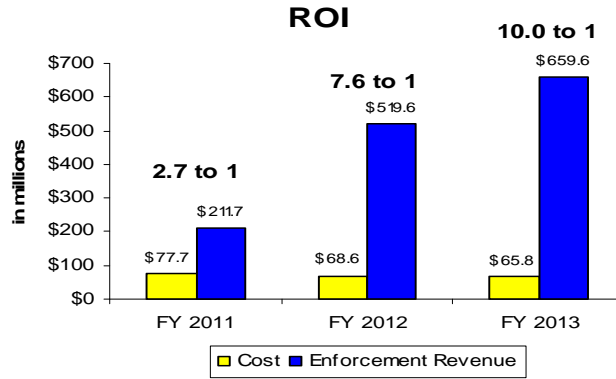
The IRS Appeals Division (+\$3.1 million / +21 FTE) supports examination efforts on key compliance areas focused on improving voluntary compliance. Appeals additional resources will yield resolution of Examination Appeals and Docketed Tax Court cases.

The IRS Office of Chief Counsel (+\$2.4 million / +13 FTE) will provide legal advice and assistance to Field Examination at the audit stage of cases involving abusive tax avoidance transactions, corporate and high-income examinations involving pass-through entities, and structured transactions; litigate those cases that are not resolved at the audit or appeals stages and advise examiners hired to do employment tax examinations in the Specialty Tax Program.

Funding for the Taxpayer Advocate Service (+\$0.5 million / +4 FTE) will be applied to examination programs to ensure the IRS follows appropriate procedures and does not create unnecessary burdens or compromise taxpayers' rights.

EXPECTED BENEFITS

This request will produce 305,600 more audits and generate \$659.6 million in additional annual enforcement revenue once new hires reach full potential in FY 2013 for an expected 10.0 to 1 ROI.



Reduce the Nonfiling and Underpayment Tax Gap

+\$38,181,000 / +406 FTE

INITIATIVE SUMMARY

This initiative requests \$38.2 million and 406 FTE to allow the IRS to broaden its collection coverage and address the tax gap more effectively by increasing the resources for field collection and the Automated Collection System (ACS) program. The additional resources will allow the IRS to increase efforts to bring taxpayers who fail to file or fail to pay their tax debt into compliance, laying the foundation for future voluntary compliance. At full performance in FY 2013, this initiative will produce 166,500 more case closures and generate \$474.4 million in additional revenue for an ROI of 14.2 to 1.

INITIATIVE DETAIL

Nonfiling/Underpayment (+\$30.3 million / +318 FTE)

This investment will increase staff resources in field collection by 26 Revenue Officers. ACS campus compliance staff resources will increase by 238 Customer Service Representatives and 54 support personnel to complete the investment made in the FY 2010 budget for the build out of two Automated Collection sites. These additional resources will increase the coverage of high income non-filers and work cases generated by balance due and delinquent return notices. It will provide an increased focus on decreasing nonfiling and improving voluntary compliance.

In recent years, non-filers with high incomes and higher amounts of net tax due have dominated the non-filer population. Revenue Officers and Campus Compliance employees use an array of techniques to address nonfiling, including the creation of compliance assessments based upon available internal and third-party information.

Additional staffing will increase coverage of potentially collectible inventory (PCI). PCI represents total unpaid assessments available for collection actions. PCI increased from \$81 billion in 2004 to \$113 billion in 2008. New PCI compliance assessments increased from \$14 billion in 2004 to \$26 billion in FY 2008.

Field Collection

The additional Field Collection staff will produce an estimated 700 additional tax delinquency accounts (TDA) (i.e., balance due accounts where returns were filed, but the taxes have not been paid) and 400 additional tax delinquency investigations (TDI) (i.e., investigations of taxpayers with unfiled returns and who have not responded to a notice) in FY 2011 generating revenue of \$7.3 million. Once new hires reach full potential in FY 2013, this investment is projected to produce an additional 1,000 TDAs and 500 TDIs, generating \$17.7 million in revenue.

Automated Collection System (ACS)

The additional ACS staff will produce approximately 48,000 tax delinquency accounts and 10,800 tax delinquency investigations in FY 2011 yielding approximately \$200.0 million in revenue. Once new hires reach full potential in FY 2013, this investment is projected to produce an additional 143,000 TDAs and 22,000 TDIs, generating \$456.6 million in revenue.

Centralized Offer in Compromise (COIC) (+\$4.2 million / +50 FTE)

The challenges existing within the economy have led to changes in the Offer in Compromise (OIC) program. In conjunction with the IRS Commissioner's Economic Challenge initiative, there has been a significant increase in the number of OIC submissions. In addition to taxpayers experiencing greater difficulty in meeting their tax obligations, more requests are being considered and worked to final disposition. FY 2009 OIC receipts have increased 9 percent over projections, and a 3 percent increase is expected in future years.

The Commissioner's initiative is an effort to consider reduced asset equity, primarily personal residences, as a basis for reviewing financial analysis statements. COIC will take extra measures to ensure that values placed on properties are realistic and offers previously rejected due to inflated equity values will be reconsidered. These efforts are expected to provide taxpayers with an increased incentive for improving voluntary compliance.

Centralized Insolvency Operation (+\$2.5 million / +30 FTE)

The state of the economy has led to significant increases in bankruptcy filings. FY 2009 receipts in the Insolvency Unit increased 35 percent, and bankruptcy filings increased 24 percent with expectations that this trend will continue. The additional resources will protect IRS interests in collection cases, provide litigation transcripts, and discharge or dismiss cases when appropriate.

OTHER DIRECT COSTS

Appeals (+\$0.5 million / +4 FTE) will address filing and payment compliance by supporting the increased coverage of taxpayers who fail to file returns or who underpay their tax liability. These additional FTE are necessary if Appeals is to adjudicate successfully the more than 350 projected Appeals cases generated by this initiative.

The IRS Office of Chief Counsel (+\$0.6 million / +3 FTE) will provide legal advice and assistance in litigating the increased number of cases, support for additional tax shelter litigation, published guidance, and will conduct tax reform-related work pertaining to cases involving small business and self employed taxpayers.

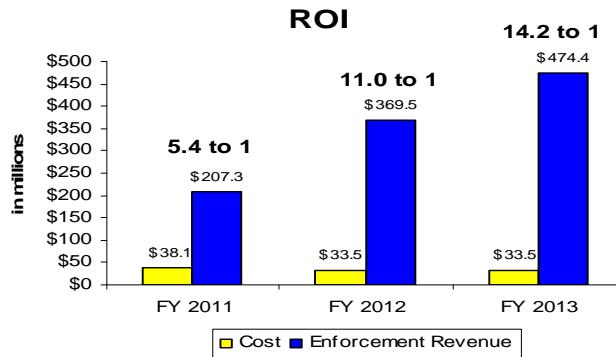
Counsel will provide Field Collection with legal advice and assistance in high-risk and high-yield collection cases and cases involving the collection of taxes due from abusive

trusts, as well as by supporting the Department of Justice in litigating such cases. Collection Due Process cases involving employment tax issues have recently been transferred from the United States District Courts to the United States Tax Court.

The Taxpayer Advocate Service (+\$0.1 million / +1 FTE) will ensure that the IRS follows appropriate procedures and does not create unnecessary burdens or compromise taxpayer rights.

EXPECTED BENEFITS

This request will produce 166,500 more case closures and generate \$474.4 million in enforcement revenue with an ROI of 14.2 to 1 once new hires reach full potential in FY 2013.



Support for Increased Enforcement Activities
+\$5,000,000 / +65 FTE

INITIATIVE SUMMARY

This initiative requests \$5.0 million and 65 FTE to fund the Accounts Management staff needed to support rapidly expanding enforcement activities. This funding is required to assist taxpayers to resolve issues early in the enforcement process and respond to and close various enforcement actions. Improving the response to taxpayers who have received enforcement notices should increase revenue and reduce interest paid.

INITIATIVE DETAIL

Most tax enforcement actions result in downstream Accounts Management activities, including account adjustments, assisted phone calls, amended returns, and installment agreement preparation. The IRS sends notices to taxpayers as the primary method to collect taxes due and resolve taxpayer issues. The IRS receives 123 phone calls from taxpayers for every 1,000 notices mailed.

The increase in enforcement activities has contributed significantly to the more than 35 percent increase in notices sent to taxpayers since FY 2004 with 95 percent of the notices referring the recipient to a taxpayer service phone line. In 2009, the IRS:

- Mailed more than 126 million notices to taxpayers, a 12 percent increase over FY 2008;
- Established more than \$6.0 billion in installment agreements, a 21 percent increase over FY 2008, and Taxpayer Service answered questions from taxpayers for 79 million enforcement-related notices;
- Adjusted almost 12 million post-filing tax accounts through assisted service and processed 8 percent more individual amended returns; and
- Answered 11.6 percent more phone calls, with individual “balance due” calls alone exceeding 3.9 million.

Insufficient staffing of taxpayer service is costly. Late processing of amended returns in 2009 resulted in interest payments to taxpayers of \$35.4 million, a 9.6 percent increase over FY 2007. Without this initiative, insufficient staff levels may result in reduced revenue collected, increased interest paid, and a delay for taxpayers attempting to resolve enforcement issues.

EXPECTED BENEFITS

This initiative will allow the IRS to help taxpayers resolve issues faster and improve customer satisfaction.

Maintain Recovery Act Staffing
+\$5,500,000 / +31 FTE

INITIATIVE SUMMARY

This initiative requests \$5.5 million and 31 FTE to extend staffing resources the IRS received in the American Recovery and Reinvestment Act of 2009 (Recovery Act) (Public Law 111-5). Before the Recovery Act, the value of outstanding tax-exempt debt had soared to more than \$2.7 trillion in 2008. The Recovery Act and other economic recovery proposals incorporated significant infrastructure investments that will accelerate this trend. In addition, the Recovery Act added many new types of bond financings (such as clean renewable energy bonds) that also will increase activity in this area.

Among other responsibilities, the IRS is mandated by the Recovery Act to administer these new bond provisions. The IRS is required to issue a direct payment to the bond issuer. For example, under the Build America Bond provisions, the IRS will issue a 35 percent payment and under the Recovery Zone Economic Development Bond provisions, the IRS will issue a 45 percent payment to bond issuers. The unique nature of this new role requires continuous compliance reviews and verification throughout the administrative life of the bonds.

INITIATIVE DETAIL

The IRS will administer the Build America Bonds (BABs) program and implement compliance programs related to several new types of tax credit bonds. The initial compliance begins with eligibility reviews of the following bonds:

- Build America Bonds Recovery;
- Recovery Zone Economic Development Bonds;
- Tribal Economic Development Bonds;
- Qualified School Construction Bonds;
- Qualified Zone Academy Bonds;
- Qualified Energy Conservation Bonds; and
- New Clean Renewable Energy Bonds (CREBs).

In addition to the initial eligibility verification, the IRS implemented a compliance system to administer, process, and monitor requests for direct federal credit payments. Through Forms 8038-CP, *Return for Credit Payments to Issuers of Qualified Bonds*, issuers of BABs may opt to receive a direct payment from the IRS equivalent to 35 percent of the interest costs. The IRS performs a compliance check of each request before issuance of the credit payment and, when appropriate, refers the underlying return for audit. The IRS began making these payments in July 2009. Due to the length of bond maturities, the compliance system may need to operate for 30 years or more.

By continuing to staff current levels for Build America Bonds, the IRS will further enhance compliance with the development of a multi-faceted compliance program, which will implement the following improvements:

- Enhance the payment process, the compliance process, and the process for tracking tax credits, particularly, as it relates to tax credit stripping (packaging and remarketing of tax credits);
- Perform compliance contacts for all BABs direct pay issuances within one year of their issuance through compliance check questionnaires;
- Develop focused examination initiatives based on compliance issues identified from the questionnaires and other sources;
- Develop classification guidelines for a general examination program and initiate examination programs directed towards achieving an appropriate rate of coverage of BABs and other types of tax-credit bonds; and
- Enhance monitoring of Form 8038-CP, *Return for Credit Payments to Issuers of Qualified Bonds*, for federal credit payments requests.

The IRS needs to retain the staffing funded by the Recovery Act since these bond financings are expected to comprise a significant portion of the bond market. Issuers of new bond financings are now required by law to file information returns, Form 8038-G, *Information Return for Tax-Exempt Governmental Obligations*. The IRS is responsible for processing volume cap applications, coordinating form revisions, return processing, and providing taxpayer assistance and outreach with respect to these financings. In addition, because of the length of maturity for some of these bonds, resources may be necessary to provide ongoing tax administration and enforcement for 30 years or more.

EXPECTED BENEFITS

This initiative will address the tax administration responsibilities required by the Recovery Act. The additional resources will achieve the following benefits:

- Provide resources to increase total enforcement contacts to include compliance contacts related to BAB and other new tax credit bonds.
- Meet the IRS goal of 100 percent compliance checks on Forms 8038-CP (filed semi-annually). The IRS projects the issuance of 500 BABs in FY 2009 and the doubling of BAB issuances each year through 2013.
- Revise the voluntary compliance programs, coordinate the publication of regulations and other formal guidance with Chief Counsel, and provide new education and outreach programs to the tax-exempt bond market to assist taxpayers in understanding and complying with applicable tax laws.
- Increase prevention, detection, and remediation of noncompliant bond transactions.

- Prevent shifting resources from the Tax Exempt Bond (TEB) division general program to Recovery Act administration to ensure adequate oversight of the new requirements. Shifting resources from the general program to meet the underlying Recovery Act demand would decrease the number of general program examinations from 550 in FY 2009 to zero in FY 2012; and the number of TEB non-Recovery Act compliance checks from 275 in FY 2009 to zero in FY 2012. This would widen the coverage gap in the tax-exempt bond market and potentially dramatically increase the undetected abusive transactions.

Continue Migration from Aging Tax Administration System
 +\$167,585,000 / +156 FTE

INITIATIVE SUMMARY

This initiative requests \$167.6 million and 156 FTE for Business Systems Modernization (BSM) to:

- Continue the development and deployment of BSM projects (\$122.1 million and 156 FTE in the BSM appropriation and \$3.5 million in the Operations Support appropriation for overhead costs related to the new hires); and
- Fund the Operations and Maintenance (O&M) costs of deployed modernization systems (\$42.0 million in the Operations Support appropriation).

The \$123 million increase to the BSM appropriation (the BSM program increase of \$122.1 million plus inflation of \$.889 million) is a 46.6 percent increase from the FY 2010 enacted level. This increase requests a total appropriation of \$386.9 million and is allocated as shown below.

FY 2011 BSM Project Activities

Project	Business Systems Modernization Initiatives	FY 2009 Enacted	FY 2010 Enacted ¹	FY 2011 President's Budget Request ^{2,3}	\$ Change FY 2010 to FY 2011
CADE 2 (Taxpayer Account Database)	Complete the taxpayer account database for 2012 filing season.	29,500	58,100	152,119	94,019
Current CADE	Implement tax law changes and enhance the overall security posture.	48,600	38,000	40,000	2,000
Modernized e-File	Complete Form 1040 Phase III, including 137 more supporting schedules and forms that will expand the reach of Modernized e-File to 100 percent of the e File population, or approximately 98.3 million filers. Funding also includes work to begin logical design to deliver Form 94X family of forms, <i>Employment/ Unemployment Tax</i> .	25,000	50,000	39,100	-10,900
Core Infrastructure	Provide services in architecture, engineering and deployment of standardized, consolidated, virtual and secure modernized development environments (DITE) and shared infrastructure components (Employee User Portal, Registered User Portal, and Security) of the production environments.	43,250	32,000	38,500	6,500
Architecture, Integration, and Management	Provide system engineering management capabilities including systems strategy, architecture, and engineering capabilities across IT Infrastructure, Business Applications, Data Management and IT Security. Provide project integration and management processes and tools including governance, enterprise lifecycle support, tiered program management, business rules and requirements, transition management, cost estimation, configuration/change management and risk management.	35,000	28,085	37,000	8,915
	Management Reserve	3,358	11,712	10,000	-1,712
	Subtotal Capital Investments	184,708	217,897	316,719	98,822
	Total BSM Labor	45,206	46,000	70,189	24,189
	Total BSM	229,914	263,897	386,908	123,011

¹ The FY 2010 Enacted column reflects proposed allocation based on \$10.223 million increase received in enacted budget.

² The BSM appropriation excludes \$3,463,200 for the overhead costs related to the new hires and \$42,000,000 for the operations and maintenance of deployed modernization project releases. These costs are included in the Operations Support appropriation.

³ BSM labor Includes \$889,000 of inflation costs.

INITIATIVE DETAIL

The BSM increase is a top priority of the IRS and will allow completion of the new taxpayer account database for the 2012 filing season. The new taxpayer account database will expedite refunds to 140 million individual taxpayers, improve service accuracy and timeliness, enhance data security, and make progress toward addressing the financial statement audit material weakness. Completion of the core taxpayer account database is the cornerstone of modernization, and a prerequisite for other major initiatives such as significant expansion of online paperless services and next generation enforcement technologies. The ability of the IRS to support increasingly complex taxpayer service and compliance initiatives will be severely limited until it is completed.

Customer Account Data Engine (CADE) 2 (+ \$94.0 million)

This initiative funds completion of the new taxpayer account database for the 2012 filing season. The new database will operate in a daily processing environment. This daily processing cycle will enhance taxpayer service by allowing all individual taxpayers who file electronically to receive direct deposit refunds in less than 10 days, on average five days faster than in the legacy system. More timely, accurate, and complete data will result in improved service to taxpayers (e.g., faster account adjustments and faster resolution of taxpayer account issues).

The new database will provide a single source of authoritative individual core taxpayer data in a relational database, will support sophisticated next-generation compliance systems and will move the IRS away from the legacy, flat-file data storage model.

CADE 2 will:

- Continue the IRS focus on moving away from 1960s technology (i.e., aging infrastructure, applications and sequential, flat file processing);
- Address financial material weaknesses, demonstrate compliance with Federal Financial Management System Requirements (FFMSR), and maintain the IRS clean audit opinion;
- Improve data security and privacy posture;
- Establish a solid data foundation for the future by leveraging the relational database processing capabilities; and
- Demonstrate substantive progress toward achieving long-term viability.

These goals will be met as CADE 2 delivers the following functionality and activities:

- Establish an authoritative database for individual taxpayer accounts;
- Replace the current individual master file applications, as well as current CADE applications with a single, state-of-the art solution;

- Expand the Integrated Production Module (IPM) to include additional data elements not currently in IMF and build an interface from the authoritative database for individual taxpayer accounts to IPM;
- Provide daily outputs to the Integrated Data Retrieval System (IDRS) and other downstream systems as they are able to support daily processing.

Completing the taxpayer account database for the 2012 filing season is the first step in achieving these goals. As a result of the transition to a daily processing environment, the Integrated Data Retrieval System will receive more timely and accurate data. In addition, the data population of the Integrated Production Module will provide more tools to enhance compliance and improve customer service. Enhanced data security also will be in place.

Current CADE (+\$2.0 million)

The IRS requests \$40 million total, \$2 million more than 2010 enacted, to fund updates to current CADE for any tax law changes and the operations and maintenance of the system.

Modernized e-File (MeF) (-\$10.9 million)

MeF provides a standard filing structure for all IRS return types, a robust platform, enhanced and up-to-date technologies, and customer service benefits. MeF stores all tax return data in XML format in a modernized Tax Return Database allowing all authorized viewers of the data to see an entire tax return online over the internet.

The IRS has completed the implementation of MeF Form 1120, *U.S. Corporation Income Tax Return*, Form 1120-S, *U.S. Income Tax Return for an S Corporation*, Form 990, *Return of Organization Exempt from Income Tax* and Form 1065, *U.S. Return of Partnership Income*. In January 2008, MeF Release 5 added Form 1120-F, *U.S. Income Tax Return of a Foreign Corporation* along with the *Federal Form 990 N, Electronic Notice (e-Postcard) for Tax-Exempt Organizations Not Required to File Form 990 or 990-EZ*.

FY 2011 funding will start the migration of the 94X family of forms, *Employment/Unemployment Tax*, to the MeF platform, which includes annual and quarterly filings. When implemented, the IRS projects that more than 8 million of 94X forms will be filed through MeF.

Currently, the IRS is implementing the Form 1040, *U.S. Individual Income Tax Return*, on the MeF platform in three phases. The first phase, which began in FY 2007, is scheduled to deploy in January 2010, and will implement the Form 1040 and 21 supporting forms and schedules, which will reach an estimated 61 percent of the e-File population. In addition to these additional forms, the completion of this phase will include delivery of all interfaces, an interim Disaster Recovery capability, and code optimization.

The second phase will begin in FY 2010 and will include Tax Year 2010 changes for the Form 1040 and supporting forms and schedules implemented in 2010. This phase will deploy additional hardware, the final phase for Disaster Recovery, and optimization code necessary to support the anticipated volume of returns in 2012. Also in FY 2010, work will begin on phase three, the final phase, of the 1040-related development effort. This phase will deploy the 1040A, the 1040EZ and 135 Form 1040-related forms and schedules on the MeF platform. Once this phase is complete, MeF will reach 100 percent of the 1040 e-File population.

Core Infrastructure (+\$6.5 million)

Core infrastructure supplies the design, engineering, standardized deployment, and production environments for BSM projects. The modernized infrastructure provides a complete environment (hardware, software, processes, and management) for developing, testing, deploying, operating and monitoring applications, including standardizing telecommunication services, security, operations management, and updating access portals. This approach allows the IRS to develop shared infrastructure and common business service solutions that are usable across multiple BSM projects. The Core infrastructure consists of Infrastructure Shared Services (ISS) and Development, Integration and Testing Environment (DITE).

- *Infrastructure Shared Services (ISS)* – ISS provides design, engineering, and deployment services in a standardized, consolidated, virtual and secure modernized production environment for BSM projects. In FY 2011, ISS will build common shared IT infrastructure services (i.e., audit, security, case management, and authentication services) in support of completion of the new taxpayer account database. The FY 2011 funding will allow common IT infrastructure and security and application services to access and leverage the IRS systems and data repositories across heterogeneous environments. In addition, ISS will address the effect on the infrastructure of the increase in electronic documents, on-line transactions, and on-line tax filers.
- *Development, Integration, and Testing Environment (DITE)* – The DITE is a standardized development and test environment composed of the modernized infrastructure components for use by BSM projects. Increased funding is required in FY 2011 to address the increased demand on DITE resources to support the completion of the taxpayer account database. The IRS will increase the virtualization of DITE components and support dynamic allocation of storage required by BSM projects for development and testing. DITE also will improve the efficiency of server administration, engineering, installation, maintenance, refresh and support of core DITE infrastructure. This will include web portals and common IT infrastructure services and provide a mechanism for remote access to core DITE data by authorized users.

Architecture, Integration, and Management (+\$8.9 million)

The increased funding will allow the Architecture, Integration, and Management (AI&M) program to deliver build-out of the Enterprise Target Architecture Integration Roadmap, Enterprise Transition Strategy, Release Architecture, As-built Architecture, Enterprise Standards Profile, Service Oriented Architecture Roadmap, and Segment Architectures.

In addition, data strategy is as a key component of modernization. The BSM projects to be included in the FY 2011 Data Strategy roadmap are the build out of the tax return store, a prototype for the metadata program, and expansion of users for the Integrated Production Model (IPM). These new data management capabilities allow IRS to reuse data for BSM projects, reduce the complexity of data schema development for MeF releases, create the physical data model for the Customer Account Data Engine, and support efforts to reduce the tax gap with new releases of the IPM.

Finally, funding also will be used to implement automation geared toward proactive security evaluation and instrumentation of applications, projects and system compliance with internal and external security and privacy standards, policies, and related federal directives (e.g., FISMA, NIST, DHS, OMB, GAO, and Treasury). This security initiative designs and implements remediation plans to ensure that a project or system passes the security test and evaluation processes. Other planned FY 2011 deliverables include “defense-in-depth” improvements through, updated infrastructure engineering security standards, IRS Enterprise Architecture Security and Privacy Guidance updates, and refinements to the IRS Security Domain Segment Architecture.

Management Reserve (-\$1.7 million)

Given the size and complexity of the taxpayer account database project, the management reserve funding is needed to cover unanticipated cost adjustments.

BSM Labor (+\$24.2 million / +156 FTE)

The IRS requests \$23.3 million for BSM labor and \$0.9 million for FY 2011 inflation costs. These funds provide for government labor costs associated with the design, development, test, preparation and testing of the infrastructure of the Customer Account Data Engine project. These funds also include \$3.5 million in one-time overhead costs associated with the hiring and equipping of the 156 FTE (funded in the Operations Support appropriation).

O&M of Deployed Modernization Systems (+\$42 million)

This increase provides funding in the Operations Support appropriation for the O&M costs of deployed modernization systems. The base funding in the Operations Support appropriation is no longer sufficient to support these costs without placing other critical systems development and support at risk. Since 2007, the IRS Operations Support appropriation has funded the operation and maintenance requirements for these deployed

BSM systems. BSM systems are implemented incrementally, and therefore, each individual segment does not achieve full functionality to replace legacy systems. The IRS, then, is forced to incur in O&M costs for both the legacy systems and the deployed BSM system releases. The deployment of multiple BSM systems has depleted the original O&M funding levels.

EXPECTED BENEFITS

Completion of the relational taxpayer account database is fundamental to significant transformation opportunities in IRS service and enforcement functions. The new database will operate in a daily processing environment that will improve taxpayer service through the faster disbursement of refunds, the increased timeliness and accuracy of taxpayer transactions, and faster resolution of taxpayer issues. The relational database also will provide increased capacity to leverage expanded data collected from information returns to increase the effectiveness of compliance efforts. Finally, the modernized environment will improve the security posture of the IRS and improve the efficiency of IT operations by faster integration into a single tax processing environment.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Internal Revenue Service	FY 2009 ARRA Level	FY 2009 Enacted Level ¹	FY 2010 President's Budget	Congressional Action including Rescission	FY 2010 Enacted Level	Proposed Reprogram.	FY 2010 Proposed Operating Level	FY 2011 Request Level	% Change to FY 2011
FTE		94,189	95,081	(11)	95,070	0	95,070	96,419	1.4%
Object Classification:									
11.1 Full-Time Permanent Positions	\$0	\$5,795,347	\$6,094,684	\$278	\$6,094,962	\$0	\$6,094,962	\$6,394,057	4.9%
11.3 Other than Full-Time Permanent Positions	0	412,025	422,984	0	422,984	0	422,984	423,013	0.0%
11.5 Other Personnel Compensation	1,000	277,965	287,172	0	287,172	0	287,172	308,396	7.4%
11.8 Special Personal Services Payments	0	14,999	18,164	0	18,164	0	18,164	18,445	1.5%
11.9 Personnel Compensation (Total)	\$1,000	\$6,500,336	\$6,823,004	\$278	\$6,823,282	\$0	\$6,823,282	\$7,143,911	4.7%
12.0 Personnel Benefits	0	1,730,179	1,788,144	(277)	1,787,867	0	1,787,867	1,937,543	8.4%
13.0 Benefits to Former Personnel	0	50,728	56,137	0	56,137	0	56,137	57,106	1.7%
21.0 Travel	0	257,116	260,693	2,500	263,193	0	263,193	255,980	-2.7%
22.0 Transportation of Things	0	31,052	34,611	0	34,611	0	34,611	33,170	-4.2%
23.1 Rental Payments to GSA	0	631,857	668,154	0	668,154	0	668,154	676,738	1.3%
23.2 Rent Payments to Others	0	769	538	0	538	0	538	592	10.0%
23.3 Communications, Utilities, & Misc	2,000	436,018	453,214	0	453,214	0	453,214	434,883	-4.0%
24.0 Printing & Reproduction	2,000	71,427	70,495	0	70,495	0	70,495	67,503	-4.2%
25.1 Advisory & Assistance Services	0	169,052	190,158	0	190,158	0	190,158	126,385	-33.5%
25.2 Other Services	73,000	743,246	740,872	12,123	752,995	0	752,995	718,802	-4.5%
25.3 Purchase of Goods & Services from Govt. Accounts	0	167,261	120,050	0	120,050	0	120,050	204,826	70.6%
25.4 Operation & Maintenance of Facilities	0	182,873	185,552	0	185,552	0	185,552	217,899	17.4%
25.5 Research & Development Contracts	0	10,916	10,799	0	10,799	0	10,799	8,478	-21.5%
25.6 Medical Care	0	13,328	11,187	0	11,187	0	11,187	12,616	12.8%
25.7 Operation & Maintenance of Equipment	0	68,963	81,485	0	81,485	0	81,485	129,660	59.1%
25.8 Subsistence & Support of Persons	0	7,082	7,063	0	7,063	0	7,063	6,500	-8.0%
26.0 Supplies and Materials	2,000	70,079	71,892	0	71,892	0	71,892	70,555	-1.9%
31.0 Equipment	0	326,471	472,711	0	472,711	0	472,711	476,244	0.7%
32.0 Lands and Structures	0	22,613	48,682	0	48,682	0	48,682	17,857	-63.3%
33.0 Investments & Loans	0	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	0	22,605	22,606	5,499	28,105	0	28,105	28,105	0.0%
42.0 Insurance Claims & Indemn	0	2,027	2,866	0	2,866	0	2,866	2,712	-5.4%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	0	6,600	5,087	0	5,087	0	5,087	5,205	2.3%
Total Budget Authority	\$80,000	\$11,522,598	\$12,126,000	\$20,123	\$12,146,123	\$0	\$12,146,123	\$12,633,270	4.0%
Appropriations:									
Taxpayer Services	\$0	\$2,293,000	\$2,269,830	\$9,000	\$2,278,830	\$0	\$2,278,830	\$2,321,975	1.9%
Enforcement	0	5,117,267	5,504,000	0	5,504,000	0	5,504,000	5,797,400	5.3%
Operations Support	0	3,867,011	4,082,984	900	4,083,884	0	4,083,884	4,108,000	0.6%
Business Systems Modernization	0	229,914	253,674	10,223	263,897	0	263,897	386,908	46.6%
Health Insurance Tax Credit Administration	80,000	15,406	15,512	0	15,512	0	15,512	18,987	22.4%
Total Budget Authority	\$80,000	\$11,522,598	\$12,126,000	\$20,123	\$12,146,123	\$0	\$12,146,123	\$12,633,270	4.0%

¹ FY 2009 Enacted represents the approved FY 2009 Operating Plan.

2.3 – Appropriation Detail Table

Dollars in Thousands

Internal Revenue Service										
Resources Available for Obligation	FY 2009 Obligations		FY 2009 Enacted ^{1,2}		FY 2010 Enacted		FY 2011 Request		% Change FY 2010 to FY 2011	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Taxpayer Services	32,422	\$2,279,806	32,622	\$2,293,000	31,206	\$2,278,830	30,668	\$2,321,975	-1.72%	1.89%
Enforcement	47,361	5,109,680	48,952	5,117,267	51,200	5,504,000	52,863	5,797,400	3.25%	5.33%
Operations Support	12,101	3,796,412	12,267	3,867,011	12,316	4,083,884	12,384	4,108,000	0.55%	0.59%
Business Systems Modernization	322	131,138	333	229,914	333	263,897	489	386,908	46.85%	46.61%
Health Insurance Tax Credit Administration	10	15,374	15	15,406	15	15,512	15	18,987	0.0%	22.40%
Subtotal New Appropriated Resources	92,216	\$11,332,410	94,189	\$11,522,598	95,070	\$12,146,123	96,419	\$12,633,270	1.42%	4.01%
Other Resources:										
Recoveries				882						
Offsetting Collections - Reimbursable	792	113,896	792	113,896	956	142,169	961	144,592	0.52%	1.70%
Available multi-year/no-year funds	88	75,830		86,327		196,128		105,497		-46.21%
50% Carryover		15,744		15,744						
Transfers In/Out		3,641		7,878						
Mandatory Appropriations - User Fees	273	135,648		165,521		187,100		194,100		3.74%
Subtotal Other Resources	1,153	\$344,759	792	\$390,248	956	\$525,397	961	\$444,189	0.00%	-15.46%
Total Resources Available for Obligation	93,369	\$11,677,169	94,981	\$11,912,846	96,026	\$12,671,520	97,380	\$13,077,459	1.41%	3.20%

¹ FY 2009 Enacted excludes the Recovery Act, Administration Expenses account, funded in the Treasury Departmental Offices (\$122M).

² FY 2009 Enacted represents the approved FY 2009 Operating Plan.

2B – Appropriation Language and Explanation of Changes

Appropriations Language	Explanation of Changes
<p style="text-align: center;">DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE</p> <p>TAXPAYER SERVICES <i>(including transfer of funds)</i></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, [2,278,830,000] \$2,321,975,000, of which not less than [6,100,000] \$5,100,000 shall be for the Tax Counseling for the Elderly Program, of which not less than [10,000,000] \$9,500,000 shall be available for low-income taxpayer clinic grants, of which not less than [12,000,000] \$8,000,000, to remain available until September 30, [2011] 2012, shall be available for a Community Volunteer Income Tax Assistance matching grants[demonstration] program for tax return preparation assistance, and of which [not less than \$205,954,000 shall be available for operating expenses of the Taxpayer Advocate Service] up to \$6,000,000 may be transferred as necessary from this account to “Health Insurance Tax Credit Administration” upon advance notification of the Committees on Appropriations: Provided, That this transfer authority shall be in addition to any other transfer authority provided in this Act. (Department of the Treasury Appropriation Act, 2010.)</p> <p>ENFORCEMENT <i>(including transfer of funds)</i></p> <p>For necessary expenses for tax enforcement activities 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 purchase (for police-type use, not to exceed 850) and hire passenger motor vehicles</p>	<p>The IRS supports adequate funding for the Taxpayer Advocate Service. Specifying the TAS funding level in law prevents the IRS from proposing an operating plan that allocates resources in the best interest of taxpayers.</p> <p>This change represents a contingency in case the increased workload related to the American Recovery and Reinvestment Act continues in FY 2011.</p> <p>The Budget Request for the Enforcement account is \$5,797,400,000 including a program integrity allocation adjustment of \$790,000,000 which, when combined with the \$325,000,000 allocation</p>

(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, [\$4,904,000,000]~~\$5,007,400,000~~, of which not less than [\$59,206,000]~~\$60,257,000~~ shall be for the Interagency Crime and Drug Enforcement program[; and of which not to exceed \$126,500 shall be for official reception and representation expenses associated with hosting the Leeds Castle Meeting in the United States during 2010]; *Provided*, That up to \$10,000,000 may be transferred as necessary from this account to "Operations Support" solely for the purposes of the Interagency Crime and Drug Enforcement program: *Provided further*, That this transfer authority shall be in addition to any other transfer authority provided in this Act.

In addition to amounts made available above, [\$600,000,000]~~\$790,000,000~~ shall be made available for *additional and/or* enhanced tax enforcement activities. (*Department of the Treasury Appropriations Act, 2010.*)

OPERATIONS SUPPORT

For necessary expenses of the Internal Revenue Service to support taxpayer services and enforcement programs, including rent payments; facilities services; printing; postage; physical security; headquarters and other IRS-wide administration activities; research and statistics of income; telecommunications; information technology development, enhancement, operations, maintenance, and security; the hire of passenger motor vehicles (31 U.S.C. 1343(b)); and other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner; [\$4,083,884,000]~~\$4,108,000,000~~, of which up to \$75,000,000 shall remain available until September 30, [2011]~~2012~~, for information technology support; *of which up to \$65,000,000 shall remain available until expended for acquisition of real property, equipment, construction and renovation of facilities*; of which not to exceed \$1,000,000 shall remain available until September 30, [2012]~~2013~~, for research; of which not [less than]~~to exceed~~ \$2,000,000 shall be for the Internal Revenue Service Oversight Board; of which not to exceed \$25,000 shall be for official reception and representation[; and of which \$290,000,000 shall be made available to support enhanced tax enforcement activities]; *Provided*, That of the amounts provided

adjustment in the Operations Support account, totals \$1,115,000,000 in additional enforcement activities.

The Leeds Castle Meeting was a one-time event hosted by the IRS in FY 2010. The language addressing this prior year requirement is deleted.

This change will ensure full funding at real estate project inception in compliance with OMB Circular A-11 requirements for capital projects, align IRS appropriation language with that of other agencies that fund similar longer-term projects, and accommodate the schedule uncertainty inherent in real estate projects. Recent changes in GSA rules for obligating the agency share of facilities costs make it difficult to fully fund and obligate all of the cost of a project in the first year, further exacerbating the need for the change.

under this heading, such sums as are necessary shall be available to fully support tax enforcement[and enhanced tax enforcement] activities, *including not less than \$325,000,000 to support additional and/or enhanced tax enforcement activities.* (Department of the Treasury Appropriations Act, 2010.)

BUSINESS SYSTEMS MODERNIZATION

For necessary expenses of the Internal Revenue Service's business systems modernization program, [~~\$263,897,000~~]*\$386,908,000*, to remain available until September 30, [2012]*2013*, for the capital asset acquisition of information technology systems, including management and related contractual costs of said acquisitions, including related Internal Revenue Service labor costs, and contractual costs associated with operations authorized by 5 U.S.C. 3109: *Provided*, That, with the exception of labor costs, none of these funds may be obligated until the Internal Revenue Service submits to the Committees on Appropriations[, and such Committees approve,] a plan for expenditure that: (1) meets the capital planning and investment control review requirements established by the Office of Management and Budget, including Circular A-11; (2) complies with the Internal Revenue Service's enterprise architecture, including the modernization blueprint; (3) conforms with the Internal Revenue Service's enterprise life cycle methodology; (4) is approved by the Internal Revenue Service, the Department of the Treasury, and the Office of Management and Budget; (5) has been [reviewed]*received* by the Government Accountability Office; and (6) complies with the acquisition rules, requirements, guidelines, and systems acquisition management practices of the Federal Government. (Department of the Treasury Appropriations Act, 2010.)

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), [~~\$15,512,000~~]*\$18,987,000*. (Department of the Treasury Appropriations Act, 2010.)

The Budget Request includes additional resources for increased tax enforcement through a program integrity allocation adjustment, of which \$325,000,000 is in the Operations Support account.

ADMINISTRATIVE PROVISIONS - INTERNAL REVENUE SERVICE

(including transfer of funds)

Sec. 101. Not to exceed 5 percent of any appropriation made available in this Act to the Internal Revenue Service or not to exceed 3 percent of appropriations under the heading "Enforcement" may be transferred to any other Internal Revenue Service appropriation upon the advance [approval]*notification* of the Committees on Appropriations.

Sec. 102. The Internal Revenue Service shall maintain a training program to ensure that Internal Revenue Service employees are trained in taxpayers' rights, in dealing courteously with taxpayers, and in cross-cultural relations.

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

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

Sec. 105. Of the funds made available by this Act to the Internal Revenue Service, not less than [\$7,100,000,000]*\$8,235,000,000* shall be available only for tax enforcement[. In addition, of the funds made available by this Act to the Internal Revenue Service, and subject to the same terms and conditions, \$890,000,000], *of which not less than \$1,115,000,000* shall be available for *additional and/or* enhanced tax law enforcement, *to be expended subject to the periods of availability applicable under each account.*

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

(Department of the Treasury Appropriations Act, 2010.)

This program was terminated in March 2009, therefore this language is no longer needed.

2C – Legislative Proposals

The FY 2011 President's Budget includes a number of legislative proposals intended to improve tax compliance with minimum taxpayer burden. These proposals will specifically target the tax gap and generate nearly \$26 billion over the next ten years. Among other proposals, the Administration proposes to expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties.

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

- Require information reporting for private separate accounts of life insurance companies;
- Require information reporting on payments for services to corporations;
- Require a certified Taxpayer Identification Number (TIN) from contractors;
- Require increased information reporting on certain government payments;
- Increase information return penalties; and
- Require information reporting on expense payments relating to rental property.

Improve compliance by businesses – Improving compliance by businesses of all sizes is important. Specific proposals to improve compliance by businesses would:

- Provide Treasury regulatory authority to require that information returns be filed electronically;
- Require corporations and partnerships with assets of \$10 million or more that are required to file Schedule M-3 to file their tax returns electronically;
- Provide Treasury regulatory authority to reduce the current threshold, filing 250 or more returns during a calendar year, to require electronic filing of certain other large taxpayers not required to file Schedule M-3 (such as exempt organizations);
- Implement standards clarifying when employee leasing companies can be held liable for their clients' federal employment taxes; and
- Increase certainty about the rules pertaining to classification of employees as independent contractors.

Strengthen tax administration – The IRS has taken a number of steps under existing law to improve compliance. These efforts would be enhanced by specific tax administration proposals that would:

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

Expand penalties – Penalties play an important role in discouraging intentional noncompliance. A specific proposal to expand penalties would:

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

Improve Tax Administration and Other Miscellaneous Proposals

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

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

Section 3 – Budget and Performance Plan

Taxpayer Services

Appropriation Description

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

The Taxpayer Services Budget Request for FY 2011 is \$2,321,975,000 in direct appropriations and 30,668 FTE. This is an increase of \$43,145,000, or 1.89 percent, more than the FY 2010 enacted level of \$2,278,830,000, and 538 FTE fewer than the FY 2010 enacted level of 31,206 FTE.

2.1 – Budget Adjustments Table

Dollars in Thousands

Taxpayer Services	FTE	Amount
FY 2009 Enacted	32,622	\$2,293,000
FY 2010 President's Budget Request	31,217	\$2,269,830
Congressional Action	(11)	9,000
FY 2010 Enacted Budget (P.L. 111-117)	31,206	\$2,278,830
Changes to Base:		
Maintaining Current Levels		\$50,054
Pay Annualization		11,643
Pay Inflation Adjustment		30,534
Non-Pay Inflation Adjustment		2,495
FERS Increased Participation		5,382
Other Adjustments	(169)	
Resource Adjustment to Support Recovery Act-HCTC Program Expansion		
Technical FTE Adjustments	(169)	
Efficiencies/Savings	(472)	(\$28,023)
Increase e-File Savings	(472)	(23,186)
Reduce Procurement/Contracting		(2,878)
Reduce Printing, Travel, and Training		(523)
Reduce Tuition Assistance Program		(1,436)
Subtotal Changes to Base	(641)	\$22,031
Total FY 2011 Base	30,565	\$2,300,861
Program Changes:		
Program Reinvestment:		\$2,792
Submission Processing Consolidation (Atlanta)		2,792
Program Decrease:		(\$9,000)
Reduce Taxpayer Service Grant and Advocacy Programs		(9,000)
Program Increases:		
Taxpayer Service Initiatives		\$20,945
Increase Telephone Level of Service		20,945
Enforcement Initiatives	103	\$6,377
Address Business and Individual International Compliance	30	1,779
Reduce the Reporting Compliance Tax Gap	7	769
Reduce the Nonfiling and Underpayment Tax Gap	1	91
Support for Increased Enforcement Activities	65	3,738
Subtotal Program Changes	103	\$21,114
Total FY 2011 Request	30,668	\$2,321,975
Adjustments to Request		
User Fees		127,000
Total FY 2011	30,668	\$2,448,975

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Taxpayer Services	FY 2009 Enacted Level ¹	FY 2010 President's Budget	Congressional		FY 2010		FY 2011 Request Level	% Change to FY 2011
			Action including Rescission	FY 2010 Enacted Level	Proposed Reprogram.	Proposed Operating Level		
FTE	32,622	31,217	(11)	31,206		31,206	30,668	-1.7%
Object Classification:								
11.1 Full-Time Permanent Positions	\$1,284,613	\$1,281,991	\$278	\$1,282,269	\$0	\$1,282,269	\$1,309,132	2.1%
11.3 Other than Full-Time Permanent Positions	308,132	309,849	0	309,849	0	309,849	304,283	-1.8%
11.5 Other Personnel Compensation	86,246	88,518	0	88,518	0	88,518	98,503	11.3%
11.8 Special Personal Services Payments	\$0	0	0	0	0	0	0	0.0%
11.9 Personnel Compensation (Total)	\$1,678,991	\$1,680,358	\$278	\$1,680,636	\$0	\$1,680,636	\$1,711,918	1.9%
12.0 Personnel Benefits	385,276	350,315	(277)	350,038	0	350,038	391,504	11.8%
13.0 Benefits to Former Personnel	2,351	7,362	0	7,362	0	7,362	8,199	11.4%
21.0 Travel	34,106	31,763	2,500	34,263	0	34,263	31,269	-8.7%
22.0 Transportation of Things	5,726	6,541	0	6,541	0	6,541	5,564	-14.9%
23.1 Rental Payments to GSA	0	0	0	0	0	0	0	0.0%
23.2 Rent Payments to Others	48	45	0	45	0	45	46	2.2%
23.3 Communications, Utilities, & Misc	743	3,709	0	3,709	0	3,709	3,607	-2.8%
24.0 Printing & Reproduction	9,925	9,009	0	9,009	0	9,009	9,091	0.9%
25.1 Advisory & Assistance Services	21,723	28,951	0	28,951	0	28,951	3,923	-86.4%
25.2 Other Services	44,563	100,853	1,000	101,853	0	101,853	46,993	-53.9%
25.3 Purchase of Goods & Services from Govt. Accounts	68,660	13,968	0	13,968	0	13,968	67,939	386.4%
25.4 Operation & Maintenance of Facilities	48	95	0	95	0	95	95	0.0%
25.5 Research & Development Contracts	0	0	0	0	0	0	0	0.0%
25.6 Medical Care	0	0	0	0	0	0	0	0.0%
25.7 Operation & Maintenance of Equipment	0	675	0	675	0	675	673	-0.3%
25.8 Subsistence & Support of Persons	1,355	1,494	0	1,494	0	1,494	1,487	-0.5%
26.0 Supplies and Materials	16,281	11,432	0	11,432	0	11,432	10,899	-4.7%
31.0 Equipment	477	578	0	578	0	578	587	1.6%
32.0 Lands and Structures	5	0	0	0	0	0	0	0.0%
33.0 Investments & Loans	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	22,600	22,601	5,499	28,100	0	28,100	28,100	0.0%
42.0 Insurance Claims & Indemn	122	81	0	81	0	81	81	0.0%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	0	0	0	0	0	0	0	0.0%
Total Budget Authority	\$2,293,000	\$2,269,830	\$9,000	\$2,278,830	\$0	\$2,278,830	\$2,321,975	1.9%
Budget Activities:								
Pre-filing Taxpayer Assistance & Education	\$661,000	\$676,063	\$9,000	\$685,063	\$0	\$685,063	\$693,753	1.3%
Filing & Account Services	1,632,000	1,593,767	0	1,593,767	0	1,593,767	1,628,222	2.2%
Total Budget Authority	\$2,293,000	\$2,269,830	\$9,000	\$2,278,830	\$0	\$2,278,830	\$2,321,975	1.9%

¹ FY 2009 Enacted represents the approved FY 2009 Operating Plan.

2.3 – Appropriation Detail Table

Dollars in Thousands

Taxpayer Services										
Resources Available for Obligation	FY 2009 Obligations		FY 2009 Enacted ^{1,2}		FY 2010 Enacted		FY 2011 Request		% Change FY 2010 to FY 2011	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Pre-Filing Taxpayer Assistance and Education	5,978	\$648,685	6,142	\$661,000	6,164	\$685,063	6,200	\$693,753	0.58%	1.27%
Filing and Account Services	26,444	1,631,121	26,480	1,632,000	25,042	1,593,767	24,468	1,628,222	-2.29%	2.16%
Subtotal New Appropriated Resources	32,422	\$2,279,806	32,622	\$2,293,000	31,206	\$2,278,830	30,668	\$2,321,975	-1.72%	1.89%
Other Resources:										
Recoveries				160						
Offsetting Collections - Reimbursable	499	24,454	499	24,454	646	33,513	649	34,159	0.46%	1.93%
Available multi-year/no-year funds	88	14,236		14,137		8,011		8,010		-0.01%
50% Carryover		1,874		1,874						
Transfers In/Out (Multiyear funds)		363		4,433						
Mandatory Appropriations - User Fees	253	123,000		127,000		127,000		127,000		0.00%
Subtotal Other Resources	840	\$163,927	499	\$172,058	646	\$168,524	649	\$169,169	0.46%	0.38%
Total Resources Available for Obligation	33,262	\$2,443,733	33,121	\$2,465,058	31,852	\$2,447,354	31,317	\$2,491,144	-1.68%	1.79%

¹ FY 2009 Enacted excludes the Recovery Act, Administration Expenses account, funded in the Treasury Departmental Offices (\$122M).

² FY 2009 Enacted represents the approved FY 2009 Operating Plan.

3A – Pre-Filing Taxpayer Assistance and Education (*\$693,753,000 in direct appropriations and an estimated \$1,459,000 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* supports headquarters management associated with Customer Assistance Relationship and Education (CARE). CARE provides pre-filing taxpayer assistance and education.
- *Taxpayer Communication and Education* researches customer needs; prepares tax forms and publications; develops and manages educational programs; establishes partnerships with stakeholder groups; and disseminates tax information to taxpayers and the general public through a variety of media, including publications and mailings, websites, broadcasting, and advertising.
- *Media and Publications* develops and produces notices, forms, and publications for printed and electronic tax materials, and provides media production services to taxpayers.
- *Taxpayer Advocacy* provides advocate services to taxpayers by identifying the underlying causes of taxpayer problems and participating in the development of systematic and/or procedural remedies.

- *Account Management and Assistance – Field Assistance* provides face-to-face assistance, education, and compliance services to taxpayers. It includes return preparation, answering tax questions, resolving account and notice inquiries, and supplying forms and publications to taxpayers.
- *Taxpayer Advocate Case Processing* provides advocate services to taxpayers to resolve taxpayer problems through prompt identification, referral, and settlement.
- *W&I HQ Management and Administration* provides staffing, training, and direct support for W&I management activities of strategic planning, communications and liaison, finance, human resources, EEO and diversity, business modernization, and embedded training.
- *National Distribution Center* processes orders for IRS forms and publications received from individual taxpayers, tax practitioners, and IRS tax return preparation partners.

3.2.1 – Budget and Performance Plan

Dollars in Thousands

Pre-Filing Taxpayer Assistance & Education Budget Activity						
Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Obligations	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	\$559,249	\$573,685	\$628,286	\$648,685	\$685,063	\$693,753
Reimbursable Resources	1,038	843	774	876	1,431	1,459
Mandatory Appropriations - User Fees		1,201	12,827	18,703		
Total Resources	\$560,287	\$575,729	\$641,887	\$668,264	\$686,494	\$695,212

Pre-Filing Taxpayer Assistance & Education Budget Activity Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Target	FY 2011 Target
Timeliness of Critical Filing Season Tax Products to the Public (Ot)	83.0%	83.5%	92.4%	96.8%	94.0%	94.0%
Timeliness of Critical TE/GE & Business Tax Products to the Public (Ot)	61.2%	84.0%	89.5%	95.2%	90.0%	91.0%
Taxpayer Self Assistance Rate (E) (L)	46.8%	49.5%	66.8%	69.3%	61.3%	62.7%
Percent of Eligible Taxpayers Who File for EITC (Oe)	*	*	*	N/A	75% - 80%	75% - 80%

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

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

Description of Performance

The IRS enhanced its outreach and educational services through partnerships with the public to increase understanding of and compliance with the tax law. The IRS partners with organizations such as state taxing authorities and volunteer groups to serve taxpayer needs. Through its Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites, the IRS provided free tax assistance to the elderly, disabled, and limited English proficient individuals and families. During FY 2009, more than 82,000 volunteers filed more than 3 million returns, a 13 percent decrease from FY 2008 because last year's figure included returns related to the Economic Stimulus Payment (ESP) activity.

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

- Creating EITC products and services designed to target underserved groups such as rural taxpayers, childless workers, and limited English proficient filers;
- Conducting a third annual EITC Awareness Day to promote the EITC that may be a critical financial lifeline to many taxpayers. Community coalitions and IRS partners across the nation marked the day with a series of local news conferences and news releases promoting this refundable tax credit for low-wage taxpayers. The organizations operated free tax preparation sites for low and moderate-income individuals, seniors and other eligible taxpayers in every state; and
- Increasing electronic filing of EITC returns by 8.2 percent.

The IRS increased the number of Facilitated Self-Assistance workstations and phones to 50 sites, allowing nearly 12,500 taxpayers to access IRS.gov at Taxpayer Assistance Centers, a 420 percent increase from 2008.

In FY 2009, taxpayers viewed more than 1.7 billion IRS.gov pages, and more than 54 million taxpayers used *Where's My Refund?*, an increase of 39 percent, with 453,000 taxpayers using the Spanish version.

The FY 2009 *Super Saturday* event resulted in the largest one-day outreach service event in IRS history. Successes from Super Saturday include:

- Assisted more than 11,000 taxpayers with a variety of services including tax advice and return preparation;
- Answered more than 33,000 calls and prepared more than 53,000 returns for taxpayers needing assistance;
- Promoted and achieved approximately 200 media stories on Super Saturday; and
- Used more than 1,700 VITA sites across the country.

3B – Filing and Account Services (*\$1,628,222,000 in direct appropriations, an estimated \$32,700,000 from reimbursable programs, and an estimated \$127,000,000 from user fees*): This budget activity funds programs that provide filing and account services to taxpayers, processes paper and electronically submitted tax returns, issue refunds, and maintains taxpayer accounts. This includes the following program activities:

- *Filing and Account Services Management* administers filing and account services programs.
- *Submission Processing* processes paper and electronically-submitted tax returns and supplemental documents, accounts for tax revenue, processes information documents, and issues refunds and tax notices.
- *Account Management and Assistance – Electronic/Correspondence Assistance* provides education and assistance to taxpayers through telephone, paper, and internet correspondence to resolve account and notice inquiries.
- *Electronic Products and Services Support (EPSS)* provides centralized operations and support capabilities for the IRS suite of electronic products. EPSS includes e-help desk, technology support, and operations support.
- *Electronic Tax Administration (ETA)* markets and administers electronic tax administration products and services.
- *Pre-Refund* provides coordination support for the pre-refund activities to ensure timely issuance of refunds and credits that are legally due to taxpayers. The pre-refund activity is now a part of the ETA office.
- *Joint Operations Center (JOC)* provides service, support, and technology for telephone, correspondence, and electronic media inquiries; real time monitoring and routing of inbound calls; monitoring of Customer Service Representative accuracy; and management of the enterprise telephone database.
- *Files Most Efficient Organization (MEO)* provides staffing, training, and direct support for the management associated with the MEO for files in Submission Processing. This organization stores the administrative files and the most recent tax returns in process, which 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 Budget Activity						
Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Obligations	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	\$1,568,209	\$1,559,779	\$1,545,478	\$1,631,121	\$1,593,767	\$1,628,222
Reimbursable Resources	24,242	20,081	36,037	23,578	32,082	32,700
Mandatory Appropriations - User Fees		63,458	139,109	104,297	127,000	127,000
Total Resources	\$1,592,451	\$1,643,318	\$1,720,624	\$1,758,996	\$1,752,849	\$1,787,922

Filing and Account Services Budget Activity						
Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Target	FY 2011 Target
Percent Individual Returns Processed Electronically (Oe) (L)	54.1%	57.1%	57.6%	65.9%	70.2%	81.0%
Percent of Business Returns Processed Electronically (Oe) (L)	16.6%	19.1%	19.4%	22.8%	24.3%	25.4%
Customer Accuracy - Tax Law Phones (Ot)	90.9%	91.2%	91.2%	92.9%	91.2%	91.2%
Customer Accuracy - Accounts (Phones) (Ot)	93.2%	93.4%	93.7%	94.9%	93.7%	93.7%
Customer Contacts Resolved per Staff year (E)	7,414	7,648	12,634	12,918	9,398	10,181
Customer Service Representative (CSR) Level of Service (Oe) (L)	82.0%	82.1%	52.8%	70.0%	71.0%	75.0%
Refund Timeliness - Individual (paper) (Ot)	99.3%	98.9%	99.1%	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 2009 filing season, rising to challenges posed by the residual effects of the 2008 Economic Stimulus Payment program and the implementation of the Recovery Act.

Results of the 2009 filing season include:

- Processed 144.4 million individual returns and issued 111.4 million refunds;
- Achieved a 70 percent telephone level of service while answering 39 million assistor calls and 29 million automated calls;
- Responded correctly to 92.9 percent of tax law questions and 94.9 percent of account questions received via the telephone;
- Provided free tax assistance to more than 6.2 million taxpayers at 401 Taxpayer Assistance Centers; and

- Provided free tax assistance, including the preparation of more than 3 million tax returns, at the more than 12,100 VITA and TCE sites.

Increased electronic filing:

- Individual returns electronically filed surpassed 65.9 percent;
- Total number of individual returns filed electronically reached 95 million;
- Home-computer filing increased to 32.2 million returns, a 19 percent increase over 2008; and
- Tax professional use of e-File increased to 63.2 percent.

In FY 2009, the IRS Commissioner chartered a Taxpayer Communications Taskgroup (TACT) to study and improve the clarity, accuracy, and effectiveness of written communications to taxpayers. As a result of the TACT efforts, the IRS reduced the number of inserts included with the balance due notice from 13 to two, reducing the amount of paper while improving clarity and readability. This streamlining effort eliminated more than 16 million pieces of paper per year and also reduced IRS annual postage costs by \$570,000. In addition, the IRS rolled out in January 2010 nine redesigned notices as part of the TACT effort to improve IRS correspondence. The nine notices account for approximately two million pieces of correspondence and were rewritten to provide a clear and simple explanation of the purpose of the notice and what actions the taxpayer must take to resolve the issue.

Enforcement

Appropriation Description

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

The Enforcement Budget Request for FY 2011 is \$5,797,400,000 in direct appropriations and 52,863 FTE. This is an increase of \$293,400,000 or 5.33 percent and 1,663 FTE more than the FY 2010 enacted level of \$5,504,000,000 and 51,200 FTE.

2.1 – Budget Adjustments Table

Dollars in Thousands

Enforcement	FTE	Amount
FY 2009 Enacted	48,952	\$5,117,267
FY 2010 President's Budget Request	51,200	\$5,504,000
Congressional Action		
FY 2010 Enacted Budget (P.L. 111-117)	51,200	\$5,504,000
Changes to Base:		
Maintaining Current Levels		\$110,506
Pay Annualization		27,964
Pay Inflation Adjustment		69,255
Non-Pay Inflation Adjustment		4,460
FERS Increased Participation		8,827
Other Adjustments	(208)	
Technical FTE Adjustments	(208)	
Efficiencies/Savings		(\$7,092)
Reduce Procurement/Contracting		(2,246)
Reduce Printing, Travel, and Training		(1,979)
Reduce Tuition Assistance Program		(2,867)
Subtotal Changes to Base	(208)	\$103,414
Total FY 2011 Base	50,992	\$5,607,414
Program Changes:		
Enforcement Initiatives	1,871	\$189,986
Address Business and Individual International Compliance	747	97,527
Reduce the Reporting Compliance Tax Gap	688	59,687
Reduce the Nonfiling and Underpayment Tax Gap	405	28,166
Maintain Recovery Act Staffing	31	4,606
Subtotal Program Changes	1,871	\$189,986
Total FY 2011 Request	52,863	\$5,797,400
Adjustments to Request		
User Fees		
Total FY 2011	52,863	\$5,797,400

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Enforcement	FY 2009	FY 2010	Congressional		FY 2010	FY 2011	%	
	Enacted Level ¹	President's Budget	Action including Rescission	FY 2010 Enacted Level	Proposed Reprogram.	Proposed Operating Level	Request Level	Change to FY 2011
FTE	48,952	51,200		51,200		51,200	52,863	3.2%
Object Classification:								
11.1 Full-Time Permanent Positions	\$3,441,653	\$3,732,481	\$0	\$3,732,481	\$0	\$3,732,481	\$3,938,661	5.5%
11.3 Other than Full-Time Permanent Positions	88,810	89,273	0	89,273	0	89,273	91,365	2.3%
11.5 Other Personnel Compensation	157,188	166,157	0	166,157	0	166,157	173,549	4.4%
11.8 Special Personal Services Payments	14,999	18,164	0	18,164	0	18,164	18,445	1.5%
11.9 Personnel Compensation (Total)	\$3,702,650	\$4,006,075	\$0	\$4,006,075	\$0	\$4,006,075	\$4,222,020	5.4%
12.0 Personnel Benefits	1,014,514	1,092,263	0	1,092,263	0	1,092,263	1,173,634	7.4%
13.0 Benefits to Former Personnel	0	0	0	0	0	0	0	0.0%
21.0 Travel	177,693	190,851	0	190,851	0	190,851	181,570	-4.9%
22.0 Transportation of Things	5,055	6,792	0	6,792	0	6,792	6,607	-2.7%
23.1 Rental Payments to GSA	530	0	0	0	0	0	0	0.0%
23.2 Rent Payments to Others	407	486	0	486	0	486	502	3.3%
23.3 Communications, Utilities, & Misc	6,275	3,978	0	3,978	0	3,978	4,131	3.8%
24.0 Printing & Reproduction	6,694	6,432	0	6,432	0	6,432	6,546	1.8%
25.1 Advisory & Assistance Services	28,595	33,770	0	33,770	0	33,770	25,464	-24.6%
25.2 Other Services	80,201	84,121	0	84,121	0	84,121	72,609	-13.7%
25.3 Purchase of Goods & Services from Govt. Accounts	39,502	27,914	0	27,914	0	27,914	49,902	78.8%
25.4 Operation & Maintenance of Facilities	187	194	0	194	0	194	196	1.0%
25.5 Research & Development Contracts	3,675	2,974	0	2,974	0	2,974	3,007	1.1%
25.6 Medical Care	148	77	0	77	0	77	78	1.3%
25.7 Operation & Maintenance of Equipment	1,520	2,048	0	2,048	0	2,048	2,110	3.0%
25.8 Subsistence & Support of Persons	5,393	4,313	0	4,313	0	4,313	4,692	8.8%
26.0 Supplies and Materials	31,670	29,053	0	29,053	0	29,053	29,733	2.3%
31.0 Equipment	4,625	5,506	0	5,506	0	5,506	7,301	32.6%
32.0 Lands and Structures	0	0	0	0	0	0	0	0.0%
33.0 Investments & Loans	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	5	5	0	5	0	5	5	0.0%
42.0 Insurance Claims & Indemn	1,328	2,061	0	2,061	0	2,061	2,088	1.3%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	6,600	5,087	0	5,087	0	5,087	5,205	2.3%
Total Budget Authority	\$5,117,267	\$5,504,000	\$0	\$5,504,000	\$0	\$5,504,000	\$5,797,400	5.3%
Budget Activities:								
Investigations	\$611,601	\$637,694	0	\$637,694	\$0	\$637,694	\$651,966	2.2%
Exam & Collections	4,355,186	4,706,350	0	4,706,350	0	4,706,350	4,974,618	5.7%
Regulatory	150,480	159,956	0	159,956	0	159,956	170,816	6.8%
Total Budget Authority	\$5,117,267	\$5,504,000	\$0	\$5,504,000	\$0	\$5,504,000	\$5,797,400	5.3%

¹ FY 2009 Enacted represents the approved FY 2009 Operating Plan.

2.3 – Appropriation Detail Table

Dollars in Thousands

Enforcement Resources Available for Obligation	FY 2009 Obligations		FY 2009 Enacted ¹		FY 2010 Enacted		FY 2011 Request		% Change FY 2010 to FY 2011	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Investigations	4,228	\$615,544	4,241	\$611,601	4,284	\$637,694	4,088	\$651,966	-4.58%	2.24%
Exam and Collections	41,931	4,342,021	43,481	4,355,186	45,652	4,706,350	47,463	4,974,618	3.97%	5.70%
Regulatory	1,202	152,115	1,230	150,480	1,264	159,956	1,312	170,816	3.80%	6.79%
Subtotal New Appropriated Resources	47,361	\$5,109,680	48,952	\$5,117,267	51,200	\$5,504,000	52,863	\$5,797,400	3.25%	5.33%
Other Resources:										
Recoveries				2						
Offsetting Collections - Reimbursable	128	49,078	128	49,078	141	60,508	142	61,506	0.71%	1.65%
Available multi-year/no-year funds		1,132		4,382		3,413		265		-92.24%
50% Carryover										
Transfers In/Out		11		178						
Mandatory Appropriations - User Fees	19	3,103		5,621		10,100		0		-100.00%
Subtotal Other Resources	147	\$53,324	128	\$59,261	141	\$74,021	142	\$61,771	0.71%	-16.55%
Total Resources Available for Obligation	47,508	\$5,163,004	49,080	\$5,176,528	51,341	\$5,578,021	53,005	\$5,859,171	3.24%	5.04%

¹ FY 2009 Enacted represents the approved FY 2009 Operating Plan.

3C – Investigations (\$651,966,000 in direct appropriations and an estimated \$50,567,000 from reimbursable programs): This budget activity funds the IRS Criminal Investigation (CI) programs that explore potential criminal violations of tax laws, enforce criminal statutes relating to violations of tax laws, and recommend prosecution as warranted. This includes the following program activities:

- *General Management and Administration* supports the headquarters management activities of strategic planning, communications, finance, and human resources for CI activities.
- *Criminal Investigations* supports the enforcement of criminal statutes relating to violations of internal revenue laws and other financial crimes. CI investigates cases of suspected intent to defraud that involve both legal and illegal sources of income and recommends prosecution as warranted. This activity includes the investigation and prosecution of tax and money-laundering violations associated with narcotics organizations.
- *Criminal Tax Legal Support* provides staffing, training, and direct support to Counsel and CI.
- *International Investigations* supports international investigations involving U.S. citizens residing abroad, non-resident aliens, expatriates, and investigations involving other international issues including legal support (e.g., Foreign Tax Credit and Foreign Earned Income Exclusion).

- *Accounts Management Taxpayer Assurance Program* provides support to Accounts Management for the review of questionable refunds.

3.2.3 – Budget and Performance Plan

Dollars in Thousands

Investigations Budget Activity	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Resource Level	Obligations	Obligations	Obligations	Obligations	Enacted	Request
Appropriated Resources	\$599,878	\$573,469	\$601,436	\$615,544	\$637,694	\$651,966
Reimbursable Resources	33,306	32,441	49,404	39,639	49,776	50,567
Mandatory Appropriations - User Fees						
Total Resources	\$633,184	\$605,910	\$650,840	\$655,183	\$687,470	\$702,533

Investigations Budget Activity	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Measure	Actual	Actual	Actual	Actual	Target	Target
Criminal Investigations Completed (Ot) (L)	4,157	4,269	4,044	3,848	3,900	3,900
Number of Convictions (Oe) (L)	2,019	2,155	2,144	2,105	2,135	2,135
Conviction Rate (Oe) (L)	91.5%	90.2%	92.3%	87.2%	92.0%	92.0%
Conviction Efficiency Rate (\$) (E) (L)	\$328,750	\$301,788	\$315,751	\$327,328	\$331,000	340,000

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

Description of Performance

The IRS continued to investigate vigorously egregious tax, money laundering, and other financial crimes that adversely affect tax administration. Improved case development and selection methods, coupled with heightened fraud awareness resulted in the successful prosecution of taxpayers involved in significant abusive tax schemes, high income non-filers, employment tax evasion cases, and other flagrant forms of tax evasion. Using its unique statutory jurisdiction and financial expertise, the IRS made significant contributions to important national law enforcement priorities. Performance levels for the IRS Criminal Investigation (CI) program remained high in FY 2009:

- Completed 3,848 criminal investigations;
- Achieved a conviction rate of 87.2 percent;
- Maintained a Department of Justice acceptance rate of 91.7 percent and a U.S. Attorney acceptance rate of 88.7 percent, which compares favorably with other federal law enforcement agencies;
- Obtained 2,105 convictions; and
- Increased tax-exempt and government entities compliance contacts 10 percent.

The Questionable Refund Program (QRP), a nationwide multifunctional program designed to identify fraudulent returns and to stop payment of fraudulent refunds, continued to show positive results in FY 2009.

QRP accomplishments include:

- Identification of more than 414,000 potentially fraudulent returns claiming more than \$2.7 billion in total refunds of which more than \$2.3 billion in fraudulent refunds were stopped; and
- Initiation of 418 QRP investigations, an 86.6 percent conviction rate, a 78.8 percent incarceration rate, and an 87.2 percent publicity rate on adjudicated cases.

3D – Exam and Collections (\$4,974,618,000 in direct appropriations and an estimated \$10,245,000 from reimbursable programs): This budget activity funds programs that enforce tax laws through examination and collection programs that ensure proper payment and tax reporting. This budget activity also supports appeals and litigation activities associated with exam and collection. This includes the following program activities:

- *Compliance Services Management* supports management associated with compliance program activities.
- *Payment Compliance – Correspondence Collection* supports IRS collection activities by initiating contact and collecting delinquent taxpayer liabilities through written notices and other means.
- *Automated Collections and Support* supports the IRS centralized Automated Collection System (ACS) by initiating contact and collecting delinquent taxpayer liabilities through automated means.
- *Payment Compliance – Field Collection* conducts field investigations and collection efforts associated with delinquent taxpayer and business entity liabilities, including direct taxpayer contact and outreach programs to protect the interest of the federal government in delinquent tax liability situations.
- *Tax Reporting Compliance – Document Matching* supports the Automated Underreporter (AUR), Combined Annual Wage Reporting (CAWR), Federal Unemployment Tax Act (FUTA), and other Document Matching Programs.
- *Tax Reporting Compliance – Electronic/Correspondence Exam* initiates written correspondence with taxpayers related to tax issues arising from claims on their tax returns.
- *Tax Reporting Compliance – Field Exam* compares taxpayer income levels and corresponding tax liabilities to ensure accuracy of taxpayer returns.

- *Fraud/Bank Secrecy Act* enforces the anti-money laundering provisions of the *Bank Secrecy Act of 1970* (BSA), and the *USA Patriot Act of 2001*. It examines non bank financial institutions for compliance with these laws, receives and processes more than 15 million financial reports annually, and manages a centralized database of that information for the Financial Crimes Enforcement Network (FinCEN). The Fraud program follows the “money trail” to support the criminal investigation of tax evasion operations. Fraud Technical Advisors and Revenue Agents provide investigative leads and referrals to federal, state, and local law enforcement agencies.
- *Appeals* provides an administrative review process that provides a channel for impartial case settlement before a case is docketed in a court of law.
- *Litigation* provides legal support for the IRS in litigation of cases, including interpretation of the tax law.
- *Specialty Programs – Exams* examines federal tax returns of businesses and individuals responsible for the filing and payment of employment, excise, estate, and gift taxes.
- *International 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).
- *International Exams* supports the international exam program involving U.S. citizens residing abroad, non-resident aliens, expatriates and other examinations involving other international issues including legal support (e.g., Foreign Tax Credit and Foreign Earned Income Exclusion).
- *Unit General Management and Administration* provides staffing, training, and direct support for headquarters management activities of strategic planning, communication and liaison, finance, human resources, EEO and diversity, business system planning, and embedded training.
- *EITC Management & Administration* supports headquarters management associated with administering EITC program service-wide.
- *Whistleblower* provides staffing, training, and direct support to process, assess, and analyze tips from individuals who identify tax problems in the course of their daily personal business, regardless of where encountered (including the workplace).
- *Communications and Liaison* coordinates local government and liaison relationships; manages congressional, state, and national stakeholder relationships and issues; coordinates crosscutting issues, including audit management and legislative implementation; manages national media contacts and local media relationships; and ensures IRS compliance with disclosure and privacy laws.

3.2.4 – Budget and Performance Plan

Dollars in Thousands

Exam and Collections Budget Activity Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Obligations	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	\$3,925,839	\$3,932,874	\$4,030,648	\$4,342,021	\$4,706,350	\$4,974,618
Reimbursable Resources	9,851	8,764	8,302	8,970	10,051	10,245
Mandatory Appropriations - User Fees		5,452	12,679	3,103	10,100	
Total Resources	\$3,935,690	\$3,947,090	\$4,051,629	\$4,354,094	\$4,726,501	\$4,984,863

Exam and Collections Budget Activity Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Target	FY 2011 Target
Examination Coverage - Individual (Oe) (L)	1.0%	1.0%	1.01%	1.0%	1.1%	1.1%
Field Exam National Quality Review Score (Oe) (L)	85.9%	85.9%	86.0%	85.1%	86.3%	86.3%
Office Exam National Quality Review Score (Oe) (L)	88.2%	89.4%	90.0%	92.1%	90.9%	90.9%
Examination Quality - Industry (Oe) (L)	85.0%	87.0%	88.0%	88.0%	89.0%	89.0%
Examination Quality - Coordinated Industry (Oe) (L)	96.0%	96.0%	97.0%	95.0%	96.0%	96.0%
Examination Coverage - Business (Oe) (L)	7.3%	6.8%	6.1%	5.6%	5.1%	5.0%
Automated Underreporter Efficiency (E) (L)	1,832	1,956	1,982	1,905	1,868	1,945
Automated Underreporter Coverage (E) (L)	2.4%	2.5%	2.55%	2.6%	3.0%	3.4%
Examination Efficiency - Individual (E) (L)	128	137	138	138	132	128
Collection Coverage - Units (Ot) (L)	54.0%	54.0%	55.2%	54.2%	50.5%	51.5%
Collection Efficiency - Units (E) (L)	1,677	1,828	1,926	1,845	1,898	1,884
Field Collection National Quality Review Score (Ot) (L)	84.2%	84.0%	79.0%	80.5%	81.0%	82.0%
Automated Collection System (ACS) Accuracy (Oe)	91.0%	92.9%	95.3%	94.3%	92.5%	94.0%

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

Description of Performance

Enforcement of the tax laws is an integral component of the IRS effort to enhance voluntary compliance. IRS enforcement activities, such as examination and collection, target elements of the tax gap and remain a high priority. In FY 2009, the IRS expanded its enforcement presence in the international field, continued to pursue high-wealth noncompliant taxpayers, and initiated action to better leverage the tax return preparer community.

In FY 2009, the IRS placed extraordinary focus on detecting and bringing to justice those who hide assets overseas to avoid paying tax. As part of an overall IRS strategy to improve offshore compliance, initiatives were implemented to identify U.S. taxpayers that engaged in offshore tax evasion schemes. In August 2009, the IRS reached agreement with the Swiss authorities that will result in the IRS receiving an unprecedented amount of information on taxpayers who evaded their tax obligations by hiding money offshore at UBS. This represents a major step forward for the IRS in its efforts to combat offshore tax evasion and will send a clear message to people hiding income and assets offshore that the IRS will vigorously pursue tax cheats, no matter how remote or secret the location.

At the same time, the IRS established an offshore voluntary disclosures/penalty framework for taxpayers to disclose their offshore activities. The framework provided taxpayers the opportunity to:

- Calculate the total cost of resolving all offshore tax issues;
- Become compliant with U.S. tax laws;
- Make voluntary disclosures that will be used to further the IRS understanding of how foreign accounts and foreign entities are promoted to U.S. taxpayers as ways to avoid or evade tax; and
- Provide data to be used in developing additional IRS strategies to inhibit promoters and facilitators from soliciting new clients.

As a result of the offshore voluntary disclosure program that ran through October 15, 2009, more than 14,700 taxpayers with offshore accounts voluntarily came forward to disclose information bringing them back into the U.S. tax system. A key aspect of future international offshore work will be mining the information from people who came forward to identify financial institutions, advisors, and others who promote or otherwise helped U.S. taxpayers hide assets and income.

Total enforcement revenue was \$48.9 billion in FY 2009. The IRS showed steady progress in increasing its audit coverage:

- Total individual audits by 2.6 percent;
- Automated Underreporter (AUR) contact closures by 2.6 percent;
- High-wealth audits by 11.2 percent; and

- Large corporate audits by 2.6 percent, a significant achievement given the size (more than \$10 million) and complexity of these corporate entities.

With many people facing financial difficulties, the IRS took several steps to help people who owed back taxes, especially those who have complied in the past and were facing unusual hardships. Some of the actions IRS took to help taxpayers included:

- Postponement of Collection Actions — The IRS suspended collection actions in certain hardship cases where taxpayers were unable to pay.
- Lien Relief for Homeowners trying to Refinance or Sell — In an effort to raise taxpayer awareness of the availability of the discharge and lien subordination process, the IRS conducted various outreach efforts and sought feedback from the National Society of Accountants, the American Bar Association, and the National Associations of Enrolled Agents and Tax Professionals; resulting in a 20.8 percent increase in lien discharge applications and a 5.3 percent increase in lien subordination.
- Added Flexibility for Missed Payments — Previously compliant individuals in existing Installment Agreements in certain cases were allowed to skip payments or pay a reduced monthly payment amount without automatically suspending the Installment Agreement.
- Prevention of Offer in Compromise (OIC) Defaults — Taxpayers who were unable to meet the payment terms of an accepted OIC received a letter outlining options to avoid default.
- Expedited Levy Releases — The IRS released levies in an expedited manner for taxpayers suffering financial hardships.
- Offering Installment Agreements — The IRS offered installment agreements at the end of an audit to taxpayers having difficulty paying their tax liability.

The Compliance Assurance Process (CAP) is a method of resolving tax issues through an open and transparent interaction between the IRS and large corporations to identify and resolve issues before the filing of a return. CAP involves some of the largest U.S. corporations. CAP participation has been expanded from 17 in 2005 to 102 in 2009 and is expected to become a permanent program for Tax Year (TY) 2010.

The CAP program 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.

In FY 2009, the IRS developed a comprehensive set of recommendations to ensure consistent standards for tax preparer qualifications, ethics and service. The recommendations were developed using information obtained from a large and diverse constituent community that included those licensed by state and federal authorities, unlicensed tax preparers, software vendors, consumer groups and taxpayers. More than 450 taxpayers and tax professionals and 600 IRS employees responded to the IRS

request for comments to help leverage the tax return preparer community with the twin goals of increasing taxpayer compliance and ensuring uniform and high ethical standards of conduct for tax preparers.

3E – Regulatory (\$170,816,000 in direct appropriations and an estimated \$694,000 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 support for taxpayers in the areas of pre-filing agreements, determination letters, and advance pricing agreements. This includes the following program activities:

- *Tax Law Interpretation and Published Guidance* interprets the tax law through published guidance, technical advice, and other technical legal services.
- *General Legal Services* provides advice to the IRS on non-tax legal issues, including procurement, personnel, labor relations, equal employment opportunity, fiscal law, tort claims and damages, ethics, and conflict of interest.
- *Rulings and Agreements* applies the tax law to specific taxpayers in the form of pre-filing agreements, determination letters, advance pricing agreements, and other pre-filing determinations and advice.
- *International Regulatory Legal Support* supports Counsel’s work in tax law interpretation and rulings and agreements related to international issues.
- *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 Budget Activity						
Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Obligations	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	\$150,115	\$146,213	\$145,036	\$152,115	\$159,956	\$170,816
Reimbursable Resources	151	255	435	469	681	694
Mandatory Appropriations - User Fees			168			
Total Resources	\$150,266	\$146,468	\$145,639	\$152,584	\$160,637	\$171,510

Regulatory Budget Activity						
Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Target	FY 2011 Target
TE/GE Determination Case Closures (Ot)	108,462	109,408	100,050	96,246	140,465	99,491

Key: Ot - Output/Workload Measure

Description of Performance

The IRS continues to help pension plans, exempt organizations, and government entities comply with tax laws. In FY 2009, the IRS:

- Released the results of its nonprofit hospital study. The research presented demographics of nonprofit hospitals and their community benefit and executive compensation reporting and practices that can be used by Congress and others to revise community benefit and reasonable compensation standards.
- Created a new category of practitioner, “Enrolled Retirement Plan Agent” (ERPA). This new category allows practitioners who have administrative or financial information about a plan to have a limited practice before the IRS under the safeguard of Circular 230. In addition, ERPAs provide valuable information to the IRS with respect to the administrative and financial issues affecting retirement plans.

The IRS implemented the Build America Bonds (BAB) program as well as other Recovery Act tax credit bond provisions. This included:

- Coordination of the development of a new direct payment processing system;
- Development of a new return, Form 8038-CP, and instructions;
- Implementation of new compliance programs related to BABs and other new forms of tax credit bonds;
- Presentation of Recovery Act information to several groups, including underserved territories and tribes; and
- Development of seven notices and several educational documents related to the new bond provisions.

In FY 2009, TE/GE closed approximately 35,900 enforcement contacts, a 14 percent improvement from the FY 2008 level and 21 percent above plan. Total exam closures surpassed last year’s accomplishment by 17 percent and the plan by 22 percent.

Operations Support

Appropriation Description

The Operations Support appropriation provides funding for overall planning, direction, and support for the IRS, including shared service support related to facilities services, rent payments, printing, postage, and security. This appropriation funds headquarters policy and management activities such as corporate support for strategic planning, communications and liaison, finance, human resources, Equal Employment Opportunity (EEO) and diversity; research and statistics of income; and necessary expenses for information systems and telecommunication support, including development, security, and maintenance of the IRS information systems.

The Operations Support Budget Request for FY 2011 is \$4,108,000,000 in direct appropriations and 12,384 FTE. This is an increase of \$24,116,000 or 0.59 percent and 68 FTE more than the FY 2010 enacted level of \$4,083,884,000 and 12,316 FTE.

2.1 – Budget Adjustments Table

Dollars in Thousands

Operations Support	FTE	Amount
FY 2009 Enacted	12,267	\$3,867,011
FY 2010 President's Budget Request	12,316	\$4,082,984
Congressional Action		900
FY 2010 Enacted Budget (P.L. 111-117)	12,316	\$4,083,884
Changes to Base:		
Maintaining Current Levels		\$57,884
Pay Annualization		7,608
Pay Inflation Adjustment		19,127
Non-Pay Inflation Adjustment		29,026
FERS Increased Participation		2,123
Other Adjustments	59	
Technical FTE Adjustments	59	
Efficiencies/Savings		(\$155,314)
Non-Recur Savings		(32,680)
Increase e-File Savings		378
IT Infrastructure and Process Improvements		(75,000)
Reduce Procurement/Contracting		(19,697)
Reduce Printing, Travel, and Training		(7,468)
Reduce Tuition Assistance Program		(847)
Eliminate Selective Mailing of Forms and Publications		(20,000)
Subtotal Changes to Base	59	(\$97,430)
Total FY 2011 Base	12,375	\$3,986,454
Program Changes:		
Taxpayer Service Initiatives		\$25,000
Improve IRS.gov		25,000
Enforcement Initiatives	9	\$51,083
Address Business and Individual International Compliance	4	21,780
Reduce the Reporting Compliance Tax Gap	5	17,223
Reduce the Nonfiling and Underpayment Tax Gap		9,924
Support for Increased Enforcement Activities		1,262
Maintain Recovery Act Staffing		894
Business Systems Modernization (BSM) Initiative		\$45,463
Continue Migration from Aging Tax Administration System		45,463
Subtotal Program Changes	9	\$121,546
Total FY 2011 Request	12,384	\$4,108,000
Adjustments to Request		
User Fees		67,100
Total FY 2011	12,384	\$4,175,100

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Operations Support	FY 2009	FY 2010	Congressional		FY 2010	FY 2011	%	
	Enacted Level ¹	President's Budget ²	Action including Rescission	FY 2010 Enacted Level	Proposed Reprogram.	Proposed Operating Level	Request Level	Change to FY 2011
FTE	12,267	12,316		12,316		12,316	12,384	0.6%
Object Classification:								
11.1 Full-Time Permanent Positions	\$1,032,735	\$1,044,177	\$0	\$1,044,177	\$0	\$1,044,177	\$1,089,960	4.4%
11.3 Other than Full-Time Permanent Positions	14,307	23,007	0	23,007	0	23,007	26,496	15.2%
11.5 Other Personnel Compensation	33,933	31,770	0	31,770	0	31,770	35,147	10.6%
11.8 Special Personal Services Payments	0	0	0	0	0	0	0	0.0%
11.9 Personnel Compensation (Total)	\$1,080,975	\$1,098,954	\$0	\$1,098,954	\$0	\$1,098,954	\$1,151,603	4.8%
12.0 Personnel Benefits	321,992	335,790	0	335,790	0	335,790	357,973	6.6%
13.0 Benefits to Former Personnel	48,377	48,775	0	48,775	0	48,775	48,907	0.3%
21.0 Travel	45,170	37,928	0	37,928	0	37,928	42,852	13.0%
22.0 Transportation of Things	20,271	21,278	0	21,278	0	21,278	20,999	-1.3%
23.1 Rental Payments to GSA	631,327	668,154	0	668,154	0	668,154	676,738	1.3%
23.2 Rent Payments to Others	314	7	0	7	0	7	44	528.6%
23.3 Communications, Utilities, & Misc	428,987	445,527	0	445,527	0	445,527	426,745	-4.2%
24.0 Printing & Reproduction	54,778	55,054	0	55,054	0	55,054	51,666	-6.2%
25.1 Advisory & Assistance Services	118,586	127,437	0	127,437	0	127,437	96,998	-23.9%
25.2 Other Services	428,041	416,456	900	417,356	0	417,356	390,480	-6.4%
25.3 Purchase of Goods & Services from Govt. Accounts	59,099	78,168	0	78,168	0	78,168	86,985	11.3%
25.4 Operation & Maintenance of Facilities	182,638	185,263	0	185,263	0	185,263	217,608	17.5%
25.5 Research & Development Contracts	7,241	7,825	0	7,825	0	7,825	5,471	-30.1%
25.6 Medical Care	13,180	11,110	0	11,110	0	11,110	12,538	12.9%
25.7 Operation & Maintenance of Equipment	67,443	68,184	0	68,184	0	68,184	110,905	62.7%
25.8 Subsistence & Support of Persons	334	1,256	0	1,256	0	1,256	321	-74.4%
26.0 Supplies and Materials	22,074	31,399	0	31,399	0	31,399	29,916	-4.7%
31.0 Equipment	312,999	395,013	0	395,013	0	395,013	360,851	-8.6%
32.0 Lands and Structures	22,608	48,682	0	48,682	0	48,682	17,857	-63.3%
33.0 Investments & Loans	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	0	0	0	0	0	0	0	0.0%
42.0 Insurance Claims & Indemn	577	724	0	724	0	724	543	-25.0%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	0	0	0	0	0	0	0	0.0%
Total Budget Authority	\$3,867,011	\$4,082,984	\$900	\$4,083,884	\$0	\$4,083,884	\$4,108,000	0.6%
Budget Activities:								
Infrastructure	\$875,538	\$900,852	0	\$900,852	\$0	\$900,852	\$889,929	-1.2%
Shared Services & Support	1,269,642	1,296,629	0	1,296,629	0	1,296,629	1,337,776	3.2%
Information Services	1,721,831	1,885,503	900	1,886,403	0	1,886,403	1,880,295	-0.3%
Total Budget Authority	\$3,867,011	\$4,082,984	\$900	\$4,083,884	\$0	\$4,083,884	\$4,108,000	0.6%

¹ FY 2009 Enacted represents the approved FY 2009 Operating Plan.

2.3 – Appropriation Detail Table

Dollars in Thousands

Operations Support										
Resources Available for Obligation	FY 2009 Obligations		FY 2009 Enacted ¹		FY 2010 Enacted		FY 2011 Request		% Change FY 2010 to FY 2011	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Infrastructure		\$859,093		\$875,538		\$900,852		\$889,929	0.00%	-1.21%
Shared Services and Support	5,710	1,257,040	5,977	1,269,642	5,977	1,296,629	6,003	1,337,776	0.44%	3.17%
Information Services	6,391	1,680,279	6,290	1,721,831	6,339	1,886,403	6,381	1,880,295	0.66%	-0.32%
Subtotal New Appropriated Resources	12,101	\$3,796,412	12,267	\$3,867,011	12,316	\$4,083,884	12,384	\$4,108,000	0.55%	0.59%
Other Resources:										
Recoveries				720						
Offsetting Collections - Reimbursable	165	40,364	165	40,364	169	48,148	170	48,927	0.59%	1.62%
Available multi-year/no-year funds		60,462		67,808		68,455		65,455		-4.38%
50% Carryover		13,870		13,870						
Transfers In/Out		3,267		3,267						
Mandatory Appropriations - User Fees	1	9,545		32,900		50,000		67,100		34.20%
Subtotal Other Resources	166	\$127,508	165	\$158,929	169	\$166,603	170	\$181,482	0.59%	8.93%
Total Resources Available for Obligation	12,267	\$3,923,920	12,432	\$4,025,940	12,485	\$4,250,487	12,554	\$4,289,482	0.55%	0.92%

¹ FY 2009 Enacted represents the approved FY 2009 Operating Plan.

3F – Infrastructure (\$889,929,000 in direct appropriations, an estimated \$398,000 from reimbursable programs and an estimated \$16,100,000 from user fees): This budget activity funds administrative services related to space and housing, rent and space alterations, building services, maintenance, guard services, and non-IT equipment. This includes the following program activities:

- *Building Delegation* oversees and manages the IRS GSA-delegated buildings, including cleaning, maintenance, utilities, protection, administrative, and recurring and one-time repair costs.
- *Rent* provides resources for all IRS rent needs.
- *Space and Housing/Non-IT Equipment* provides management of all IRS building services, maintenance, space alterations, guard services, custodial overtime, utility services needs, and Non-IT equipment.

3.2.6 – Budget and Performance Plan

Dollars in Thousands

Infrastructure Budget Activity						
Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Obligations	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	\$837,320	\$808,254	\$809,039	\$859,093	\$900,852	\$889,929
Reimbursable Resources	103	121	149	14,120	393	398
Mandatory Appropriations - User Fees			13,049		16,100	16,100
Total Resources	\$837,423	\$808,375	\$822,237	\$873,213	\$917,345	\$906,427

Description of Performance

The IRS continued to achieve cost savings in FY 2009 with its rent management strategy. These savings, coupled with those of previous years, have helped offset the increased costs associated with infrastructure improvement initiatives such as the Philadelphia Consolidation. Workstation utilization increased in 2009 as the IRS was able to place most attrition hires and new hires into existing space. The FY 2009 hiring initiatives increased rent because the IRS had to obtain additional space in some locations.

Rent costs, including the cost of facility security, increased 0.56 percent, from \$659.6 million in FY 2008, to \$663.2 million in FY 2009. The IRS achieved rent savings by identifying and completing 25 space reduction projects, releasing a cumulative total of 179,260 square feet. These projects have annualized savings estimated at \$4.1 million.

While the IRS plans to achieve additional cost savings in FY 2010 by continuing its rent management strategy, these savings will be more than offset by expected increases associated with relocations because of expiring leases, acquisition of new space to permanently house new hires, operating cost increases, and the cost of bringing the new Philadelphia Consolidated Campus facility on-line beginning in late FY 2010. The net result of this will be a substantial increase in rent and security costs in FY 2010, which is expected to continue in FY 2011. In FY 2011, the annualization of the rent increase associated with the consolidated Philadelphia facility and other GSA-driven rent increases are the primary reason costs will increase.

3G – Shared Services and Support (*\$1,337,776,000 in direct appropriations and an estimated \$33,110,000 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 (Congress, GAO, OMB). It provides policy guidance for conducting IRS planning and budgeting strategies, conducting analysis of programs and investments to support strategic decision-making, and developing and managing human resources. It also includes official reception and representation expenses.

- *Real Estate & Facilities Management* provides services and supplies required to manage IRS facilities.
- *Procurement* supports the procurement function of the IRS.
- *EEO & Diversity Field Operations* plans and manages the IRS EEO and Diversity Program.
- *Communications and Liaison* coordinates local government and liaison relationships; handles congressional, state, and national stakeholder relationships and issues; coordinates cross-cutting issues, including managing audits and legislative implementation; handles national media contacts and local media relationships; and ensures IRS-wide compliance with disclosure and privacy laws.
- *Employee Support Services* plans and manages financial services, including relocation, travel, imprest fund, purchase cards, corporate express, and employee clearances.
- *Treasury Complaint Mega Centers* plan and manage the Treasury Complaint Centers.
- *Shared Support not provided by Agency-Wide Shared Services* provides resources for shared cross-functional support such as copiers, postage meters, shredders, courier services, and post office boxes.
- *Printing and Postage – Media and Publications* provides operating divisions with printing and postage, including shipping of taxpayer and internal use materials.
- *Statistics of Income* provides resources for researching annual income, financial, and tax data from tax returns filed by individuals, corporations, and tax-exempt organizations.
- *Research* provides resources for market-based research to identify compliance issues, for conducting tests of treatments to address noncompliance, and for the implementation of successful treatments of taxpayer non-compliant behavior.
- *Security* protects employees, facilities and assets, and the confidentiality of taxpayer information.
- *W & I Business Modernization Support* provides staffing, training, and direct support for W&I's enterprise-wide business modernization efforts including Customer Account Data Engine (CADE), technology solutions and re-engineered business processes.

- *Benefit Payments* provides resources to fund Workers' Compensation benefits and Unemployment Compensation for federal employee payments.
- *Shared Services* provides additional services such as Public Transit Subsidy and Career Counselor Contract.

3.2.7 – Budget and Performance Plan

Dollars in Thousands

Shared Services and Support Budget Activity						
Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Obligations	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	\$1,154,616	\$1,154,724	\$1,279,800	\$1,257,040	\$1,296,629	\$1,337,776
Reimbursable Resources	17,836	13,649	30,796	20,763	32,573	33,110
Mandatory Appropriations - User Fees			19,114	2		
Total Resources	\$1,172,452	\$1,168,373	\$1,329,710	\$1,277,805	\$1,329,202	\$1,370,886

Description of Performance

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

In FY 2009, the IRS began implementing *Workforce of Tomorrow* initiatives for both short and long-term improvements in the areas of attracting, developing, and retaining the best people, and enhancing the role of IRS managers and growing future leaders. Recent accomplishments include:

- Establishment of a new Centralized Recruiting Office;
- Implementation of a revamped five-step hiring process;
- Revision of all communications used in the hiring process;
- Pilot of an accelerated leadership program in Criminal Investigation with additional organizations launching accelerated leadership pilots in FY 2010;
- Redesign of the Front Line Manager Curriculum, which included piloting three new components of the curriculum – a web-based Manager Orientation, Fundamental Management Skills, and Front Line Manager course training; and
- Streamline of the Leadership Competency Model from 21 competencies to four core competencies supported by 13 key leader behaviors.

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

In FY 2009, to protect the tax administration systems from unauthorized access, disruption, and modification the IRS:

- Continued risk assessments of business processes to address identity protection and analyzed the use of social security numbers for reduction and elimination where possible;
- Completed a corrective action plan to address IT security training, systems auditing, access controls, system security configuration control, and IT systems disaster recovery; and
- Established agency-wide security policies and standards.

The IRS takes the issue of identity theft very seriously. In FY 2009, to preserve and enhance public confidence, the IRS advocated the protection and proper use of identity information by:

- Establishing Opened Identity Protection Specialized Units (IPSUs) and a dedicated toll-free number to provide guidance and assistance to taxpayers affected by identity theft. These units assist taxpayers who have experienced tax administration issues or problems as a result of identity theft. In the first year, the IRS responded to 120,000 calls and opened nearly 34,000 cases for further action.
- Placing markers on more than 231,300 taxpayer accounts to alert employees the account belongs to a substantiated identity-theft victim. The IRS also provided a portfolio of identity protection services for taxpayers, including letters to individuals triggered by the account marker informing taxpayers that their personal information was used by another individual to file a return or may have been compromised through phishing scams. In FY 2009, the IRS sent nearly 79,600 letters.
- Eliminating the use of social security numbers (SSNs) on more than 8 million forms, notices, and letters. This is the first large-scale effort to eliminate and reduce the use of SSNs on taxpayer correspondence. Over the next 2 to 5 years, the IRS will eliminate the use of SSNs on more than 90 million notices and forms.

The Office of Online Fraud Detection and Prevention (OFDP) protects the IRS and taxpayers from increasing and evolving online threats. Through the OFDP, the IRS shut down 3,444 phishing web sites in FY 2009 (1,578 domestic sites and 1,866 international sites), compared to 2,926 sites in 2008. The median shut down time was 2.35 hours for domestic phishing sites and 6.85 hours for international sites. By monitoring, identifying, and mitigating fraudulent sites and phishing scams, OFDP helps to reduce the number of taxpayers who fall victim to online fraud schemes.

The IRS continues to conduct research to improve services to taxpayers and develop better ways to identify noncompliance and reduce the tax gap.

During FY 2009, the IRS continued its research studies of filing, payment, and reporting compliance, including the National Research Program (NRP), to provide a comprehensive picture of overall taxpayer compliance levels. Research allows the IRS to target specific areas to improve voluntary compliance and to allocate resources more effectively to reduce the tax gap. In FY 2009, the NRP included analyzing individual income tax returns for tax years 2006 through 2008 as part of an on-going reporting compliance study and studies of employment taxes and their contribution to the tax gap. The IRS also began an NRP study to address cases with the highest compliance risk by providing an identification process for returns filed by U.S. persons living abroad.

The IRS is studying the effects of its taxpayer services (internet, walk-in sites, and toll-free hotline) on voluntary compliance, including identifying why taxpayers make errors and exploring the relationships between errors made and unclear correspondence. The IRS will use the results to develop new approaches to service.

As part of its continuing effort to measure the burden associated with meeting federal tax obligations, the IRS surveyed 7,000 individual and self-employed taxpayers to measure time and expense in meeting filing requirements. Efforts are underway to develop models to measure time and expenses for small-business taxpayers who file income and employment tax returns. Estimates are scheduled to be released in FY 2010.

3H – Information Services (*\$1,880,295,000 in direct appropriations, an estimated \$15,419,000 from reimbursable programs and an estimated \$51,000,000 from user fees*): This budget activity funds staffing, equipment, and related costs to manage, maintain, and operate the information systems critical to the support of tax administration programs. Under this budget activity staff develops and maintains the millions of lines of programming code that support all aspects and phases of tax processing. They are responsible for operating and administering the hardware infrastructure of mainframes, servers, personal computers, networks, and a variety of management information systems.

Modernization & Information Technology Services (MITS) is responsible for information systems and technology, ranging from cyber security and networks to applications development and end user equipment and services. This includes the following program activities:

- *Customer Relationship and Service Delivery Management* provides services in an integrative manner to improve service delivery processes to seek performance improvement.
- *Security Services* ensures effective security policies and programs to safeguard taxpayer records, business processes, and IT systems. The program establishes a governance process to perform vulnerability assessments and provide service-wide mission assurance as well as security support to IRS systems modernization. Security management provides executive direction for enterprise-wide IT security policy development and implementation, operations, and services.

- *Tier B* provides support to single-owner, small to medium investment projects using core data to support specialized functions.
- *Management Services* provides for the design, development, delivery, and evaluation of a wide range of human resource programs for the MITS organization. These programs include workforce planning, recruitment and retention, career management, performance management, labor/employee relations, position management, workplace improvement, succession management and service-wide IT training and education.
- *National Headquarters (NHQ) IT Management* provides for the management and oversight of investments in IT for the Chief of Staff and Research, Analysis and Statistics (RAS). The program enables NHQ to manage and leverage IT solutions that are responsive to IRS-wide management, tax compliance, enforcement, and strategic and tactical research projects.
- *MITS Executive Oversight* provides support to the immediate office of the Chief Technology Officer, as well as the direct reports for EEO and Diversity, and the Director, Stakeholder Management (including Communications Services and Program Oversight). The program provides executive direction for the MITS organization, enabling MITS to be a customer-focused supplier of IT solutions that are responsive to customer business priorities and effectively meet functional and operational needs.
- *Application Development* performs the analysis, design, development, testing, and implementation of approximately 85,000 application programs supporting critical tax processing, management information reporting, and financial and management support systems for the IRS. This program 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 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 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.
- *Strategy and Planning* 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 mechanisms used by the IRS systems and applications as part of the system security plan, system risk assessment, and IT contingency plan. It also supports security testing and 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* funds the replacement of IRS IT infrastructure that has reached or surpassed its useful life cycle. The resources achieved through efficiencies in various parts of MITS are centralized to ensure that replacement of the aging infrastructure is addressed corporately.
- *Treasury Working Capital Fund* is a centralized functional area for separating from the Information Services base budget the resources required to pay Treasury billings for services provided through the working capital fund.
- *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 Budget Activity	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Resource Level	Obligations	Obligations	Obligations	Obligations	Enacted	Request
Appropriated Resources	\$1,510,449	\$1,551,603	\$1,678,744	\$1,680,279	\$1,886,403	\$1,880,295
Reimbursable Resources	3,330	14,006	14,310	5,481	15,182	15,419
Mandatory Appropriations - User Fees		66,678	50,000	9,543	33,900	51,000
Total Resources	\$1,513,779	\$1,632,287	\$1,743,054	\$1,695,303	\$1,935,485	\$1,946,714

Description of Performance

The IRS continues to replace its IT infrastructure using an ongoing review process that prioritizes funding of business unit needs. In FY 2009, 49 percent of IRS IT hardware assets were aged, with an average of 12 percent becoming aged each year. The IRS spent more than \$170 million to replace more than 53,720 of these aged assets. The 53,720 aged assets included network equipment, end-user equipment, and servers and storage equipment.

Future funding will be used to replace aging IT and telecommunication equipment in line with current business standards. The backlog of aged and outdated IT and telecommunication equipment is growing every year. Without investing in an ongoing replacement program, the IRS runs the risk of increased maintenance costs, an inability to accommodate the increasing interaction and information exchange with taxpayers and tax preparers or failure to comply with government-wide standards and industry best practices.

In FY 2009, the IRS completed security certification and accreditation for 98 percent of its IT systems. All FISMA 2009 reporting activities were completed and validated before the June 30, 2009 deadline.

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 2011 is \$386,908,000 in direct appropriations and 489 FTE. This is a net increase of \$123,011,000 or 46.6 percent and 156 FTE more than the FY 2010 enacted level of \$263,897,000 and 333 FTE.

2.1 – Budget Adjustments Table

Dollars in Thousands

Business Systems Modernization	FTE	Amount
FY 2009 Enacted	333	\$229,914
FY 2010 President's Budget Request	333	\$253,674
Congressional Action		10,223
FY 2010 Enacted Budget (P.L. 111-117)	333	\$263,897
Changes to Base:		
Maintaining Current Levels		\$889
Pay Annualization		243
Pay Inflation Adjustment		589
Non-Pay Inflation Adjustment		
FERS Increased Participation		57
Subtotal Changes to Base		\$889
Total FY 2011 Base	333	\$264,786
Program Changes:		
Business Systems Modernization (BSM) Initiative	156	\$122,122
Continue Migration from Aging Tax Administration System	156	122,122
Subtotal Program Changes	156	\$122,122
Total FY 2011 Request	489	\$386,908
Adjustments to Request		
User Fees		
Total FY 2011	489	\$386,908

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Business Systems Modernization	FY 2009 Enacted Level ¹	FY 2010 President's Budget	Congressional		FY 2010 Proposed Operating Level	FY 2010 Proposed Reprogram.	FY 2011 Request Level	% Change FY 2010 to FY 2011
			Action including Rescission	FY 2010 Enacted Level				
FTE	333	333		333		333	489	46.8%
Object Classification:								
11.1 Full-Time Permanent Positions	\$34,020	\$33,672	\$0	\$33,672	\$0	\$33,672	\$53,905	60.1%
11.3 Other than Full-Time Permanent Positions	766	855	0	855	0	855	869	1.6%
11.5 Other Personnel Compensation	575	703	0	703	0	703	1,173	66.9%
11.8 Special Personal Services Payments	0	0	0	0	0	0	0	0.0%
11.9 Personnel Compensation (Total)	\$35,361	\$35,230	\$0	\$35,230	\$0	\$35,230	\$55,947	58.8%
12.0 Personnel Benefits	8,044	9,416	0	9,416	0	9,416	14,058	49.3%
13.0 Benefits to Former Personnel	0	0	0	0	0	0	0	0.0%
21.0 Travel	0	0	0	0	0	0	78	100.0%
22.0 Transportation of Things	0	0	0	0	0	0	0	0.0%
23.1 Rental Payments to GSA	0	0	0	0	0	0	0	0.0%
23.2 Rent Payments to Others	0	0	0	0	0	0	0	0.0%
23.3 Communications, Utilities, & Misc	0	0	0	0	0	0	0	0.0%
24.0 Printing & Reproduction	0	0	0	0	0	0	0	0.0%
25.1 Advisory & Assistance Services	148	0	0	0	0	0	0	0.0%
25.2 Other Services	177,944	126,836	10,223	137,059	0	137,059	193,348	41.1%
25.3 Purchase of Goods & Services from Govt. Accounts	0	0	0	0	0	0	0	0.0%
25.4 Operation & Maintenance of Facilities	0	0	0	0	0	0	0	0.0%
25.5 Research & Development Contracts	0	0	0	0	0	0	0	0.0%
25.6 Medical Care	0	0	0	0	0	0	0	0.0%
25.7 Operation & Maintenance of Equipment	0	10,578	0	10,578	0	10,578	15,972	51.0%
25.8 Subsistence & Support of Persons	0	0	0	0	0	0	0	0.0%
26.0 Supplies and Materials	47	0	0	0	0	0	0	0.0%
31.0 Equipment	8,370	71,614	0	71,614	0	71,614	107,505	50.1%
32.0 Lands and Structures	0	0	0	0	0	0	0	0.0%
33.0 Investments & Loans	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	0	0	0	0	0	0	0	0.0%
42.0 Insurance Claims & Indemn	0	0	0	0	0	0	0	0.0%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	0	0	0	0	0	0	0	0.0%
Total Budget Authority	\$229,914	\$253,674	\$10,223	\$263,897	\$0	\$263,897	\$386,908	46.6%
Budget Activities:								
IT Investments	\$229,914	\$253,674	\$10,223	\$263,897	\$0	\$263,897	\$386,908	46.6%
Total Budget Authority	\$229,914	\$253,674	\$10,223	\$263,897	\$0	\$263,897	\$386,908	46.6%

¹ FY 2009 Enacted represents the approved FY 2009 Operating Plan.

2.3 – Appropriation Detail Table

Dollars in Thousands

Business Systems Modernization										% Change	
Resources Available for Obligation	FY 2009 Obligations		FY 2009 Enacted ¹		FY 2010 Enacted		FY 2011 Request		FY 2010 to FY 2011		
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	
New Appropriated Resources:											
Business Systems Modernization	322	\$131,138	333	\$229,914	333	\$263,897	489	\$386,908	46.85%	46.61%	
Subtotal New Appropriated Resources	322	\$131,138	333	\$229,914	333	\$263,897	489	\$386,908	46.85%	46.61%	
Other Resources:											
Recoveries											
Offsetting Collections - Reimbursable											
Available multi-year/no-year funds						116,249		31,767		-72.67%	
50% Carryover											
Transfers In/Out											
Mandatory Appropriations - User Fees											
Subtotal Other Resources	0	\$0	0	\$0	0	\$116,249	0	\$31,767	0.00%	-72.67%	
Total Resources Available for Obligation	322	\$131,138	333	\$229,914	333	\$380,146	489	\$418,675	46.85%	10.14%	

¹ FY 2009 Enacted represents the approved FY 2009 Operating Plan.

3I – Business Systems Modernization (\$386,908,000 in direct appropriations): 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 is required to submit an annual BSM expenditure plan that justifies the projects for which resources are requested.

The IRS depends on the core tax administration systems to deliver its mission, which require ongoing, long-term commitment to ensure that the IRS maintains its tax administration systems. The FY 2011 BSM request of \$386.9 million funds the projects listed in the table below.

Project	FY 2011 President's Budget Request
CADE 2 (Taxpayer Account Database)	\$152.1
Current CADE	40.0
Modernized e-File	39.1
Core Infrastructure	38.5
Architecture, Integration and Management	37.0
Management Reserve	10.0
Labor	70.2
Total	\$386.9

CADE 2 (New Taxpayer Account Database)

The IRS requests \$152.1 million to complete the new taxpayer account databases in 2011 in time for the 2012 filing season. The IRS will begin migration of 140 million individual taxpayer accounts into the relational database in a daily processing architecture. The daily processing cycle allows taxpayers to receive refunds in less than 10 days, five days faster than in the legacy system, if they file electronically with direct deposit. In addition to faster refunds, daily processing will provide more timely, accurate, and complete data to the key customer service database. This will result in improved taxpayer service through faster resolution of taxpayer account issues, elimination of notices based on out-of-date information, and daily mailing of notices, which will reduce spikes in telephone call volumes associated with the current weekly mailing of notices.

The new taxpayer account database will serve as the central repository of tax account information for all individual taxpayers. Completion of the core taxpayer account database will allow the IRS to expand its online services and develop next generation, more sophisticated compliance systems. The ability of the IRS to support increasingly complex taxpayer service and compliance initiatives will be severely limited until the core taxpayer account database is completed.

The Integrated Production Model (IPM) is an important component of the CADE strategy. This application extracts data from the Individual Master File (IMF) and Business Master File (BMF) and reformats it into the necessary relational structure. The goal of IPM is to develop an integrated data solution that will replace costly IRS data extracts. It also will allow the IRS to modernize its development language tools, enhance security, and standardize data names. These improvements will allow the IRS to use and share data more effectively. In FY 2011, the IRS will expand its capabilities for data sharing, data understanding, and data analytics. The IRS also will leverage its new daily processing capability, new relational database, and tools to access the IPM analytic data store.

Current CADE

The IRS requests \$40.0 million to fund the filing season changes and the operations and maintenance of the current Customer Account Data Engine system. The IRS has addressed filing season changes each year with updates to the current Customer Account Data Engine by planning and budgeting for anticipating changes to the tax law. Over the past few years, the IRS has realized a significant amount of tax law changes, which must be implemented to the current Customer Account Data Engine in January of each year.

Modernized e-File (MeF)

The IRS requests \$39.1 million to continue development and deployment of the MeF web-based platform. MeF allows electronic tax filing and provides a single point of transmission for the electronic submission of federal corporate, non-profit, and

partnership returns and the associated state returns for a limited number of states. MeF stores tax return data in a modernized Tax Return Database, allowing IRS employees to see an entire tax return online.

The following forms have been migrated onto the modernized platform:

- Form 1120, *U.S. Corporation Income Tax Return*, Form 1120-S, *U.S. Income Tax Return for an S corporation* (2004-2006);
- Form 990, *Return of Organization Exempt from Income Tax* (2004-2006);
- Form 1065, *U.S. Return of Partnership Income* (2007); and
- Form 1120-F, *U.S. Income Tax Return of a Foreign Corporation* along with the *Non-Profit e-Postcard* (990N) (2008).

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

Phase I (MeF Release 6.1) began in FY 2007 with deployment scheduled in January 2010. Phase I consists of the Form 1040 and 22 of the most common forms and schedules used by 61 percent of the e-File population such as Schedule A, *Itemized Deductions*, Schedule B, *Interest and Ordinary Dividends*, and Schedule D, *Capital Gains and Losses*. Phase I also includes enhancements to infrastructure and disaster recovery and development of the interfaces for all three 1040 phases.

Phase II (MeF Release 6.2) will begin in FY 2010 and is scheduled for implementation in January 2011. This Phase will enhance the deployment of disaster recovery capability delivered in Phase I and continue code optimization.

Phase III (MeF Release 7) also will begin in FY 2010 and is scheduled to deploy in January 2012. This phase will complete the implementation of the 1040 family of forms. After Phase III implementation, all Form 1040 taxpayers will be able to file electronically using MeF.

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

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

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

In FY 2011, the IRS will begin migration of the 94X family of forms (Release 8), *Employment/ Unemployment Tax*, to the MeF platform, which includes annually and quarterly filings. When implemented, the IRS projects that more than 8 million 94X forms will be filed through MeF.

Core Infrastructure

The IRS requests \$38.5 million to provide a complete environment (hardware, software, and management) for developing, testing, deploying, operating, and monitoring both customer and internal applications in support of the IRS shift in business practices. This investment supports the architecture, engineering and integration of BSM projects (Customer Account Data Engine 2, and MeF Releases 7 and 8). It also includes funding for annual software licenses fees and hardware maintenance purchased in 2009 and 2010 for releases of MeF that have not yet transitioned to production. This includes standardizing telecommunication services, security, and operations management as well as updating the access portals. This allows the IRS to develop infrastructure and common business service solutions that are usable across multiple major projects. Core infrastructure consists of two programs, Infrastructure Shared Services (ISS) and Development, Integration and Testing Environment (DITE).

ISS provides mission critical services in designing, engineering and deploying a standardized, consolidated, virtual and secure modernized production environment for the BSM projects. In FY 2011, ISS will place increased emphasis on common information technology infrastructure services, security, and infrastructure enhancement initiatives that affect the BSM projects, while continuing to support efforts beginning in FY 2010 related to enhanced availability and portal improvements. The ISS will address the effect on the modernized infrastructure environments because of an increase in the number of electronic documents, on-line transactions, and on-line tax filers. During FY 2011, ISS will continue to provide capacity planning and performance engineering services for BSM projects and will include support for integration and security testing. ISS will provide subject matter experts and institute security measures to protect the modernized infrastructure from intrusion and unauthorized access.

In FY 2011, ISS will increase its capabilities by building new common shared IT infrastructure services (i.e., audit, security, case management, and authentication services) in support of the BSM projects. Failure to implement common IT infrastructure services results in dissonant implementation of solutions and loss of business efficiencies. The FY 2011 funding enables common IT infrastructure and security and application services to access and leverage the IRS systems and data repositories across

heterogeneous environments. Using the ISS, BSM projects have avoided the need to develop costly customized solutions for each required interface to data, other application services, and security components.

Common IT infrastructure integration services provide the ability for BSM applications to isolate data sources from front-end applications, access multiple data stores via a single service request, and generate application level authentication and authorization to service requests. These abilities result in improved employee productivity, improved customer service through new and differentiated service options, and improved taxpayer compliance by reducing inaccuracy and latency. Using ISS, the BSM projects will improve response time and reduce application development, operations and maintenance costs, as well as eliminate unnecessary duplicative functionalities. In addition, as the BSM projects broaden their respective capabilities, standardized, integrated, and secure infrastructure underlie the IRS ability to deliver consistently high-quality, cost-effective, and trusted services to its employees, partners, and filers.

DITE is a standardized development and test environment composed of all of the modernized infrastructure components and services needed by BSM projects that plan to use and integrate into the modernized production environment. The DITE uses streamlined processes and standard tools that allow thorough development and testing in a controlled environment, to ensure projects work effectively and seamlessly within the modernized production environment.

DITE is comprised of a Virtual Development Environment (VDE) and an Enterprise Integration and Test Environment (EITE). The VDE provides a software development environment that allows geographically distributed developers access to standardized tools, information, and services in support of the BSM projects. The EITE provides a more structured, production-like, comprehensive integration and testing environment necessary to test rigorously system capabilities before release into production.

In FY 2011, DITE will continue to engineer, install, maintain, and support the development and test environments needed for each BSM project through deployment and acceptance in the production environment. The IRS will improve the efficiency of server administration, engineering, installation, maintenance, refresh and support of core DITE infrastructure. This will include web portals and common IT infrastructure services and provide a mechanism for remote access to core DITE data by authorized users. It also will provide maintenance of Rational Tools Suite and Rational Subject Matter Expert support to BSM projects.

Funding is required to support the BSM projects and releases that use the DITE to support development, integration and testing needs of the core DITE infrastructure components, FISMA compliance, and virtualized environments for remote BSM application developers. To address the increased demand on DITE resources in FY 2011, the IRS will continue to increase the virtualization of DITE components and to support dynamic allocation of storage required by BSM projects for development and testing.

Architecture, Integration, and Management (AI&M)

The IRS requests \$37.0 million to provide continued support to the AI&M program. This program provides engineering management capabilities essential to delivering a program of the magnitude, nature, and complexity of BSM and delivers essential IRS systems strategy, architecture, and engineering capabilities to the major modernization projects across all technology platforms: IT Infrastructure, Business Applications, Data Management, and IT Security. AI&M translates enterprise and project objectives into targeted, actionable investments to provide the necessary enterprise technical framework and direction for cohesive and successful modernization. Major AI&M components are:

- *Architecture and Integration (A&I)* — The A&I ensures systems solutions meet business needs and provides a single authoritative source of guidance for effectively integrating each project as it moves from the development to the business environment. This program produces the principles, strategies, and standards to guide the construction and delivery of coherent and integrated enterprise systems. Key FY 2011 deliverables include continued build-out of Enterprise Target Architecture Integration Roadmap, Enterprise Transition Strategy, Release Architecture, As-built Architecture, Enterprise Standards Profile, Service Oriented Architecture Roadmap, and Segment Architectures. The Architecture also includes data, security, business architecture, and engineering support.
- *Enterprise Data Management* — Data Management delivers several essential elements of the IRS Data Strategy Roadmap and implements common repositories for use by all IRS applications. The Data Management Strategy defines an enterprise-wide data environment to easily and efficiently organize, identify, share, reuse and correlate data that enables IRS compliance functions to consume information and maximize value to the agency.

The BSM projects included in the FY 2011 Data Strategy Roadmap are building out the tax return store; prototyping the metadata program; and expanding users for the IPM, in which data from different data stores (accounts, tax returns, and information returns) will be combined in a single environment. These new data management capabilities allow reuse of services for BSM projects so information is readily shared. The FY 2011 Enterprise Data Strategy will focus on increasing data security and closing the gap on key capabilities needed by the IRS compliance functions, such as deeper integration of data and better case selection.

- *Security* — IT Security is implementing automation to allow proactive cyber security evaluation and instrumentation of applications, projects and system compliance with internal and external security and privacy standards, policies, and related federal directives (e.g., Federal Information Security Management Act, National Institute of Standards and Technology, Department of Homeland Security, OBM, GAO, and the Department of the Treasury). It also designs and implements remediation plans to ensure that the project or system passes the security test and evaluation processes. Other planned FY 2011 deliverables include “defense-in-depth” improvements through updated infrastructure

engineering security standards, IRS Enterprise Architecture Security and Privacy Guidance updates, and refinements to the IRS Security Domain Segment Architecture.

- *Business Integration (BI)* — BI processes and standards allow the IRS to define, manage, and deliver its Information Technology portfolio successfully. Activities include IT portfolio investment management, cost estimation, transition management and risk management. The IRS will develop an IT risk management strategy to establish a consistent and enterprise approach for identification and mitigation of risks for BSM projects and releases. BI also will provide an integrated IT portfolio assessment of organizational capacity for delivering BSM capabilities. This IT portfolio assessment is critical to ensure the technical impact of BSM program decisions to the current production environment are understood and considered fully. Engineering analyses and resource estimates are integral to ensuring organizational capacity needs are incorporated into both plans and budgets to deliver an integrated portfolio, including maintaining current operations, delivering filing season readiness, addressing significant legislative proposals, and supporting BSM initiatives.
- *Requirements and Demand Management (RADM) (formerly referred to as Business Rules and Requirements Management (BRRM))* — RADM improves the conduct of business analysis, process redesign, business rules harvesting and management, and business requirements elicitation, definition and management. RADM standards and expertise allow the IRS to incorporate requirements engineering industry best practices into the Enterprise Life Cycle for consistent systems development processes, apply business rules methods, tools and processes to BSM projects, and develop enterprise policy and standards for requirements and business rules management.

RADM provides requirements planning and management support, business process redesign, rules and requirements development, business modeling, requirements training and outreach, requirements baseline management, and solution development support. In addition, RADM will be responsible for integrating the technical requirements engineering process into RADM methodology. A thorough review of both processes and all related assets are necessary in FY 2011 to ensure Customer Account Data Engine 2 shows a seamless traceability from the Enterprise Architecture to the physical design.

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

- *Program Management (PM)* — PM provides financial planning and management oversight to all BSM projects. PM will address the risk management methodology, which uses common risks, and management process tools to track issues and action items.
- *Federally Funded Research & Development Center (FFRDC)* — FFRDC provides national experts in systems engineering, architectural design and development, security, and other technical disciplines that are critical to modernization success. The Center's broad visibility, deep domain knowledge, and objectivity provide an independent voice to executive management staff and provide management guidance on difficult issues. Key services include support of institutionalizing and maturing processes and risk mitigation.

Management Reserve

The IRS requests \$10.0 million to fund the management reserve to cover unanticipated cost adjustments given the size and complexity of the taxpayer account database project.

BSM Labor

The IRS requests \$70.2 million to fund the staffing level for BSM labor (\$69.3 million) and inflation costs (\$0.9 million).

3.2.9 – Budget and Performance Plan

Dollars in Thousands

Business Systems Modernization Budget Activity						
Resource Level	FY 2006 Obligations	FY 2007 Obligations	FY 2008 Obligations	FY 2009 Obligations	FY 2010 Enacted	FY 2011 Request
Appropriated Resources	\$113,702	\$158,758	\$170,576	\$131,138	\$263,897	\$386,908
Reimbursable Resources						
Mandatory Appropriations - User Fees						
Total Resources	\$113,702	\$158,758	\$170,576	\$131,138	\$263,897	\$386,908

Business Systems Modernization Budget Activity						
Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Target	FY 2011 Target
Percent of BSM Projects within +/- 10% Cost Variance (E)	*	*	92.0%	60.0%	90.0%	90.0%
Percent of BSM Projects within +/- 10% Schedule Variance (E)	*	*	92.0%	90.0%	90.0%	90.0%

Key: E - Efficiency Measure

* Prior to FY 2008, Cost and Schedule Variance was reported separately for each project. In FY 2008, these measures were changed to reflect an overall percentage of all major BSM projects that were within the +/- 10% threshold.

Description of Performance

IRS modernization efforts continue to focus on core tax administration systems designed to provide more sophisticated tools to taxpayers and to IRS employees. Customer Account Data Engine (CADE), Modernized e-File (MeF), and Account Management Services (AMS) modernization projects delivered the required changes for the filing season, supported implementation of the Recovery Act provisions, and provided audit trails addressing security vulnerabilities. FY 2009 successes include:

- Customer Account Data Engine (CADE)** – CADE processed more than 40.0 million returns, issued more than 34.9 million refunds using a modernized account database, and processed more than 7 million payments totaling \$58.6 billion. In addition, the IRS revised its CADE strategy to implement a new taxpayer account database by the end of 2011 for the 2012 filing season. The new database will result in the migration of 140 million individual taxpayers to a modernized, relational database that will support daily processing and result in faster refunds for all individual refund filers.
- Modernized e-File (MeF)** – The IRS deployed MeF Release 5.5 that included the redesigned Form 990, *Return of Organization Exempt from Income Tax*, in time for the filing season. MeF processed Form 1120 and 990 returns at much higher volumes than expected. The volume of Form 1120 returns increased 38 percent and Form 990 increased 307 percent from 2008. Returns submitted through MeF have an average 7 percent processing error rate, compared to 19 percent for transcription-based paper processing. MeF return receipts increased to about 4.5 million.

- **Account Management Services (AMS)** – The IRS completed the 2009 releases of AMS providing additional real-time address changes to CADE by the conversion of account transcripts from paper to electronic format. AMS processed more than 2.3 million accounts since deployment and more than 2.2 million electronic transcript cases were distributed. In addition, AMS delivered the capability to update account address data on a daily cycle. AMS added a new component to its organization in FY 2009, the Integrated Automation Technologies (IAT) Branch. The IAT developed tools to support the implementation of the Recovery Act including the First-Time Home Buyer Credit tool, that systematically researches amended returns for specific criteria to identify unallowable or fraudulent claims.

Health Insurance Tax Credit Administration

Appropriation Description

The Health Insurance Tax Credit Administration (HITCA) appropriation provides funding for contractor support to develop and administer the advance payment option for the Health Coverage Tax Credit (HCTC) included in Public Law 107-210, the *Trade Adjustment Assistance Act* (Trade Act of 2002).

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

The HITCA Budget Request for FY 2011 is \$18,987,000 in direct appropriations and 15 FTE. This is an increase of \$3,475,000 or 22.4 percent more than the FY 2010 enacted level of \$15,512,000 and 15 FTE. This amount does not include \$80,000,000 provided by the Recovery Act for fiscal years 2009 and 2010.

2.1 – Budget Adjustments Table

Dollars in Thousands

Health Insurance Tax Credit Administration	FTE	Amount
FY 2009 Enacted	15	\$15,406
FY 2010 President's Budget Request	15	\$15,512
Congressional Action		
FY 2010 Enacted Budget (P.L. 111-117)	15	\$15,512
Changes to Base:		
Maintaining Current Levels		\$190
Pay Annualization		15
Pay Inflation Adjustment		32
Non-Pay Inflation Adjustment		140
FERS Increased Participation		3
Other Adjustments		\$3,494
Resource Adjustment to Support Recovery Act-HCTC Program Expansion		3,494
Efficiencies/Savings		(\$209)
Reduce Procurement/Contracting		(179)
Reduce Printing, Travel, and Training		(30)
Subtotal Changes to Base		\$3,475
Total FY 2011 Base	15	\$18,987
Program Changes:		
Subtotal Program Changes		
Total FY 2011 Request	15	\$18,987
Adjustments to Request		
User Fees		
Total FY 2011	15	\$18,987

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Health Insurance Tax Credit Administration	FY 2009	FY 2009	FY 2010	Congressional	FY 2010	Proposed	FY 2010	FY 2011	%
	ARRA Level	Enacted Level ¹	President's Budget	Action including Rescission	Enacted Level	Reprogram.	Operating Level	Request Level	Change to FY 2011
FTE		15	15		15		15	15	0.0%
Object Classification:									
11.1 Full-Time Permanent Positions	\$0	\$2,326	\$2,363	\$0	\$2,363	\$0	\$2,363	\$2,399	1.5%
11.3 Other than Full-Time Permanent Positions	0	10	0	0	0	0	0	0	0.0%
11.5 Other Personnel Compensation	1,000	23	24	0	24	0	24	24	0.0%
11.8 Special Personal Services Payments	0	0	0	0	0	0	0	0	0.0%
11.9 Personnel Compensation (Total)	\$1,000	\$2,359	\$2,387	\$0	\$2,387	\$0	\$2,387	\$2,423	1.5%
12.0 Personnel Benefits	0	353	360	0	360	0	360	374	3.9%
13.0 Benefits to Former Personnel	0	0	0	0	0	0	0	0	0.0%
21.0 Travel	0	147	151	0	151	0	151	211	39.7%
22.0 Transportation of Things	0	0	0	0	0	0	0	0	0.0%
23.1 Rental Payments to GSA	0	0	0	0	0	0	0	0	0.0%
23.2 Rent Payments to Others	0	0	0	0	0	0	0	0	0.0%
23.3 Communications, Utilities, & Misc	2,000	13	0	0	0	0	0	400	100.0%
24.0 Printing & Reproduction	2,000	30	0	0	0	0	0	200	100.0%
25.1 Advisory & Assistance Services	0	0	0	0	0	0	0	0	0.0%
25.2 Other Services	73,000	12,497	12,606	0	12,606	0	12,606	15,372	21.9%
25.3 Purchase of Goods & Services from Govt. Accounts	0	0	0	0	0	0	0	0	0.0%
25.4 Operation & Maintenance of Facilities	0	0	0	0	0	0	0	0	0.0%
25.5 Research & Development Contracts	0	0	0	0	0	0	0	0	0.0%
25.6 Medical Care	0	0	0	0	0	0	0	0	0.0%
25.7 Operation & Maintenance of Equipment	0	0	0	0	0	0	0	0	0.0%
25.8 Subsistence & Support of Persons	0	0	0	0	0	0	0	0	0.0%
26.0 Supplies and Materials	2,000	7	8	0	8	0	8	7	-12.5%
31.0 Equipment	0	0	0	0	0	0	0	0	0.0%
32.0 Lands and Structures	0	0	0	0	0	0	0	0	0.0%
33.0 Investments & Loans	0	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	0	0	0	0	0	0	0	0	0.0%
42.0 Insurance Claims & Indemn	0	0	0	0	0	0	0	0	0.0%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	0	0	0	0	0	0	0	0	0.0%
Total Budget Authority	\$80,000	\$15,406	\$15,512	\$0	\$15,512	\$0	\$15,512	\$18,987	22.4%
Budget Activities:									
Health Insurance Tax Credit Administration	\$80,000	\$15,406	\$15,512	\$0	\$15,512	\$0	\$15,512	\$18,987	22.4%
Total Budget Authority	\$80,000	\$15,406	\$15,512	\$0	\$15,512	\$0	\$15,512	\$18,987	22.4%

¹ FY 2009 Enacted represents the approved FY 2009 Operating Plan.

2.3 – Appropriation Detail Table

Dollars in Thousands

Health Insurance Tax Credit Administration										
Resources Available for Obligation	FY 2009 Obligations		FY 2009 Enacted ¹		FY 2010 Enacted		FY 2011 Request		% Change FY 2010 to FY 2011	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Health Insurance Tax Credit Administration	10	\$15,374	15	\$15,406	15	\$15,512	15	\$18,987	0.00%	22.40%
Subtotal New Appropriated Resources	10	\$15,374	15	\$15,406	15	\$15,512	15	\$18,987	0.00%	22.40%
Other Resources:										
Recoveries										
Offsetting Collections - Reimbursable										
Available multi-year/no-year funds										
50% Carryover										
Transfers In/Out										
Mandatory Appropriations - User Fees										
Subtotal Other Resources	0	\$0	0	\$0	0	\$0	0	\$0	0.00%	0.00%
Total Resources Available for Obligation	10	\$15,374	15	\$15,406	15	\$15,512	15	\$18,987	0.00%	22.40%

¹ FY 2009 Enacted represents the approved FY 2009 Operating Plan.

3J – Health Insurance Tax Credit Administration (\$18,987,000 in direct appropriations): The HITCA budget activity funds costs to administer a refundable tax credit created by the *Trade Act of 2002* to purchase health insurance for eligible taxpayers. This activity maintains the administrative and direct support for the HITCA program office and the staff charged with managing the program for the IRS.

3.2.10 – Budget and Performance Plan

Dollars in Thousands

Health Insurance Tax Credit Administration Budget Activity	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Resource Level	Obligations	Obligations	Obligations	Obligations	Enacted	Request
Appropriated Resources	\$19,993	\$14,850	\$15,223	\$15,374	\$15,512	\$18,987
Reimbursable Resources						
Mandatory Appropriations - User Fees						
Total Resources	\$19,993	\$14,850	\$15,223	\$15,374	\$15,512	\$18,987

Health Insurance Tax Credit Administration Budget Activity	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Measure	Actual	Actual	Actual	Actual	Target ²	Target
Cost per Taxpayer Served (\$) (E)	\$13.71	\$14.90	\$16.94	\$13.79	Baseline ¹	TBD ¹
Sign-up Time (days) - Customer Engagement (Ot)	98.7	93.3	94.0	91.3	Baseline ¹	TBD ¹

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

¹An increase in participation is expected due to the Recovery Act. IRS will establish a new baseline in FY 2010.

Description of Performance

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

In FY 2009, HCTC underwent significant changes. First, the economic downturn led to an increased number of potentially eligible taxpayers and increased operational volumes. In February 2009, the Recovery Act included changes to extend the accessibility and affordability of the HCTC program, which further increased the eligible population and operational volumes.

In FY 2009, the IRS processed approximately 10 million HCTC eligibility records, made almost 174,000 HCTC payments on behalf of taxpayers, handled almost 132,000 inbound HCTC telephone calls, and mailed almost 640,000 pieces of outbound correspondence. Though these volumes are higher than in FY 2008, the IRS maintained an HCTC program customer satisfaction level of more than 90 percent.

The FY 2009 cost per taxpayer served (CPTS) was \$13.79, more than \$3 lower than the FY 2009 target of \$17.00. CPTS is expected to remain lower than planned as the number of taxpayers served remains higher than projected.

Sign-up time was 91 days in FY 2009, 6 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. Better results are a consequence of a larger number of new enrollees submitting registration forms more

rapidly after receiving program kits. The economic downturn may be influencing taxpayers to return registration forms more quickly.

Future efforts will include:

- Implementing the final Recovery Act provisions for HCTC;
- Sustaining the FY 2009 ramp-up to continue handling increased operational volumes;
- Completing a full technical refresh of HCTC systems; and
- Expanding outreach to educate potential eligibles about recent program changes.

Section 4 – Supporting Materials

4A – Human Capital Strategy

Introduction

The IRS Human Capital Business Plan for 2010-2014 was built upon the *IRS Strategic Plan 2009-2013*. To achieve the service and enforcement strategic goals the IRS must invest in high performance by effectively supporting the IRS workforce. To support “making IRS the best place to work in government,” the following four Human Capital pillars were developed to deliver the IRS mission today and in the future:

- **Recruit, Hire & Onboard** – This pillar supports the IRS priority to achieve both the optimum mix of employee skill sets and diversity by continuing efforts to improve recruiting, hiring transition and other processes to ensure the right person is in the right job.
- **Engage, Develop & Retain** – This pillar reflects the Human Capital commitment to enhance employee skills, address retention efforts, and increase employee engagement. It also reflects a commitment to support top quality managers with effective resources, recognition, and tools to lead an engaged workforce.
- **Develop and Promote Leaders** – This pillar addresses the crucial support needed to provide leadership with effective resources, recognition, and tools to lead the IRS workforce. Without a stable, knowledgeable managerial infrastructure, the IRS ability to carry out its mission is compromised.
- **Facilitate Collaborative Environment** – This pillar fosters an open exchange of innovative ideas and leveraging relationships to ensure that human capital plans and implementation efforts are fully integrated with the IRS mission, strategies and program goals.

FY 2011 Challenges

The key objectives for the IRS in FY 2011 are to:

- Enhance productivity through the use of technology;
- Design new processes to simplify the hiring experience;
- Close skill and competency gaps in critical occupations; and
- Compete with the private sector for a shrinking pool of accounting and information technology professionals.

Retirements

The current economic climate affects retirements, attrition, and recruitment. At the beginning of FY 2010, 83 executives, or 28 percent of Senior Leadership, were eligible to retire. This group includes Senior Executives, Critical Pay, Senior Level, and Candidate Development Program participants. An additional 31 executives, or 10 percent of Senior Leadership, will be eligible to retire in FY 2011. Leadership continuity continues to be one of the IRS key areas of focus.

Recruitment and Retention

In August 2008, the Commissioner established the *Workforce of Tomorrow* task force to address recruitment and retention issues so that the IRS will have the necessary leadership and workforce to meet future challenges. Several projects were launched as a result of the *Workforce of Tomorrow* recommendations, including increasing the use of technology to streamline hiring, revamping Frontline Manager training, improving the new employee hiring process, and establishing a centralized recruiting office. The benefits expected from the new centralized recruiting office are:

- Integrating business unit recruitment efforts;
- Ensuring mission critical occupation, geography, and diversity needs are met;
- Centralizing management of a national recruiting calendar and event logistics; and
- Standardizing materials and messages, tailored to candidate segments.

Employee Engagement

Based on key initiatives recommended by the *Workforce of Tomorrow*, the IRS annual employee satisfaction survey (ESS) results, and the Federal Human Capital Survey (FHCS) results, the IRS is taking the following steps to increase employee satisfaction:

- **Reduction of Managerial Burden** – Research indicates the primary influence on an employee's engagement level is his/her manager. The IRS has taken the following steps to enable managers to develop and guide their employees:
 - Established a **Manager Resource Center** to provide dedicated staff to assist managers with questions as well as an interactive website. The *iManage* website pilot was launched on October 29, 2009. This pilot site contains four Communities of Practice (CoPs) that provide targeted information, advice, and interactive features for IRS managers to work more efficiently. The pilot site is now available to four IRS Operating Divisions: Agency-Wide Shared Services, Appeals, Human Capital Office and Taxpayer Advocate Service. Full implementation of the *iManage* website is scheduled for deployment during the third quarter of FY 2010. The Managers Resource Center staff is also pursuing a telephone servicing solution that will reduce wait times for resolving Managers'

administrative issues. The anticipated release of the telephone hotline is scheduled for the first quarter of FY 2011.

- **Streamlined mandatory briefings** that require significantly less management oversight and involvement. This effort was completed in July 2009.
 - Development of a **Recognition Toolkit** that centralizes all of the options and instructions for monetary and non-monetary recognition, including expanded options and streamlined instructions for planning and funding recognition ceremonies. The toolkit scheduled release is in the second quarter of FY 2010.
 - Numerous **managerial training enhancements**. Improvements in training for readiness program participants, new managers, existing managers, and administrative professionals are in development. Implementation is planned in phases. Phase 1 is scheduled for completion January 31, 2010. Phase 2 is targeted for completion by June 6, 2010.
 - Appointment of a **Managerial Champion** with permanent responsibility for managerial burden oversight. Establishment of this position in the Human Capital Office will ensure ongoing analysis of managerial burden issues and accountability for long-term oversight. This was completed in May 2009.
- **Expansion of Leadership Coaching** – Participants in this program would include managers who are experiencing declining employee survey scores, have extenuating circumstances that warrant action or are high performers and can share best practices with others in the organization. Third-party consultants will work directly with managers and/or their teams, if desired. The IRS plans to analyze trends among groups receiving coaching and those who did not.
 - **Increase Strategic Communications to Employees** – The IRS is taking steps to better inform employees of service-wide and division level initiatives. Senior leaders are using different communication channels such as town halls, blogs, streaming videos and all-employee messages to reach staff. Leaders are also encouraged to share best practices and success stories on their internal websites and to recognize those who are moving the organization forward.
 - **Improve Employee Recognition** – The IRS awards and recognition program is being revised to reach more employees and to create a standard protocol for how employees are selected for different awards. A team is dedicated to this effort. Communication surrounding the simplified funding process for employee recognition ceremonies was completed in September 2009. Implementation of other recognition activities, e.g., web page recognizing employee successes, is scheduled throughout FY 2010.
 - **Improve Training for New Employees** – The IRS is also working on ways to better train new employees. The agency is revamping its on-boarding program and initiating an ambassador program to help familiarize new employees with

their specific jobs. Many of these programs were created with input from the National Treasury Employees Union.

- **Address Results of the IRS Annual Employee Survey** – The IRS received its 2009 survey results and each division within the agency during the fall of 2009 held meetings with their workgroups to further discuss results and devise specific plans for addressing their particular issues. The IRS is also working with the Partnership for Public Service to further enhance its service-wide action planning process.

Wellness Program

- **Description of Current Services**

The IRS currently provides a number of services and programs to address physical, emotional, financial and occupational wellness aimed at improving employee health and making positive behavior changes. These services include health screenings, health risk appraisals, smoking cessation, flu shots, fitness centers, lunch and learn wellness seminars, 24/7 counseling services, substance abuse prevention, stress management training, child and elder care referral services, work-life balance resources, financial on-line resources, pre-retirement seminars, occupational safety information, ergonomic tips and emergency preparedness.

- **Health and Wellness Performance Improvement Target**

Measure	FY 2011 Goal
Increase Employee Use of Wellness Services	+5%

The Wellness Program promotes individual well-being while improving morale, productivity, absenteeism and employee satisfaction. To meet the FY 2011 performance target, the IRS completed an inventory of current wellness and health services/activities in July 2009. In September 2009, IRS researched external health resources and tools to supplement internal wellness activities. To increase employee awareness, both a detailed communication strategy and a wellness website highlighting the availability and benefits of these services will be implemented in March 2010.

- **IRS Wellness Program Evaluation**

To evaluate the progress of the IRS Wellness Program, the IRS will:

- Survey new employees and employees leaving the IRS;
- Measure the usage of Federal Occupational Health and Employee Assistance Program Services; and
- Assess increases in the Federal Human Capital Survey Results.

- **Action Plan**

Examples of actions that are either underway or will be undertaken include:

- Linking services to National Health Observances;
- Marketing and promoting benefits for employees and the organization;
- Promoting personal responsibility for managing health and well-being as a key concept;
- Encouraging participation and completion of wellness activities; and
- Increasing employee awareness of internal and external wellness services and resources.

Human Capital Occupations/Functions Contracted

During periods of extensive hiring, workload transition, and heavy volumes of workload, the IRS employment offices utilize contractor employees to fill short-term needs. In FY 2009 and FY 2010, the IRS received enforcement funding to increase the number of Revenue Agents and Officers. Thousands of frontline positions were established under these hiring initiatives. The IRS used contractor employees across Employment Operations and Personnel Security to handle the surge in the workload. The number of contractor employees will depend on hiring demands.

4B – Information Technology (IT) Strategy

The IRS information systems support all aspects of tax administration and are essential tools for taxpayer communication and transaction with the IRS. The IRS information technology (IT) and telecommunications services support existing operational information systems as well as the development of replacement systems. Major IT activities address both internal and external priorities, through a balanced investment portfolio that is fully aligned with the *IRS Strategic Plan 2009-2013*. In support of the IRS strategic priorities, the IT strategy focuses on:

- Improving service to IRS customers;
- Enhancing risk management;
- Delivering improved business capabilities and governance;
- Strengthening technology infrastructure; and
- Ensuring effective organizational leadership.

Developing the IRS IT Investment Portfolio

The IRS IT Investment Strategy supports the IRS mission and strategic goals and communicates strategic priorities established by the IRS Senior Executive Team. The strategic priorities provide the foundation for making investment decisions to meet both IRS and business IT needs. By using this IT investment approach and aligning the investment portfolio with the strategic priorities, the IRS is able to ensure investments deliver strategic benefits for the organization.

Governance Process

In addition to the IT investment strategy, the IRS uses an integrated governance model that reflects industry best practices and assigns all projects to an appropriate governance body for oversight. The enterprise governance model:

- Considers IT projects regardless of dollar value or life cycle phase;
- Empowers governance bodies to make project cost, schedule, and scope decisions for “at risk” projects requiring rigorous oversight; and
- Promotes accountability and decision-making at the program and project level, specifying the appropriate thresholds and governance bodies for elevating issues.

Originally, the governance model was implemented to manage the major projects of the Business Systems Modernization (BSM) program, but it has been expanded to cover all IRS IT projects. As of January 2009, all identified IRS IT investments have risk and configuration management plans; and as of February 2009, approximately 98 percent of non-BSM investments are within established thresholds for cost variance and schedule

Health Assessments

The IRS has implemented monthly health assessments to monitor project progress. These assessments focus on Key Performance Indicators (KPI) in the areas of cost, schedule, scope, risks and issues, organizational readiness and transition management, and technical status. Within each KPI, criteria codes are assigned that explain exactly what generated the health rating. Control and governance organizations review these ratings and take corrective actions. Metrics regarding cost and schedule variance are reported both internally and externally to oversight organizations. In addition to monitoring the health of the project, the IRS IT organization conducts quality assurance reviews of project data to monitor compliance with methodologies and assists project managers in implementing components of the IRS Enterprise Lifecycle methodology.

To identify projects in potential need of remediation, the IRS governance and control organizations are provided with detailed project-level information. These organizations guide the project managers in remediation activities when certain thresholds have been met; starting with assessing the issues at hand and determining the appropriate actions to be taken. Project managers that require assistance may be required to participate in interviews with the control and/or governance organizations. Organization-wide issues are identified for remediation through the analysis of project specific data. Project assistance teams are formed as needed to identify and remediate project issues.

4.1 – Summary of IT Resources Table

Dollars in Millions

Major IT Investments / Funding Source	Budget Activity	FY 2008 & Earlier Enacted	FY 2009 Actuals	FY 2010 Enacted	% Change from FY09 to FY10	FY 2011 Requested	% Change from FY10 to FY11
Account Management Services (AMS)	Information Technology Investments	0.000	22.807	17.037	-25.3%	19.178	12.6%
IRS BSM 20-0921-0-1-803	Information Technology Investments	0.000	10.650	0.000	-100.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	0.000	12.157	17.037	40.1%	19.178	12.6%
Automated Collection System (ACS) - Major	Information Services	18.130	6.892	10.145	47.2%	7.534	-25.7%
Business Master File (BMF)	Information Services	77.292	12.259	8.410	-31.4%	8.274	-1.6%
Counsel Automated Systems Environment (CASE)	Information Services	83.035	26.513	27.951	5.4%	27.951	0.0%
Criminal Investigation Management Information System (CIMIS) - Major	Information Services	4.447	2.767	0.247	-91.1%	0.230	-6.9%
IRS Enforcement 20-0913-0-1-999		1.615	0.000	0.000	0.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803		2.832	2.767	0.247	-91.1%	0.230	-6.9%
Current CADE (previously known as Customer Account Data Engine (CADE))	Information Technology Investments	651.517	61.430	48.207	-21.5%	49.996	3.7%
IRS BSM 20-0921-0-1-803	Information Technology Investments	577.056	58.100	47.788	-17.7%	49.647	3.9%
IRS Taxpayer Services 20-0912-0-1-803		13.215	0.000	0.000	0.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	61.246	3.330	0.419	-87.4%	0.349	-16.7%
Customer Account Data Engine (MTA) / CADE 2	Information Technology Investments	0.000	33.150	65.089	96.3%	185.864	185.6%
IRS BSM 20-0921-0-1-803	Information Technology Investments	0.000	33.150	65.089	96.3%	185.123	184.4%
IRS Taxpayer Services 20-0912-0-1-803		0.000	0.000	0.000	0.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	0.000	0.000	0.000	0.0%	0.741	100.0%

Continuation – 4.1 – Summary of IT Resources Table
Dollars in Millions

Major IT Investments / Funding Source	Budget Activity	FY 2008 & Earlier Enacted	FY 2009 Actuals	FY 2010 Enacted	% Change from FY09 to FY10	FY 2011 Requested	% Change from FY10 to FY11
e-Services	Information Services	100.903	14.648	14.007	-4.4%	14.761	5.4%
Electronic Fraud Detection System (EFDS)	Information Services	220.725	12.392	12.251	-1.1%	11.657	-4.9%
IRS Operations Support 20-0919-0-1-803	Information Services	150.795	8.754	8.594	-1.8%	7.946	-7.5%
IRS Operations Support (EITC) 20-09E9		69.930	3.639	3.657	0.5%	3.711	1.5%
Electronic Management System (EMS)	Information Services	199.056	4.742	5.761	21.5%	4.639	-19.5%
Enterprise Data Access Strategy (EDAS) (Formerly Enterprise Data Warehouse)	Information Services	19.409	8.369	5.425	-35.2%	3.953	-27.1%
IRS Operations Support (EITC) 20-09E9		0.000	0.000	0.000	0.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803		19.409	8.369	5.425	-35.2%	3.953	-27.1%
Excise Files Information Retrieval System (ExFIRS) - Major / Externally Funded 1/	Information Services	0.471	13.022	6.632	-49.1%	0.630	-90.5%
External Sources		0.471	13.018	6.139	-52.8%	0.000	-100.0%
IRS Operations Support 20-0919-0-1-803		0.000	0.004	0.493	12026.2%	0.630	27.7%
Excise Tax e-File & Compliance (ETEC) - Major	All External Funding	7.927	0.000	0.000	0.0%	0.000	0.0%
Financial Management Information System (FMIS)	Information Services	13.950	6.801	3.501	-48.5%	5.610	60.2%
Implement RRP (incorporates EFDS replacement)	Information Services	0.000	0.000	17.947	100.0%	18.243	1.6%
Individual Master File (IMF)	Information Services	62.109	13.357	10.982	-17.8%	10.789	-1.8%
IRS Operations Support (EITC) 20-09E9	Information Services	0.000	0.142	0.000	-100.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	62.109	13.215	10.982	-16.9%	10.789	-1.8%
Information Returns Processing (IRP)	Information Services	39.995	7.654	6.775	-11.5%	7.075	4.4%
Integrated Collection System (ICS)	Information Services	33.205	7.484	9.104	21.6%	8.694	-4.5%
Integrated Customer Communications Environment (ICCE)	Information Services	370.315	12.082	16.618	37.5%	12.451	-25.1%
Integrated Data Retrieval Systems (IDRS)	Information Services	112.341	20.231	19.550	-3.4%	19.204	-1.8%
Integrated Financial System/CORE Financial System (IFS)	IRS Business Systems Modernization	300.983	18.167	17.449	-4.0%	17.062	-2.2%
IRS BSM 20-0921-0-1-803	Information Technology Investments	0.000	0.000	0.000	0.0%	0.000	0.0%
IRS Taxpayer Services 20-0912-0-1-803		47.317	0.000	0.000	0.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	253.666	18.167	17.449	-4.0%	17.062	-2.2%
Integrated Submission and Remittance Processing System (ISRP)	Information Services	63.654	18.981	17.939	-5.5%	17.805	-0.7%
Internal Revenue Service.gov (IRS.gov)	Information Services	0.000	56.479	61.082	8.1%	80.380	31.6%
Interim Revenue Accounting Control System (IRACS) - BAC 99	Information Services	2.419	5.137	1.495	-70.9%	1.508	0.9%

Continuation – 4.1 – Summary of IT Resources Table
Dollars in Millions

Major IT Investments / Funding Source	Budget Activity	FY 2008 & Earlier Enacted	FY 2009 Actuals	FY 2010 Enacted	% Change from FY09 to FY10	FY 2011 Requested	% Change from FY10 to FY11
Modernized e-File (MeF)	Information Technology Investments	0.000	47.117	70.986	50.7%	63.465	-10.6%
IRS BSM 20-0921-0-1-803	Information Technology Investments	0.000	29.500	56.332	91.0%	45.498	-19.2%
IRS Taxpayer Services 20-0912-0-1-803		0.000	0.000	0.000	0.0%	0.000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	0.000	17.617	14.654	-16.8%	17.967	22.6%
Report Generation Software (RGS)	Information Services	0.000	7.961	6.502	-18.3%	7.132	9.7%
IRS Operations Support (EITC) 20-09E9	Information Services	0.000	3.384	1.457	-56.9%	3.152	116.4%
IRS Operations Support 20-0919-0-1-803	Information Services	0.000	4.578	5.045	10.2%	3.980	-21.1%
Reporting Compliance Case Management System (RCCMS) (Formerly TE/GE Reporting and Electronic Examination System (TREES))	Information Services	0.000	2.140	4.030	88.3%	2.749	-31.8%
Service Center Recognition/Image Processing System (SCRIPS)	Information Services	74.855	16.632	16.818	1.1%	13.292	-21.0%
Tax Return Database (TRDB) - BAC 99	Information Services	31.242	4.250	5.212	22.6%	4.508	-13.5%
Travel Reimbursement and Accounting System (TRAS) - BAC 99	Information Services	4.299	0.000	0.000	0.0%	0.000	0.0%
Web Currency and Banking Retrieval System (WebCBRS)	Information Services	0.000	7.550	7.756	2.7%	8.502	9.6%
IRS Taxpayer Services 20-0912-0-1-803		0.000	6.521	5.747	-11.9%	6.368	10.8%
IRS Operations Support 20-0919-0-1-803		0.000	1.029	2.009	95.2%	2.134	6.2%
Web Requisition Tracking System /Integrated Procurement System (WebRTS/IPS)	Information Services	0.000	5.246	5.770	10.0%	5.398	-6.4%
Subtotal, Major IT Investments		2,492.279	476.263	520.679	9.3%	638.534	22.6%
Non-Major IT Investments		1,648.742	500.339	597.611	19.4%	612.876	2.6%
Infrastructure Investments							
IRS Mainframes and Servers Services & Support (Formerly: IRS/Data Center Systems and Services (Consol) for EITIO)	Information Services	1,001.449	504.507	513.842	1.9%	518.518	0.9%
IRS/End User Systems and Services (for EITIO)	Information Services	848.257	238.249	275.019	15.4%	237.012	-13.8%
IRS/Telecommunications Systems Services (for EITIO)	Information Services	698.760	243.636	269.935	10.8%	276.624	2.5%
Infrastructure Investments - total		2,548.466	986.392	1,058.796	7.3%	1,032.154	-2.5%
Enterprise Architecture		13.287	2.443	2.491	2.0%	5.104	104.9%
1/ minus Externally Funded Major Investments			-13.018	-6.139		-0.000	
Total IT Investments		6,702.774	1,952.418	2,173.439	11.3%	2,288.667	5.3%

4.2 – Assessment and Improvement Actions

Program Name: Tax Collection

Assessment and Improvement Actions

- Use audit results and intelligence from ongoing offshore initiatives to refine case identification and selection methods and to identify promoters, facilitators, and participants in abusive offshore arrangements.
- Implement improved case selection models in the Automated Collection System.
- Develop the FY 2010 Enterprise Collection Plan that includes resources and results for all collection activities, including a stronger link between program resources and outcomes.

Program Name: Earned Income Tax Credit

Assessment and Improvement Actions

- Continue testing the effects of education, compliance notices, and telephone contacts for Earned Income Tax Credit (EITC) first-time and low-risk paid preparers on the accuracy of returns prepared.
- Increase the accuracy of EITC returns by refining EITC paid preparer treatment activities, including issuance of due diligence letters and compliance visits by revenue and criminal investigation agents, streamlined injunctions, and streamlining notice/phone contact treatments.
- Implement an on-line training module for preparers that covers requirements and standards.

Program Name: Submission Processing

Assessment and Improvement Actions

- Deliver Modernized e-File (MeF) Release 6.1 (Form 1040 Phase I), providing capability to process Form 1040 (including 22 other schedules and supporting forms), which will reach 61 percent of the e-File population.
- Develop milestones necessary to complete the new taxpayer account database.
- Deliver the production pilot for CADE release 5 adding capabilities that include allowing individual taxpayer refunds to be applied to the next year's tax (Credit Elect) and refund hold capability for Criminal Investigation.
- Provide an automated application that allows taxpayers to obtain their PIN for use in electronically submitting their Tax Year 2009 returns.

Program Name: Taxpayer Service

Assessment and Improvement Actions

- Provide topical information, alternative resources, and expedited routing options through the toll-free telephone system.
- Improve the taxpayer experience by implementing new quality initiatives at Taxpayer Assistance Centers and volunteer return preparation sites using sampling reviews of selected returns to determine the accuracy of returns prepared.
- Gather feedback from professional organizations that represent external stakeholders (i.e., Accountants, Reporting Agents, etc.) to simplify forms and the tax filing process.
- Continue to develop informational products to inform taxpayers of tax credits for which they may be eligible.
- Continue to operate Facilitated Self-Assistance in 50 sites to provide taxpayers with the ability to check the status of tax refunds, obtain forms and publications, apply for Employer Identification Numbers (EIN), set up payment arrangements, and use Free File to prepare tax returns.

Program Name: Taxpayer Advocate Service

Assessment and Improvement Actions

- Implement a low-income filter that will exclude taxpayers that are more likely to experience a hardship if included in the Federal Payment Levy Program.
- Complete and implement models to determine which SSA recipients to exclude from the Federal Payment Levy Program by FY 2011.
- Engage a Government Sponsored vendor to help in the design of strategic measures.
- Establish baselines for the revised quality standards that address the changes in casework and processing that have occurred since TAS began operating in 2000.
- Continue to work jointly with the operating divisions to improve the systems associated with Amended Returns and the Combined Annual Wage Reporting (CAWR)/Federal Unemployment Tax Act (FUTA) compliance programs, identified sources of rework.

Program Name: Criminal Investigations

Assessment and Improvement Actions

- Use audit results and intelligence from ongoing offshore initiatives to refine case identification and selection methods and to identify promoters, facilitators, and participants in abusive offshore arrangements.
- Include new security settings in the next Criminal Investigative Management Information System (CIMIS) release scheduled for February 2010.
- Identify questionable preparers for treatments including streamlined injunctions, program action cases, and Knock & Talk Visits to stop erroneous return filings for the First-Time Homebuyer Credit and send a compliance message to the abusive preparer community.

Program Name: Examinations

Assessment and Improvement Actions

- Modify Examination case selection and modeling to include cases where taxpayers claimed the First-Time Home Buyer Credit.
- Implement improved analytics in Automated Underreporter case selection while continuing to test soft notices as an alternative to examinations.
- Improve the way compliance risks are identified and addressed in large, complex global businesses and high wealth individuals.

Program Name: Retirement Savings Regulatory Program

Assessment and Improvement Actions

- Utilize investigations to identify promoters of abusive transactions involving retirement plans to deter the marketing of abusive promoter schemes.
- Continue to address emerging compliance issues, including internationally sponsored pension plans, the movement of in-kind charitable gifts offshore, and cross-border commerce using Indian reservations.
- Undertake a thorough review of the revenue procedures for staggered remedial amendments with a goal of significantly simplifying the process for Individually Designed Plans.

Program Name: Health Coverage Tax Credit Administration

Assessment and Improvement Actions

- Conduct focus groups and telephone surveys to gather information from taxpayers regarding program awareness, interest, usage, and satisfaction among current participants and potentially eligible individuals. Use findings from this research to drive enhancements to program materials and help understand barriers to enrollment.
- Conduct additional outreach initiatives including implementation of an outreach communication plan across all stakeholder groups and the launch of training and education for Trade Adjustment Assistance and Pension Benefit Guarantee Corporation stakeholder groups.
- Complete the first Health Coverage Tax Credit Report to Congress by October 2010.
- Implement self-service applications to reduce ongoing operational costs and provide service through preferred communication channels including an interactive voice response system and an e-payment solution. Other applications being considered include a web portal to allow taxpayers to determine eligibility for the credit, register for the monthly credit, check registration status, obtain payment information, and make payments online.

4.3 – IRS Performance Measure Table

The following table shows IRS performance measures achieved and projected from FY 2008 through FY 2011.

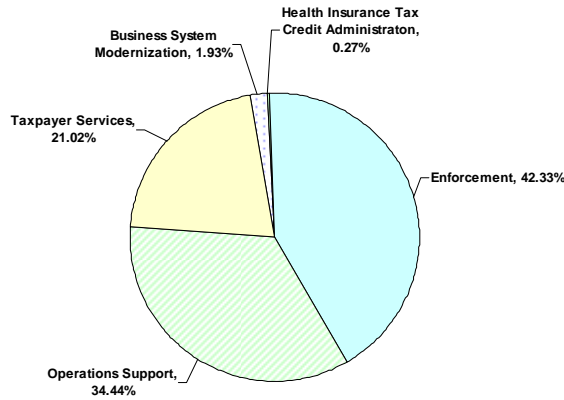
Performance Measures	Type of Measure	FY 2009 Target	FY 2009 Actual	FY 2010 Planned	FY 2011 Planned
Customer Service Representative Level of Service	Oe, L	70.0%	70.0%	71.0%	75.0%
Customer Contacts Resolved per Staff Year	E	10,386	12,918	9,398	10,181
Percent of Eligible Taxpayers Who File for EITC	Oe	75% - 80%	N/A	75% - 80%	75% - 80%
Customer Accuracy - Tax Law (Phones)	Ot	91.0%	92.9%	91.2%	91.2%
Customer Accuracy - Accounts (Phones)	Ot	93.5%	94.9%	93.7%	93.7%
Timeliness of Critical Filing Season Tax Products to the Public	Ot	92.0%	96.8%	94.0%	94.0%
Timeliness of Critical TE/GE & Business Tax Products to the Public	Ot	89.0%	95.2%	90.0%	91.0%
Percent Individual Returns Processed Electronically	Oe, L	64.0%	65.9%	70.2%	81.0%
Cost per Taxpayer Served (\$) (HCTC)	E	\$17.00	\$13.79	Baseline ¹	TBD ¹
Sign-Up Time (Days) - Customer Engagement (HCTC)	Ot	97.0	91.3	Baseline ¹	TBD ¹
Percent of Business Returns Processed Electronically	Oe, L	21.6%	22.8%	24.3%	25.4%
Refund Timeliness - Individual (Paper)	Ot	98.4%	99.2%	98.4%	98.4%
Taxpayer Self-Assistance Rate	E, L	64.7%	69.3%	61.3%	62.7%
Examination Coverage - Individual	Oe, L	1.0%	1.0%	1.1%	1.1%
Field Exam Nat'l Quality Review Score	Oe, L	87.0%	85.1%	86.3%	86.3%
Office Exam Nat'l Quality Review Score	Oe, L	90.0%	92.1%	90.9%	90.9%
Examination Quality - Industry	Oe, L	88.0%	88.0%	89.0%	89.0%
Examination Quality - Coordinated Industry	Oe, L	96.0%	95.0%	96.0%	96.0%
Examination Coverage - Business	Oe, L	5.8%	5.6%	5.1%	5.0%
Examination Efficiency - Individual	E, L	132	138	132	128
Automated Underreporter Efficiency	E, L	1,855	1,905	1,868	1,945
Automated Underreporter Coverage	E, L	2.5%	2.6%	3.0%	3.4%
Collection Coverage (Units)	Ot, L	54.4%	54.2%	50.5%	51.5%
Collection Efficiency (Units)	E, L	1,872	1,845	1,898	1,884
Field Collection Nat'l Quality Review Score	Ot, L	80.0%	80.5%	81.0%	82.0%
Automated Collection System Accuracy	Oe	92.0%	94.3%	92.5%	94.0%
Criminal Investigations Completed	Ot, L	3,900	3,848	3,900	3,900
Number of Convictions	Oe, L	2,135	2,105	2,135	2,135
Conviction Rate	Oe, L	92.0%	87.2%	92.0%	92.0%
Conviction Efficiency Rate (\$)	E, L	\$317,100	\$327,328	\$331,000	\$340,000
TE/GE Determination Case Closures	Ot	94,000	96,246	140,465	99,491
Percent of BSM Projects within +/- 10% Cost Variance	E	90.0%	60.0%	90.0%	90.0%
Percent of BSM Projects within +/- 10% Schedule Variance	E	90.0%	90.0%	90.0%	90.0%
Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, L - Long-Term Goal					
¹ An increase in participation is expected due to the Recovery Act. IRS will establish a new baseline in FY 2010.					

4.4 – Cost of IRS Operating Activities

FY 2009 Cost of IRS Operating Activities

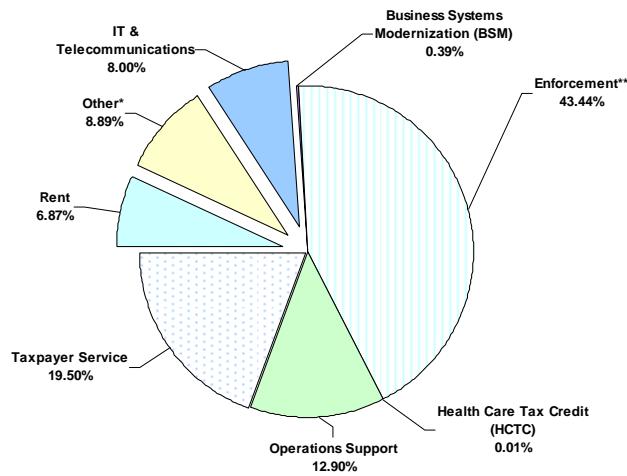
The following charts provide the FY 2009 cost of IRS operating activities by appropriation and by major expense category. The charts include all expenditures, regardless of the fiscal year the funds were appropriated, that occurred in FY 2009 except for imputed costs (i.e., costs associated with services obtained by other agencies such as the Department of the Treasury and the Office of Personnel Management that are provided to the IRS, but are not reimbursed).

FY 2009 Expenses by Appropriation
(Excluding Imputed Costs)



The second chart shows the FY 2009 actual costs by major expense category.

FY 2009 Expenses by Category
(Excluding Imputed Costs)



Note:

*

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

**

Enforcement includes Non-Labor Enforcement Expense of \$263 million (2.3%)

Labor Costs represent 73.9% of total expenses and include Taxpayer Services, Operations Support, Enforcement, BSM, and HCTC

4.5 – Summary of IRS FY 2011 Budget Request

Bureau: Internal Revenue Service		TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT		BSM		HITCA		TOTAL	
Summary of Proposed FY 2011 Budget Request		\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
FY 2009 Enacted Budget¹		\$2,293,000	32,622	\$5,117,267	48,952	\$3,867,011	12,267	\$229,914	333	\$15,406	15	\$11,522,598	94,189
FY 2010 President's Budget Request		\$2,269,830	31,217	\$5,504,000	51,200	\$4,082,984	12,316	\$253,674	333	\$15,512	15	\$12,126,000	95,081
Congressional Action ²		9,000	(11)			900		10,223				20,123	(11)
FY 2010 Enacted		\$2,278,830	31,206	\$5,504,000	51,200	\$4,083,884	12,316	\$263,897	333	\$15,512	15	\$12,146,123	95,070
Changes to Base													
Maintaining Current Levels (MCLs)		\$50,054		\$110,506		\$57,884		\$889		\$190		\$219,523	
Pay Annualization		11,643		27,964		7,608		243		15		47,473	
Pay Inflation Adjustment		30,534		69,255		19,127		589		32		119,537	
Non-Pay Inflation Adjustment		2,495		4,460		29,026				140		36,121	
FERS Increased Participation		5,382		8,827		2,123		57		3		16,392	
Other Adjustments			(169)		(208)		59			\$3,494		\$3,494	(318)
Resource Adjustment to Support Recovery Act-HCTC Program Expansion										3,494		3,494	
Technical FTE Adjustments ³			(169)		(208)		59						(318)
Efficiencies/Savings			(28,023)		(\$7,092)		(\$155,314)			(\$209)		(\$190,638)	(472)
Non-Recur Savings			(23,186)		(472)		378					(32,680)	(472)
Increase e-File Savings												(75,000)	(472)
Information Technology (IT) Infrastructure and Process Improvements												(19,697)	
Reduce Procurement/Contracting					(2,246)							(179)	
Reduce Printing, Travel, and Training					(1,979)							(7,468)	
Reduce Tuition Assistance Program					(2,867)							(847)	
Eliminate Selective Mailing of Forms and Publications												(20,000)	
Subtotal, FY 2011 Changes to the Base		\$22,031	(641)	\$103,414	(208)	(\$97,430)	59	\$889		\$3,475		\$32,379	(790)
FY 2011 Current Services (Base)		\$2,300,861	30,565	\$5,607,414	50,992	\$3,986,454	12,375	\$264,786	333	\$18,987	15	\$12,178,502	94,280
Program Changes													
Reinvestment													
Submission Processing Consolidation (Atlanta)		2,792										2,792	
Subtotal, Program Reinvestment		\$2,792										\$2,792	
Program Decrease													
Reduce Taxpayer Service Grant and Advocacy Programs													(9,000)
Subtotal, Program Decrease		(\$9,000)											(\$9,000)
Program Increases													
Taxpayer Service Initiatives													
Improve IRS.gov						25,000						25,000	
Increase Telephone Level of Service		20,945										20,945	
Subtotal, Taxpayer Service Initiatives		\$20,945				\$25,000						\$45,945	
Enforcement Initiatives													
Address Business and Individual International Compliance		1,779	30	97,527	747	21,780	4					121,086	781
Reduce the Reporting Compliance Tax Gap		769	7	59,687	688	17,223	5					77,679	700
Reduce the Nonfiling and Underpayment Tax Gap		91	1	28,166	405	9,924						38,181	406
Support for Increased Enforcement Activities		3,738	65			1,262						5,000	65
Maintain Recovery Act Staffing				4,606	31	894						5,500	31
Subtotal, Enforcement Initiatives		\$6,377	103	\$189,986	1,871	\$51,083	9					\$247,446	1,983
Business Systems Modernization (BSM) Initiative													
Continue Migration from Aging Tax Administration System						45,463		122,122				167,585	156
Subtotal, BSM Initiative						\$45,463		\$122,122				\$167,585	156
Subtotal, FY 2011 Program Changes		\$21,114	103	\$189,986	1,871	\$121,546	9	\$122,122	156	\$18,987	15	\$454,768	2,139
Total FY 2011 President's Budget Request		\$2,321,975	30,668	\$5,797,400	52,863	\$4,108,000	12,384	\$386,908	489	\$18,987	15	\$12,633,270	96,419
¹ FY 2009 Enacted represents the approved FY 2009 Operating Plan.													
² The IRS had to take an FTE cut in the Taxpayer Services Appropriation in order to accomplish the requirements mandated on the FY 2010 Appropriation Bill.													
³ Technical FTE adjustments to ensure FTE levels are fully funded in the base budget.													
Dollar/FTE Change		\$43,145	-538	\$293,400	1,663	\$24,116	68	\$123,011	156	\$3,475		\$487,147	1,349
Percent Change		1.89%	-1.72%	5.33%	3.25%	0.59%	0.55%	46.61%	46.85%	22.40%		4.01%	1.42%