

**IRS Oversight Board
FY2011 IRS Budget Recommendation
Special Report**

March 2010

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Executive Summary

The IRS Oversight Board recommends a fiscal year (FY) 2011 Internal Revenue Service (IRS) budget of \$12.914 billion, an increase of \$767.7 million over the enacted IRS FY2010 budget of \$12.146 billion. This recommendation is \$280.6 million above the President's FY2011 request of \$12.633 billion for the IRS. The Board's recommended budget is 2.2 percent higher than the President's request.

Despite the \$280.6 million difference, there are many points of agreement between the Oversight Board's recommendations and the President's budget request. Notably,

- inflation adjustments, savings, and reinvestments are identical in both budgets;
- both budgets contain \$5.8 billion for IRS enforcement; and
- both budgets contain \$387.0 million for the Business Systems Modernization (BSM) program.

The President's requested budget for enforcement contains a program increase of \$247 million over FY2010 levels. The IRS Oversight Board has long advocated that steady, stable growth in enforcement resources is needed. In light of the increases for the IRS enforcement budget in FY2009 and FY2010, the Board believes a program increase of \$247 million allows the IRS to move forward with its enforcement programs while assimilating new enforcement staff hired during the last two years.

The President's requested budget for the BSM program is a \$122 million increase over FY2010 funding levels, a gain of 47 percent. The Oversight Board is pleased that this request is in line with funding levels the Board has advocated for many years, and reflects the high importance the Oversight Board has placed on modernizing the IRS information technology (IT) systems. With increased demands on the IRS to administer new and expanded tax provisions, the Board is pleased that the need to modernize the IRS IT systems has received the attention and resources it deserves.

The Oversight Board reported last year that the age of IRS IT systems represented a serious weakness for tax administration. The President's requested funding for BSM will support the achievement of the daily updating of tax accounts by 2012, a foundational step in the IRS' plan to use data more effectively and improve its business processes.

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However, despite these areas of agreement, there are two specific budget accounts where the Oversight Board believes additional resources are required: Taxpayer Service and Operations Support. Each account needs more resources if the IRS is to meet the strategic goals identified in the *IRS Strategic Plan FY2009-2013*. Specifically, the Oversight Board recommends:

- Taxpayer Service be funded at a level of \$2.374 billion instead of the \$2.322 billion requested in the President's budget, a difference of \$51.6 million.
- Operations support be funded at a level of \$4.337 billion instead of the \$4.108 billion requested in the President's budget, a difference of \$229.0 million.

The President's budget request for Taxpayer Service contains program increases of \$45.9 million, which are divided into a \$25 million initiative to improve *www.IRS.gov* and a \$20.9 million initiative to raise the level of service (LOS) on IRS toll-free telephones from 71 percent to 75 percent. The Board considers a service level of 75 percent as inadequate and recommends an 80 percent LOS on toll-free telephone lines at a minimum. The IRS attained an LOS of 80 percent in FY2003. From FY2004 to FY2007 the LOS was 87, 83, 82, and 82 percent respectively, before falling to 53 and 70 percent during FY2008 and FY2009. With the proper funding, the IRS has the resources and capability to reach an LOS of 80 percent.

The decline in service during the last two years was caused by increased demand, and it's time to recognize that new tax law provisions and other changes have caused more taxpayers to call the IRS for assistance. Not only do these taxpayers deserve to be helped, a failure to provide adequate service increases the chances of non-compliance. The IRS estimates that approximately another \$30 million is needed to restore service levels to 80 percent. The Board believes that under-serving taxpayers is a false economy.

In addition, the Board does not support the proposed program decrease in the President's budget of approximately \$9 million. This decrease rolls back program increases made in the FY2010 budget that provided additional funding to the Taxpayer Advocate Service (TAS), the Low Income Tax Clinic (LITC) grants program, the Tax Counseling for the Elderly (TCE) program, and the Volunteer Income Tax Assistance (VITA) grants program. The purpose of the program decrease is to partially fund the increase in service levels for toll-free telephones. The Board believes it is inequitable to fund an increase of telephone service at the expense of mostly low income taxpayers that are served by VITA and LITC grant programs, or taxpayers who need the help of the Taxpayer Advocate Service to resolve their issues.

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The Board also recommends four other taxpayer service initiatives be funded as follows:

Initiative	Amount (in thousands)
• Matching Grant for VITA	\$7,467
• Expand LITC Geographic Coverage	\$2,347
• Address TAS Workload	\$3,617
• Research Tax System Complexity, Burden and Compliance	\$8,443

The first three initiatives listed above will provide vital services for taxpayers, especially lower income taxpayers who tend to be underserved. The fourth initiative will provide important research data that will allow the IRS to make more efficient and effective decisions about taxpayer service in the future.

Operations Support is the second account that the Board believes requires additional funding. The Board recommends that a total of \$4.337 billion be appropriated for Operations Support, compared to a total of \$4.108 billion requested in the President's budget. Nearly half the Operations Support budget is used to fund operation, maintenance, and on-going development of IRS legacy IT operations, such as its mainframe computers, servers, telecommunication networks, security systems, laptops, and application programs that fall outside of the BSM program. Thus, the Operations Support budget funds nearly five times more of the IRS' overall IT equipment and staffing needs than does the BSM budget.

The BSM program makes necessary and critical contributions to the modernization of the IRS. This program develops new systems that manage the IRS central database, accept electronic returns, and manage taxpayer accounts. However, the BSM program, by itself, cannot modernize the IRS. Modernizing the IRS IT technology also requires upgrading an aging IT infrastructure within the Operations Support account. The President's budget contains no program initiatives for infrastructure. The Board believes that more resources are needed for IT infrastructure and recommends the following initiatives be funded:

Initiative	Amount (in Thousands)
• Refresh/Sustain Infrastructure	\$37,500
• Develop Converged Telecommunication Networks	\$62,202
• Enhance Business Productivity	\$75,000
• Integrated Financial Systems (IFS)	\$45,000

Managing data and keeping records is a core function of the IRS. Without modern technology, the IRS will be impaired in its ability to meet its mission requirements as efficiently and effectively as possible. Although funding needs for the BSM program are now being recognized, it is essential that the legacy IRS infrastructure also be updated so that the IRS has a proper technology foundation to perform its essential mission.

I. Introduction and Scope

The IRS Oversight Board's responsibilities include overseeing the IRS in its administration, management, conduct, direction and supervision of the execution and application of the internal revenue laws. The Board is also responsible for ensuring that the IRS' organization and operations allow the agency to carry out its mission. To this end, the Board was given specific responsibilities for reviewing and approving IRS strategic plans and annual budgets, including performance budgets.

Specifically, the Board is required by 26 U.S.C. §7802(d) to review and approve the IRS-prepared annual budget request submitted to the Department of the Treasury, and to ensure that the approved budget supports the annual and long-range strategic plans of the IRS. The President is required to submit the Board's budget recommendation, without revision, to Congress along with the Administration's request. Additionally, the Government Performance and Results Act (GPRA) outlines the agency's responsibilities for linking agency strategic plans, budget plans, performance plans, and performance reporting to a comprehensive strategic process needed to measure agency performance.

In meeting this duty, the Board must ensure that the IRS' budget and related performance expectations contained in the performance budget: (1) support the IRS' annual and long-range plans; (2) support the IRS' mission; (3) are consistent with the IRS' goals, objectives and strategies; and (4) ensure the proper alignment of IRS' strategies and plans. In this special report, the Oversight Board presents its recommended budget of \$12.914 billion for the IRS—a \$767.7 million increase over the enacted FY2010 level of \$12.146 billion. It also examines the President's FY2011 IRS budget request of approximately \$12.633 billion and compares this request with the Board's recommendations.

In developing these recommendations, the Board has applied its own judgment but has also drawn on the collective wisdom of others in the tax administration community, including the IRS, the Government Accountability Office (GAO), the Treasury Inspector General for Tax Administration (TIGTA), the National Taxpayer Advocate (NTA), and Congress. That said, these recommendations reflect the views of the Board—not necessarily other members of the tax administration community.

II. FY2011 Strategic Assessment: Challenges Facing the IRS

One of the IRS Oversight Board's most important statutory responsibilities is to ensure that the IRS' budget request supports the agency's annual and long-term strategic plans. A budget request is more than a mechanism for appropriating funding; it's also a plan, a commitment, and a performance management tool. Not only does a proposed budget request funding, it also describes the activities the IRS will perform, how those activities align with the long-range strategic plan, and identifies measures to evaluate the expected results.

The Board takes very seriously the charter imposed on it by 26 U.S.C. § 7802(d) to review and approve the IRS-prepared annual budget request submitted to the Department of the Treasury, and to ensure that the approved budget supports the annual and long-range strategic plans of the IRS. It is this responsibility that requires the Board to provide Congress with its recommendations for the IRS FY2011 budget, one that will allow the IRS to achieve the strategic goals and strategic foundations identified in the *IRS Strategic Plan 2009-2013*:

- **Goal 1:** Improve service to make voluntary compliance easier
- **Goal 2:** Enforce the law to ensure everyone meets their obligations to pay taxes
- **Strategic Foundations:** Invest for high performance in people and technology

In FY2011, the IRS will be challenged to show an aggressive approach to meeting service and enforcement goals. It will also be challenged to transform itself into an agency that uses modern tools while maintaining a high performing workforce to serve the public and meet the IRS' mission in a thoughtful, effective manner that emphasizes voluntary compliance and reduces taxpayer burden. Budget priorities and recommended program increases must be consistent with the goals identified in the strategic plan. Failure to plan for such a future will only burden both the IRS and taxpayers in years to come.

However, the Oversight Board expects government agencies will continue to be under intense pressure to demonstrate that they are spending resources as wisely as possible. The Board believes that despite the national imperative for strong tax administration, the IRS will

not be exempt from such scrutiny, nor should it. The Oversight Board, as well as many others, will ask the IRS to demonstrate, using outcome measures where possible, that it is being both effective and efficient.

As reported in the Board's *2008 Annual Report to Congress*, the tax administration system has two serious systemic weaknesses: the tax gap and IRS' archaic information technology systems. Overcoming these weaknesses and achieving the goals mandated by the strategic plan requires the budget recommended in this report. With tax administration so critical to the nation's economic health, the Board recommends that strengthening the country's tax administration system be a national priority. Failure to fund the IRS at appropriate levels will only create long-term performance issues for the tax administration system.

In recognition of the above, the Board considered the following factors in developing its FY2011 budget recommendations:

- The IRS needs to improve taxpayer service to make voluntary compliance easier. Because of the growing volume of calls to the IRS toll-free telephone number and relatively fixed IRS resources to service those calls, the level of service (LOS) for this important channel has dropped in 2008 and 2009, and service levels below 80 percent will likely continue through 2010. The Board believes the IRS should be funded in FY2011 to deliver an estimated LOS of 80 percent as a minimum.
- In addition, the IRS has developed a five-year strategic approach for providing customer service, the Taxpayer Assistance Blueprint (TAB), which complements its existing service channels with a more proactive approach to providing service. The Board believes it is prudent to assume that taxpayers may still be affected by the economic downturn, and that service offerings must be tailored to meet taxpayers' needs in the most efficient manner. Thus, the TAB process for identifying service improvements, including related research, should reflect these priorities and be suitably funded.
- The Board believes that reasonable, steady budget increases for enforcement over an extended period of time are most conducive to the IRS' success. Enforcement operations in the FY2011 budget should be consistent with Treasury's plan to reduce the tax gap.
- The IRS needs to evolve into a more data-driven organization. Such a transformation is essential for the IRS for two reasons: it offers the potential to create major efficiency gains in IRS business processes while simultaneously reducing taxpayer burden.
- One prerequisite to achieving a data-driven IRS is the modernization of its information technology (IT) systems and the updating of its IT infrastructure. An IRS with modern IT systems and infrastructure offers taxpayers the benefits associated with rapid and accurate electronic transactions, timely and accurate central data records, and effective account management services. These systems are the foundation to the more effective use of data. The completion of the Customer Account Data Engine 2 (CADE 2) program is especially important.

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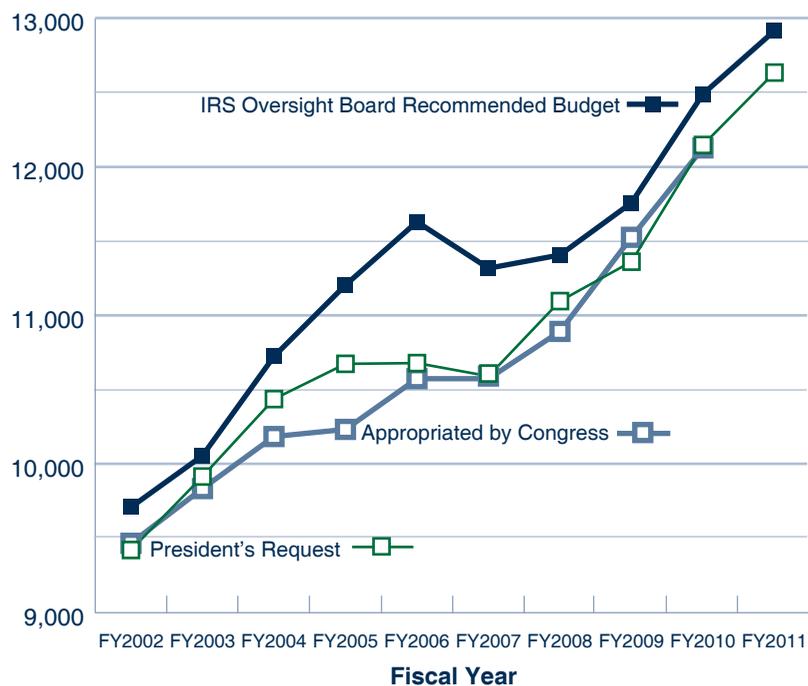
- Although a modern IT system will provide the foundation for using data more effectively, performing research and implementing business systems and processes that make the IRS more data-centric also need to be a priority.

To add some historical context to the Oversight Board's FY2011 IRS budget recommendations, Figure 1 shows the history of IRS funding from FY2002 through FY2011, and shows the amount of appropriated funding requested by the President, the amount recommended by the Oversight Board, and the amount appropriated by Congress. During this period, the IRS' funding has been somewhat erratic; periods of growth were followed by minimal budget increases, which result in a budget decrease when inflation is taken into account. For example, the FY2007 budget was only marginally higher than the FY2006 budget, and represents a decrease in funding when inflation is considered.

However, IRS appropriations have been on a steady but realistic growth track for several years. FY2008 shows a reasonable increase over FY2007 as more attention was focused on the tax gap and the need to reduce it, and FY2009 and FY2010 appropriations show considerable growth over prior years.

To correct the weaknesses in tax administration and meet the goals and objectives of the IRS strategic plan, the Board believes the FY2011 IRS budget should continue the trend of steady, realistic growth. However, the exception to this generalization, as will be discussed later in this report, is funding for the IRS' BSM program. This account, which is approximately 3 percent of the total IRS budget, needs to grow at a much larger rate. Such an increase is consistent with recommendations made by the Oversight Board in prior years.

Figure 1. IRS Funding History, FY2002-2011 (in millions of \$)



III. IRS Oversight Board Recommended FY2011 IRS Budget

The IRS Oversight Board recommends an FY2011 IRS budget of \$12.914 billion, an increase of \$767.7 million over the enacted FY2010 budget of \$12.146 billion, as shown in Table 1. This recommendation is \$280.6 million above the President's request of \$12.633 billion. To facilitate the direct comparison of the Board's and President's FY2011 IRS budgets, Table 2 displays the Board's recommended budget by appropriation account.

For significant parts of the IRS FY2011 budget, the President's and Oversight Board's budgets are consistent. Inflation adjustments, savings, and reinvestments are identical in both budgets. For the enforcement account, which at \$5.8 billion is almost half of the total IRS budget, the President's and Oversight Board's budgets are also identical. The same is true for the critical BSM account. This situation is particularly noteworthy because in the past there were widely divergent views between the two budgets regarding the funding of the BSM program.

However, there are two specific budget accounts where the Oversight Board believes additional resources are required: Taxpayer Service and Operations Support. Each function needs more resources if the IRS is to meet the strategic goals identified in the *IRS Strategic Plan FY2009-2013*. Specifically, the Oversight Board recommends:

- Taxpayer Service be funded at a level of \$2.374 billion instead of the \$2.322 billion requested in the President's budget, a difference of \$51.6 million.
- Operations Support be funded at a level of \$4.337 billion instead of the \$4.108 billion requested in the President's budget, a difference of \$229.0 million.

In addition, the Oversight Board does not support the program decrease of \$9 million for Taxpayer Service contained in the President's budget. Figure 2 compares the program changes in the two budgets.

The Oversight Board supports the President's request of \$19.0 million for the Health Insurance Tax Credit Administration (HITCA) account, a small account that is less than 0.2 percent of the overall IRS budget. Because of its small size and lack of a program increase, this account will not be further addressed in this report.

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Table 1. IRS Oversight Board Recommended FY2011 IRS Budget
(dollars in thousands)

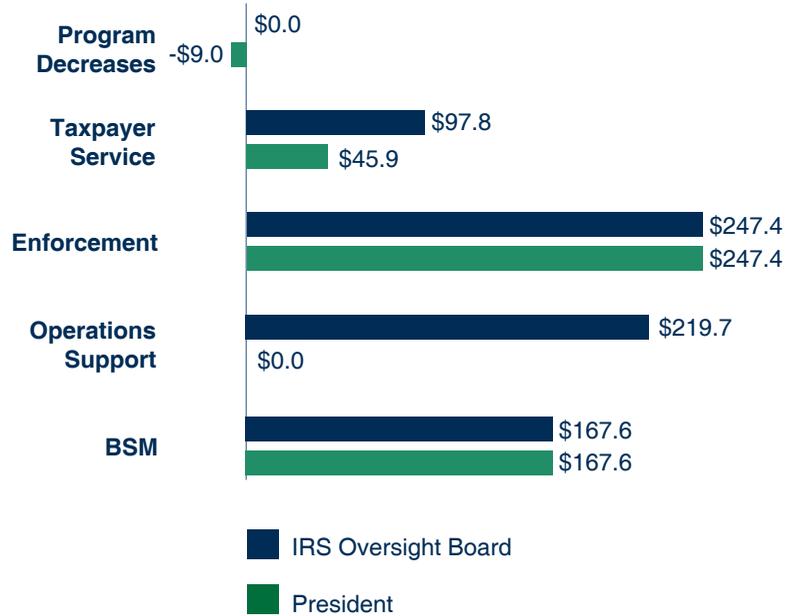
FY2010 Enacted Budget	12,146,123
Maintaining Current Levels	219,523
Other Adjustments: Resource Adjustment - Maintain Staffing to Support ARRA	3,494
Efficiencies/Savings	(190,638)
FY2011 Base Budget	12,178,503
Program Changes	
Reinvestments: Submission Processing Consolidated (Atlanta)	2,792
Program Decreases	0
<i>Taxpayer Service Initiatives</i>	
Improve IRS.gov	25,000
Matching Grant for VITA	7,467
Expand LITC Geographic Coverage	2,347
Address TAS Workload	3,617
Research Tax System Complexity on Burden & Compliance	8,443
Increase Telephone Level of Service	50,945
<i>Subtotal, Taxpayer Service Initiatives</i>	97,819
<i>Enforcement Initiatives</i>	
Address Business and Individual International Compliance	121,086
Reduce the Reporting Compliance Tax Gap	77,679
Reduce the Nonfiling & Underpayment Tax Gap	38,181
Support for Increased Enforcement Activities	5,000
Maintain Recovery Act Standards	5,500
<i>Subtotal, Enforcement Initiatives</i>	247,446
<i>Infrastructure Initiatives</i>	
Refresh/Sustain Infrastructure	37,500
Develop Converged Telecomm Networks	62,202
Enhance Business Productivity	75,000
Integrated Financial Systems (IFS)	45,000
<i>Subtotal, Infrastructure Initiatives</i>	219,702
<i>BSM Initiative</i>	
Continue Migration from Aging Tax Administration System Technology	167,585
Subtotal FY2011 Program Changes	735,344
Total Oversight Board Budget	12,913,846
President's FY2011 Budget	12,633,271
Increase Over President's Budget	280,575
Percent Increase Over President's Budget	2.2%

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Table 2. IRS Oversight Board Recommended FY2011 IRS Budget by Account
(dollars in thousands)

	Taxpayer	Enforcement	Operations	BSM	HITCA	Total
FY2010 Enacted Budget	2,278,830	5,504,000	4,083,884	263,897	15,512	12,146,123
Maintaining Current Levels	50,055	110,506	57,884	889	190	219,523
Other Adjustments: Resource Adjustment - Maintain Staffing to Support ARRA					3,494	3,494
Efficiencies/Savings	(28,023)	(7,092)	(155,314)		(209)	(190,638)
FY2011 Base Budget	2,300,862	5,607,414	3,986,454	264,786	18,987	12,178,503
Program Changes						
Reinvestments: Submission Processing Consolidated (Atlanta)	2,792					2,792
Program Decreases	0					0
<i>Taxpayer Service Initiatives</i>						
Improve IRS.gov			25,000			25,000
Matching Grant for VITA	7,276		191			7,467
Expand LITC Geographic Coverage	2,306		41			2,347
Address TAS Workload	2,987		630			3,617
Research Tax System Complexity on Burden & Compliance			8,443			8,443
Increase Telephone Level of Service	50,945					50,945
<i>Subtotal, Taxpayer Service Initiatives</i>	63,514		34,305			97,819
<i>Enforcement Initiatives</i>						
Address Business and Individual International Compliance	1,779	97,527	21,780			121,086
Reduce the Reporting Compliance Tax Gap	769	59,687	17,223			77,679
Reduce the Nonfiling & Underpayment Tax Gap	91	28,166	9,924			38,181
Support for Increased Enforcement Activities	3,738		1,262			5,000
Maintain Recovery Act Standards		4,606	894			5,500
<i>Subtotal, Enforcement Initiatives</i>	6,377	189,986	51,083			247,446
<i>Infrastructure Initiatives</i>						
Refresh/Sustain Infrastructure			37,500			37,500
Develop Converged Telecomm Networks			62,202			62,202
Enhance Business Productivity			75,000			75,000
Integrated Financial Systems (IFS)			45,000			45,000
<i>Subtotal, Infrastructure Initiatives</i>			219,702			219,702
<i>BSM Initiative</i>						
Continue Migration from Aging Tax Administration System Technology			45,463	122,122		167,585
Subtotal FY2011 Program Changes	72,683	189,986	350,553	122,122	0	735,344
Total Oversight Board Budget	2,373,544	5,797,400	4,337,007	386,908	18,987	12,913,846
President's FY2011 Budget	2,321,976	5,797,400	4,108,000	386,908	18,987	12,633,271
Increase Over President's Budget	51,568	0	229,007	0	0	280,575
Percent Increase Over President's Budget	2.2%	0.0%	5.6%	0.0%	0.0%	2.2%

Figure 2. Comparison of Program Increases and Decreases Contained in the President's and Oversight Board's FY2011 IRS Budgets
(dollars in millions)



The next section describes how the Board's budget recommendations support the achievement of the *IRS Strategic Plan FY2009-2013*. It contains sub-sections that address the two strategic goals and the strategic foundations, and relates the Board's budget recommendations to each.

IV. Meeting Strategic Goals

In assessing the IRS' budget needs for FY2011, the IRS must balance the goals and objectives identified in the *IRS Strategic Plan FY2009-2013* with the need for greater efficiency and effectiveness. The plan established the following goals and strategic foundations for the IRS:

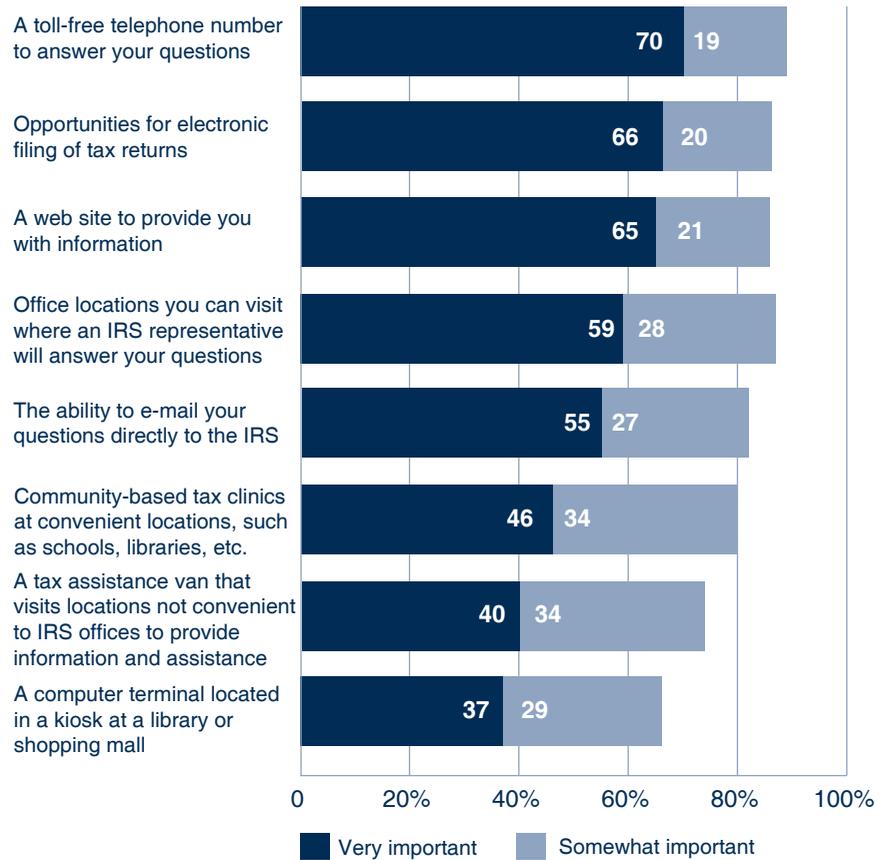
- **Goal 1:** Improve service to make voluntary compliance easier
- **Goal 2:** Enforce the law to ensure everyone meets their obligations to pay taxes
- **Strategic Foundations:** Invest for high performance in people and technology

The following sections will discuss the Board's budget recommendations in the context of the goals and strategic foundations contained in the *IRS Strategic Plan FY2009-2013*.

Goal 1: Improve Service to Make Voluntary Compliance Easier

IRS Oversight Board surveys have confirmed that taxpayers value taxpayer service highly. The Oversight Board's 2009 *Taxpayer Attitude Survey* asked respondents about the importance of a number of services that the IRS provides or could provide. Figure 3 shows the top two responses (*very important* and *somewhat important*) given to the question, "How important is it to you, as a taxpayer, that the IRS provides each of the following services to assist taxpayers?" The services are ranked in order that survey respondents have judged each service to be very important. The clear message from the survey is that IRS services matter, and that toll-free telephones, opportunities for electronic filing, a website, and office locations are the four highest ranked services that taxpayers consider as most important.

Figure 3. IRS Services Considered Important by Taxpayers



Source: IRS Oversight Board 2009 Taxpayer Attitude Survey

The Oversight Board recommends that the IRS FY2011 budget increase the funding for the Taxpayer Service account through six targeted initiatives as show in Table 3.

Table 3. Taxpayer Service Initiatives Recommended by the IRS Oversight Board in the FY2011 IRS Budget (dollars in thousands)

Initiative	Budget
Improve IRS.gov	25,000
Increase Telephone Level of Service	50,945
Matching Grant for VITA	7,467
Expand LITC Geographic Coverage	2,347
Address TAS Workload	3,617
Research Tax System Complexity, Burden, and Compliance	8,443
<i>Subtotal</i>	97,819

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The first two of the six initiatives contained in Table 3 are included in the President's budget, the first for an identical amount and the second for \$21.9 million. The remaining four initiatives are not included in the President's budget. Each initiative is discussed in turn in the following paragraphs.

Improve IRS.gov

Both the President's and Board's budgets contain an identical \$25 million initiative to improve the IRS web site, *www.IRS.gov*. As Figure 3 shows, 65 percent of taxpayers regard a web site as very important, and this high rating is consistent with the IRS' actual experience during the last four filing seasons. Table 4 shows the growing use of IRS.gov by taxpayers in each of the last four filing seasons.

Table 4. IRS.gov Activity for Filing Seasons FY2005-2009
(in millions of transactions)

Filing Season	2005	2006	2007	2008	2009
Total visits	148	161	178	304	246
Downloads	125	170	128	145	150
Searches	166	128	146	175	184
Where's My Refund? Inquiries	22	25	32	39	53

Source: GAO Report GAO-10-225, 2009 Tax Filing Season: IRS Met Many 2009 Goals, but Telephone Access Remained Low, and Taxpayer Service and Enforcement Could Be Improved, December 2009.

Despite the growing use of the IRS' web site, it has not yet replaced toll-free telephones as the channel of choice for many taxpayers seeking assistance. The Board recommends this initiative as it allows the IRS to leverage new portal technologies to reduce operating costs and improve service to taxpayers.

The Board agrees with the President's budget request that this initiative will 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 *www.IRS.gov*, including navigation, content quality, and search capabilities.

Increase Telephone Level of Service (LOS)

For the past two years IRS toll-free telephone service has been characterized by constant resources and growing demand; the inevitable result of these two factors has been a decline in service levels.

Table 5 illustrates the declining service taxpayers have experienced over IRS toll-free telephones during the periods FY2005 through FY2009. The table presents the LOS for the entire fiscal year as well as the LOS achieved during the filing season, when taxpayers typically need assistance the most. Not only has the level of service declined, but taxpayers must also wait longer for assistance.

Table 5. IRS Toll-Free Customer Service Measures during the FY2005-FY2009 Filing Seasons

Fiscal Year	2005	2006	2007	2008	2009
Assistor Level of Service <i>(in percent for entire Fiscal Year)</i>	83	82	82	53	70
Percentage of callers seeking live assistance who received it <i>(during filing season)</i>	82	81	81	57	68
Actual average wait time in minutes <i>(during filing season)</i>	4.3	3.9	4.6	8.6	8.4

Sources: IRS FY2009 Enforcement Results and GAO Report GAO-10-225, 2009 Tax Filing Season: IRS Met Many 2009 Goals; but Telephone Access Remained Low, and Taxpayer Service and Enforcement Could Be Improved, December 2009.

Table 6 illustrates the root cause of the decline in LOS by providing information on the number of calls for assistance the IRS received during the 2005 through 2009 filing seasons. The IRS received far more calls in 2008 and 2009 than it had during the 2005-2007 filing seasons. The IRS attributes the growth in telephone demand to the number of tax law changes in recent years, including the rebate program, economic stimulus program, and the tax law provisions found in the American Recovery and Reinvestment Act (ARRA). In addition, the complexity of recent tax law changes has resulted in more time needed to resolve the issue. The increased automation of routine calls has also contributed to the decline in LOS as the remaining non-automated calls take longer to resolve. The IRS expects this trend to continue and has set its target level of service at 71 percent for FY2010.

Table 6. IRS Toll-Free Telephone Call Volumes During the FY2005-FY2009 Filing Seasons (counts in millions)

Filing Season	2005	2006	2007	2008	2009
Assistor calls answered	22	21	22	27	26
Abandoned calls	11	12	13	34	21
Busies and IRS disconnects	1	2	1	14	5
Automated calls answered	23	22	21	43	25
Total calls received	58	57	57	118	78

Note: Detail may not add due to rounding.

Source: GAO Report GAO-10-225, 2009 Tax Filing Season: IRS Met Many 2009 Goals, but Telephone Access Remained Low, and Taxpayer Service and Enforcement Could Be Improved, December 2009.

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To its credit, as shown in Table 7, the IRS has kept its accuracy rates high for both tax law and tax account questions.

Table 7. IRS Accuracy Rates over Toll-free Telephone Lines 2005-2009 Filing Seasons (in percent)

Filing Season	2005	2006	2007	2008	2009
Tax law accuracy rate (Note 1)	89.5±0.6	90.6±0.6	90.7±0.9	90.3±0.9	92.5±0.8
Accounts accuracy rate (Note 1)	91.3±0.4	93.3±0.3	93.2±0.5	95.1±0.4	93.5±0.4

Note 1: Based on representative samples from January through June. The percentage of calls in which telephone assistors provided accurate answers for the call type and took the appropriate action, with a 90 percent confidence interval.

Source: GAO Report GAO-10-225, 2009 Tax Filing Season: IRS Met Many 2009 Goals, but Telephone Access Remained Low, and Taxpayer Service and Enforcement Could Be Improved, December 2009.

The President's budget contains a program increase of \$20.9 million to improve the telephone level of service from a projected 71 percent in FY 2010 to a target of 75 percent in FY2011. This increase is achieved by an initiative of \$11.9 million and a \$9.0 million program decrease from TAS and the LITC, TCE, and VITA grant programs.

Although the Board is pleased that the President's budget recognizes that 71 percent LOS on IRS toll-free telephone lines is inadequate, the Oversight Board believes the President's requested initiative to raise the LOS to 75 percent does not correct the problem for two reasons:

1. The Board believes that the LOS on toll-free telephones should be 80 percent as a minimum. The IRS attained a level of service of 80 percent or higher from FY2003 to FY2007, before falling in FY2008 and FY2009.
2. The Board believes it is inappropriate to partially fund the increase in LOS by decreasing funding that is targeted at the VITA, LITC, and TCE grant programs and by decreasing the number of Taxpayer Advocate Service caseworkers. Taxpayers who benefit from these programs are typically underserved, low-income taxpayers, and an increase in telephone LOS should not come at their expense.

The IRS estimates that an additional \$30 million, or \$50 million in total, is needed to restore toll-free telephone LOS to 80 percent.

The Board would also note that the National Taxpayer Advocate has identified in her 2009 *Annual Report to Congress* that declining service on IRS toll-free telephone lines is the most serious problem facing taxpayers. Her report said in part:

Over the last three years, however, taxpayers have found it increasingly difficult to reach an IRS telephone assistor. During the 2007 tax return filing season, the IRS attained a Customer Service Representative Level of Service (CSR LOS) of 83 percent on its toll-free lines. In the 2008 filing season, the CSR LOS declined to 77 percent. During the 2009 filing season, the service level dropped further to 64 percent with a 519-second average speed of answer (ASA), which means the average caller sat on hold for nearly nine minutes. These declining numbers indicate that the IRS is not achieving its goal of improving service to facilitate voluntary compliance.ⁱ

Matching Grant for Volunteer Income Tax Assistance (VITA)

The Oversight Board recommends a \$7.5 million initiative to expand the matching grant demonstration program for Volunteer Income Tax Assistance (VITA). The Consolidated Appropriations Act, 2008 (Public Law 110-161) provided \$8 million to establish and administer the VITA matching grants demonstration program. When the IRS solicited proposals for the first VITA matching grants in July 2008, it received 379 applications, requesting more than \$30 million. The Oversight Board believes expansion of the VITA grant program from \$8 million to \$14 million, an increase of \$6 million, will boost support for organizations that operate volunteer tax preparation sites in communities across the country.

This initiative supports the IRS goal to make voluntary compliance easier because it will expand the ability of volunteer groups to help individuals understand and meet their tax obligations. These third-party providers offer free tax help to low-to-moderate income people who cannot afford professional assistance. VITA volunteers help prepare basic tax returns for low-income taxpayers, including persons with disabilities, those located in rural communities, non-English speaking persons, Native Americans, and elderly taxpayers.

Expansion of the VITA grant program will extend services to underserved populations and hardest-to-reach areas, both urban and non-urban. It will enable VITA programs to increase the capacity to file returns electronically, heighten quality control, and enhance VITA volunteer training to improve return accuracy.

By making voluntary compliance easier for underserved taxpayers, the VITA program can help reduce the tax gap due to nonfiling. In FY2008, VITA volunteers helped prepare over three million returns. In 2009, 111 organizations were awarded grants, representing more than 350 unique local partnerships and coalitions. The IRS estimates that more than 2,500 VITA sites will benefit from this initiative, including 522 new locations.

ⁱ IRS National Taxpayer Advocate *2009 Annual Report to Congress*, December 31, 2009, p. 4.

The IRS has been very successful at the municipal level in partnering with other agencies that are delivering services to urban areas. In the last three years, Board members have met with VITA volunteer organizations in Salt Lake City, Atlanta, Kansas City, Chicago, New York City, Boston, Pittsburgh, Dallas, Las Vegas, and San Antonio, and can attest to the worthwhile services these organizations provide. However, more should and can be done to extend and improve this volunteer network. Every major city should have such a program.

The Board has found that volunteer groups that provide VITA services frequently team with other service providers and have a significant economic effect on the neighborhoods, towns, and cities in which they are located. The IRS estimates that taxpayers' refunds through the earned income tax credit, child tax credit, education credit, and elderly tax credit exceeded \$2.5 billion in 2008. This initiative not only will advance the self-sufficiency of targeted low-income individuals and their families, but it puts money back into the local economy and serves as an economic stimulus for communities that participate.

Expand Low-Income Taxpayer Clinics (LITC) Geographic Coverage

The Oversight Board recommends a \$2.3 million initiative to expand coverage of the LITC program to provide tax assistance to low-income taxpayers. This program provides low or no-cost representation to needy individuals involved in tax disputes with the IRS. These resources will be used to expand geographic and service coverage by providing increased matching grants to qualified organizations. In addition, this initiative also will provide additional clinic support and oversight by increasing the number of site assistance visits conducted by the Taxpayer Advocate Service (TAS) LITC Program Office each year.

In 1998, Congress authorized the Secretary of the Treasury to award matching funds to LITC applicants that either provide free or nominal fee representation to low income taxpayers in tax disputes with the IRS, or that conduct outreach and education to English as a Second Language (ESL) taxpayers about their rights and responsibilities as U.S. taxpayers. TAS has administered the LITC Program since its inception, which is now in its eleventh year of operation.

For calendar year 2008, the TAS awarded almost \$9 million in matching grants, ranging from \$10,000 to \$100,000, to 156 nonprofit organizations and accredited academic institutions in all 50 states plus the District of Columbia, Puerto Rico, and Guam. For calendar year 2009, the National Taxpayer Advocate approved 163 clinics. The current economic environment presents significant challenges as the number of taxpayers who cannot pay their liabilities is increasing while available assistance from tax professionals is declining. The decline in the availability of legal services is attributable to several factors:

- First, the decline in equity values has reduced the amount of funds that foundations and other endowments have available to distribute;

- Second, declining incomes and the rising need for social services have placed strains on state and local government budgets that ordinarily provide assistance for legal service programs; and
- Third, the emphasis that law firms and lawyers traditionally place on performing pro bono services has declined.

The Oversight Board believes expansion of the LITC Program supports the IRS goal of making voluntary compliance easier for taxpayers because this program is an important aspect of a fair and just tax system. By providing low income and ESL taxpayers access to services for free or a nominal fee, the IRS ensures that these taxpayers are provided access to high quality representation and education about their rights and responsibilities.

Taxpayers who want to comply with their tax obligations and responsibilities must have access to information, assistance, and, when appropriate, representation. Low income taxpayers who cannot afford representation can be at a disadvantage in resolving tax disputes with the IRS. For example, a recent TAS research study found that taxpayers who were represented in Earned Income Tax Credit (EITC) audits by attorneys, accountants, enrolled agents, or even unenrolled return preparers, were nearly twice as likely to receive the EITC, and received almost twice as much EITC as taxpayers who were unrepresented. Thus, LITCs ensure that low income taxpayers receive the correct outcome in controversies with the IRS and pay the correct tax amount.

Several states have only one clinic or have clinics that provide only one service in that state. This initiative proposes expansion of clinic coverage in states that do not have both controversy representation and ESL outreach and education. Additionally, through this initiative TAS will expand the coverage of clinics into rural areas where low-income taxpayers have limited access to assistance and representation.

Address Taxpayer Advocate Service Workload

The Oversight Board recommends a \$3.6 million initiative to add 33 positions to address large and complex case inventories. The TAS caseload has been increasing in recent years, and the number of employees available to work the cases has declined. In FY2008, TAS received 274,051 cases, a 62 percent increase compared to FY2004. During this period, TAS case advocate staffing has declined six percent.

The TAS has an important role in serving taxpayers. It rectifies current taxpayer problems, educates taxpayers to avoid problems in the future, and identifies systemic problems. In performing these functions the TAS contributes to improved voluntary compliance and a reduction of taxpayer burden.

A number of factors influence TAS workload volumes, including new IRS initiatives, changes in legislation or IRS practices, increased IRS emphasis on enforcement activities, and external factors such as the state of the U.S. economy. The purpose of this initiative is to allow TAS

to address increasing case receipts and rising inventory levels. The National Taxpayer Advocate projects about 270,000 case receipts in FY2010; 276,000 case receipts in FY2011; 283,000 in FY2012; and 289,000 case receipts in FY2013.

A concern of particular note is that economic burden receipts involving bankruptcy issues increased by 143 percent from FY2004 to FY2007, and continues to rise. The increase may be attributable in part to the rise in U.S. bankruptcy filings for 2008, up 31 percent from FY2007. With the collapse of the subprime mortgage market and the increase in home foreclosures and loan workouts, the tax consequences of cancellation of debt (COD) income pose a significant challenge to taxpayers with potential COD income. These taxpayers are already in financial distress, and may face additional tax debt if their COD income is taxable. TAS anticipates taxpayers experiencing economic burden resulting from COD income will continue to seek assistance.

TAS has also found that as more U.S. taxpayers encounter job loss, home foreclosures, and other financial distress in difficult economic times, it is likely that more taxpayers will require TAS assistance to relieve economic burden. TAS economic burden case receipts have increased 167 percent from FY2004 to FY2008.

Research Tax System Complexity, Burden, and Compliance

The Oversight Board recommends an \$8.4 million initiative to enhance the quantity and reliability of research information available to the IRS. The Board believes the IRS needs to conduct additional multi-year research that will lead to a better understanding of the relationships among complexity, burden, and compliance to support more effective tax administration, and how to improve assistance over various service channels. At the heart of these initiatives is the goal of enabling the IRS to work smarter and ultimately reduce taxpayer burden.

A significant amount of service-related research is currently underway at the IRS, particularly as an outgrowth of the congressionally-mandated Taxpayer Assistance Blueprint (TAB). However, unfunded research remains in many critical areas, including:

- Greater understanding of taxpayer needs, behavior, and compliance as a result of tax law complexity;
- Integrating models of taxpayer burden with models of compliance and systemic complexity;
- Extending prior research in taxpayer and tax intermediary motivation;
- Increasing the understanding of taxpayer burden, including the impact of notices and other written communication;
- Understanding effects of unique tax events and situations on taxpayer behavior and compliance; and

- Understanding the role of tax system complexity in the interactions among taxpayers, tax intermediaries, and tax administrators.

Specific areas of investigation are discussed in the following paragraphs.

Understanding the Role of Complexity

Tax system complexity is widely understood to be a major cause of noncompliance. Complexity includes taxpayer understanding of both the tax code and the administrative rules implementing the law. Complexity creates a burden for taxpayers who strive to be compliant, discourages thoroughness among taxpayers who otherwise intend to comply, and facilitates noncompliance by those who wish to evade their obligations. One goal of this research is to produce an ongoing measure of systemic complexity that affects noncompliance by:

- Making tax obligations more difficult to understand;
- Increasing the effort required to comply;
- Making noncompliance more difficult to detect; and
- Increasing the cost of tax administration.

Better Understanding the Role of Taxpayer Burden in Tax Administration

Taxpayer burden reflects: costs incurred in attempting to understand and respond to tax obligations and benefits; costs related to receiving tax preparation tools and assistance from the IRS and third parties; and costs incurred after filing. These burdens may be incurred as time spent or out-of-pocket expenses. The IRS seeks to collect annual data on individual taxpayer burden, and periodic burden data on other taxpayer segments, to better understand its magnitude and its interaction with other factors.

Understanding Motivators Driving Compliance Behavior

Because self-assessment and voluntary compliance are essential to the U.S. tax system, obtaining a better understanding of issues that motivate taxpayers will help the IRS better target service and enforcement efforts. This initiative extends research into the relationship between taxpayer needs and errors, especially as it relates to burden, risk, and taxpayer objectives concerning compliance.

There are also numerous tax situations where the combination of high burden and high opportunities for noncompliance exist. Specific studies designed to capture data on the cost of complying with the tax code, coupled with tax compliance, will increase IRS understanding and enable the IRS to develop identification models and treatment options. For example, informal suppliers typically operate on a cash basis and

traditional audits do not pick up all underreported income. To comply with the tax law will impose additional burden. An informal supplier study designed to capture compliance and burden data will provide information necessary to address this tax situation.

Understanding the Roles of Tax Intermediaries

Tax intermediaries have many roles in the interaction between taxpayers and the IRS, such as assisting taxpayers in meeting obligations and receiving benefits, assisting the IRS by transmitting information, and challenging the IRS in an adversarial role. Better understanding and differentiating among these roles and their evolution will help the IRS develop and maintain more effective tax intermediary strategies. This ongoing research will support IRS partnerships with tax intermediaries to provide more effective tax administration.

Understanding Taxpayer Needs and Preferences to Improve Customer Service

Understanding taxpayer needs and preferences when selecting communication channels is essential to improving service. It is vital that taxpayer surveys to measure service are conducted regularly so service improvement efforts will be based on current data. Another needed research effort includes analyzing and evaluating current web use data to improve web services. This will enable the IRS to develop and evaluate the effectiveness of initiatives to facilitate increased demand for web services in lieu of telephone and walk-in services.

Understanding How Written Communication Influences Taxpayer Behavior and Compliance

The IRS disseminates over 175 million pieces of written communication to taxpayers each year; however, the impact of this communication is not widely understood. Multi-year research efforts will evaluate specific communication content to determine what influences taxpayer behavior. This research has the potential to reduce the volume of correspondence necessary and to provide further insight on how to design simplified guidance to improve service.

Understanding the Effect of Unique Tax Events on Taxpayer Behavior and Compliance

A taxpayer's lifetime includes a number of unique events, including the purchase of a home, relocation, additions to the family, and retirement. Although these life events are new for the individual taxpayer, they are common events for the general population. Multi-year research will facilitate understanding of how individuals handle unique tax events, what services are necessary in conjunction with these events, and how these events affect compliance.

Goal 2: Enforce the Law to Ensure Everyone Meets Their Obligation to Pay Taxes

The IRS Oversight Board supports the five enforcement initiatives that are contained in the President's budget and listed in Table 8.

Table 8. Enforcement Initiatives Recommended by the Oversight Board and the President (dollars in thousands)

Initiative	Budget
Address Business and Individual International Compliance	121,086
Reduce the Reporting Compliance Tax Gap	77,679
Reduce the Nonfiling & Underpayment Tax Gap	38,181
Support for Increased Enforcement Activities	5,000
Maintain Recovery Act Standards	5,500
<i>Subtotal</i>	247,446

The Oversight Board supports the initiatives in the President's budget and believes the increases in the Enforcement account for the past three fiscal years have enabled the realistic and steady growth in enforcement resources that the Board has consistently recommended. This gradual growth in enforcement resources has allowed the IRS to increase its enforcement presence among both business and individual taxpayers.

The Oversight Board believes that opportunities for tax evasion have increased as the economy has become more global in scope, and the IRS has been particularly successful in expanding its global enforcement presence with both business and individual taxpayers. The August 2009 agreement with the Swiss government regarding bank secrecy and the G-20 agreement to act in unity against tax jurisdictions that impede legitimate tax enforcement are only two examples of the IRS' increased focus on international tax compliance.

Thus, the Board is pleased that approximately half the initiatives requested for enforcement program increases are allocated to increasing the IRS' international compliance efforts.

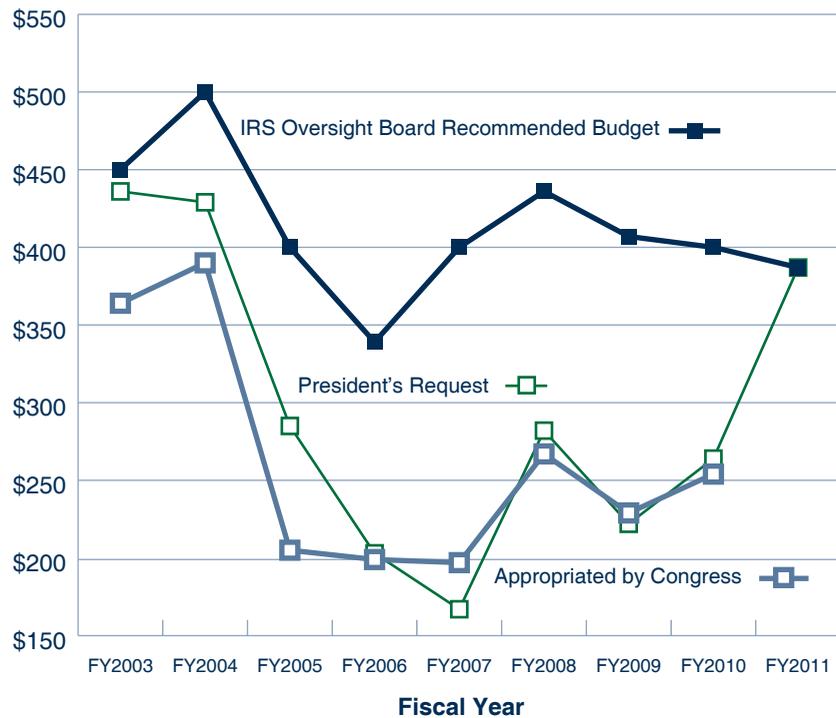
Strategic Foundations: Invest for High Performance in People and Technology

Strategic Foundations comprise two accounts in the IRS budget: Business Systems Modernization (BSM) and Operations Support. The Oversight Board’s recommendations for each account are described in the following sections.

Business Systems Modernization

The Board recommends a \$122.1 million initiative for BSM to bring the appropriated funding for this account to \$386.9 million. This funding level represents a growth of 46.6 percent over the FY2010 funding level, but brings BSM program funding in line with previous Oversight Board recommendations, as shown in Figure 4. This funding level reflects the high importance the Oversight Board has placed on modernizing the IRS’ major IT systems, which it has identified as a serious weakness in the tax administration system.

Figure 4. BSM Funding FY2003-FY2011 (dollars in millions)



The recommended level of funding is especially important now that the IRS has restructured the Customer Account Data Engine 2 (CADE 2) program so that the IRS will be able to update tax accounts on a daily basis by 2012. Moreover, with increased demands on the IRS to administer new and expanded tax provisions, the Board is pleased that the need to modernize IRS systems has received the attention and resources it deserves.

Operations Support

The most significant gap between the budget recommended by the Oversight Board and the President's budget request occurs in the Operations Support account. The Board recommends this account be funded at a level of \$4.337 billion instead of the \$4.108 billion requested in the President's budget. Table 9 identifies the four infrastructure initiatives recommended by the Oversight Board. The President's budget has no such initiatives.

Table 9. Infrastructure Initiatives Recommended by the Oversight Board
(dollars in thousands)

Initiative	Budget
Refresh/Sustain Infrastructure	37,500
Develop Converged Telecomm Networks	62,202
Enhance Business Productivity	75,000
Integrated Financial Systems	45,000
<i>Subtotal</i>	219,702

The BSM program makes necessary—and critical—contributions to the modernization of the IRS by developing new systems that manage the IRS central database, accept electronic returns, and manage taxpayer accounts. However, the BSM program, by itself, cannot modernize the IRS. Modernizing the IRS IT technology also requires upgrading an aging IT infrastructure. Nearly half the Operations Support budget is used to fund operation, maintenance, and on-going development of the vast majority of IRS legacy IT systems, such as its mainframe computers, servers, telecommunication networks, security systems, laptops, and application programs that fall outside of the BSM program. Thus, the Operations Support budget funds nearly five times more of the IRS' overall IT equipment and staffing needs than does the BSM budget.

The IRS IT infrastructure underpins all taxpayer service and enforcement programs and is the critical link that can enable the agency to do its job quickly and efficiently. Taxpayers and IRS employees rely heavily on vital IT telecommunication services, including the toll-free system used by millions of Americans to access tax information. The IRS IT systems are also crucial to effectively planning IRS operations, processing tax and information returns, properly accounting for tax revenues collected, issuing refunds, sending out tax bills, and screening tax returns for computational accuracy, potential underreporting and non-filing, and outright fraud. However, the portion of the Operations Support budget that is used to support the existing IRS IT infrastructure is inadequate to effectively “refresh” equipment and continues to saddle the agency with outdated technology that reduces the level of service taxpayers might otherwise receive, limits the productivity IRS employees might otherwise deliver, and increases the risks to taxpayer data that might otherwise be prevented.

FY2011 IRS Budget Recommendations

The Administration's FY2011 budget includes no initiatives to address the on-going problem of outdated technology within the existing IRS IT infrastructure. The Board believes additional funding must be made in this area because IT infrastructure investments are crucial to enabling the IRS to work smarter and more productively. As a result, the Board recommends that an additional \$219.7 million be added to the IRS Operations Support budget in FY2011 for IT infrastructure to fund the following four initiatives:

- A \$75 million initiative to enhance business productivity by implementing innovative IT tools to improve certain IRS taxpayer service and enforcement programs, such as the processing of taxpayer remittances and the development and selection of compliance casework.
- A \$62.2 million initiative to fund the first year of a 5-year plan to leverage the Treasury Network (TNet). This initiative will enable the IRS to move into a modern era of telecommunications, based on TNet, in which a converged network supports the transport of data, voice, video, and messaging across a single, more secure, network. The initiative also avoids the higher maintenance costs associated with sustaining/replacing, in a piecemeal fashion, the aged and multiple network systems currently in use.
- A \$37.5 million initiative to reduce the backlog of aged IT hardware, such as laptop computers and telecommunications equipment, to bring it in line with current business standards and help ensure front line employees have the equipment needed to maintain productivity. The Board considers such a refresh to be an investment in avoiding costly downstream maintenance problems.
- A \$45 million initiative to fund the first part of a 2-year effort to upgrade the IRS' financial management system so as to bring it into compliance with Office of Management and Budget requirements and other federal accounting standards, and to improve the IRS' project management capabilities.

Table 10 provides a detailed description of each initiative and its benefits.

IRS Oversight Board Special Report

Description & Benefit
<i>Enhance Business Productivity</i>
<p>This initiative allows the IRS to implement specific IT products to increase the productivity of particular IRS taxpayer service and enforcement programs. It will fund the following enhancements in taxpayer service:</p> <ul style="list-style-type: none">• provide the public with a web-based tool to obtain information about tax-exempt entities and employee plans;• integrate the Taxpayer Advocate Service computer systems to improve organizational collaboration and reduce data redundancies;• eliminate the manual processing of paper checks by converting the remittance payments into electronic format; and• implement an enterprise-wide planning tool to better ascertain and forecast telephone, correspondence, and other taxpayer service demand, and align IRS staffing requirements accordingly. <p>The initiative will also fund numerous enhancements to IRS enforcement actions including the following:</p> <ul style="list-style-type: none">• a risk-based workload identification, selection, and case control system to address money laundering, tax avoidance, and terrorist financing;• a means for geographically dispersed Large and Mid-Size Business audit teams to collaborate electronically and improve their productivity;• a unified system to collect and store audit information to reduce data redundancy and deliver to taxpayers reliable and consistent tax, interest, and penalty computations;• a mechanism to better assemble and leverage third party data from state and local jurisdictions to identify business non-filers;• a means to leverage emerging technologies to forensically store, process, and deliver digital evidence used by Criminal Investigation; and• a process that will enable the electronic transmission of liens and levies.
<p>These initiatives will:</p> <ul style="list-style-type: none">• provide the public with web-based capabilities to access information about charities prior to donating;• improve service to taxpayers needing the assistance of the Taxpayer Advocate Service;• speed up deposit of payments and reduce errors arising from IRS mishandling of paper remittances;• save on IRS postage costs;• improve IRS telephone, correspondence, and Referral Mail service to taxpayers;• pursue money laundering, tax avoidance, and terrorist financing;• improve revenue generation from examinations and lower audit cycle time;• reduce administrative costs and increase revenue generated by liens and levies;• identify business non-filers likely to have significant unpaid tax liabilities;• improve compliance casework identification, development, delivery, and analysis; and• improve taxpayer interactions with the IRS by helping to ensure IRS employees have complete and accurate information and that documentation submitted by taxpayers is properly handled.

FY2011 IRS Budget Recommendations

Description & Benefit
<i>Develop Converged Telecomm Networks</i>
<p>This initiative for \$62.2 million is the first of a 5-year plan to leverage the key capabilities of Treasury Network (TNet) and transition the IRS toward a modern telecommunications system in which data, voice, video, and messaging are transported in a single, more secure, network. This convergence toward a single network funded by this initiative will extend the advanced capabilities of the TNet wide-area network to the local environments of 665 existing IRS buildings, with the funds used for cabling, switches, and related equipment to accomplish that convergence.</p>
<p>This initiative will :</p> <ul style="list-style-type: none"> • provide operating efficiencies and greater functionality to meet IRS data, voice, and multimedia communications needs using one common network platform; • achieve a cost avoidance of around \$58 million over a 5 year period that would otherwise be incurred by replacing, in a piecemeal fashion, the more disparate network equipment currently in place; and • reduce potential data security breaches by enabling the IRS to get rid of its many call management and control devices that have aged beyond their system life cycle and no longer incorporate more current security software.
<i>Refresh/Sustain Infrastructure</i>
<p>This initiative for \$37.5 million will help upgrade the backlog of aged and outdated information technology (IT), such as laptop computers and telecommunications equipment, currently in use at the IRS to be more in line with current business standards. It will ensure the IRS continues to meet its core taxpayer service and tax law enforcement responsibilities efficiently and effectively, and enable the IRS to improve its productivity.</p>
<p>This initiative will:</p> <ul style="list-style-type: none"> • enable the IRS to meet both its current taxpayer service and enforcement responsibilities and improve the productivity of service and enforcement staff in the future; • avoid increased maintenance costs for obsolete equipment; and • reduce the risks of disruptions to tax processing systems and security breaches arising from substandard equipment.
<i>Integrated Financial Systems (IFS)</i>
<p>This initiative for \$45 million is the first part of a two-year program to upgrade the IRS internal, enterprise-wide financial management system and migrate it to a shared service provider in compliance with OMB requirements. The current version of the IFS software used by the IRS is nearly a decade old, and the software vendor will not update it to accommodate changes to federal accounting requirements. This initiative will ensure continued IRS compliance with federal financial management standards and sustain GAO's "clean audit opinion" of IRS' financial management practices. This migration to software based on federal accounting practices would eliminate the current work-around processes the IRS must employ each year to complete its required annual financial statement; work-around processes that reflect shortcomings in current IRS financial management practices and that are regularly cited as significant weaknesses in GAO's annual audits of IRS' financial statements.</p>
<p>This initiative will:</p> <ul style="list-style-type: none"> • improve the IRS project management capabilities relative to its assets and costs; • reduce costly and labor-intensive work-around processes the IRS must use now to produce its annual financial statement; • address the IRS' need to replace specialized financial accounting software that is largely obsolete; • help IRS comply with an OMB mandate; and • address a long-standing IRS material weakness identified by the GAO.

Appendix

Changes in the IRS Oversight Board's Budget Recommendations Subsequent to the Submittal of its Approved Budget to the Department of the Treasury

The President's budget request indicates that the Board's FY2011 IRS budget request submitted to the Department of the Treasury is \$13.495 billion. However, the Board's budget recommendations in this report are \$12.914 billion. This appendix explains why the budget recommendation contained in this report is different from that indicated in the President's budget request.

The IRS submitted a proposed budget to the IRS Oversight Board in April 2009. Upon review and approval by the Board, the Board submitted its approved budget to the Department of Treasury, after which it was reviewed and modified by both the Treasury Department and the Office of Management and Budget (OMB) before being incorporated into the President's budget. The Oversight Board did not participate in the review and approval process at either the Department of Treasury or the OMB or in the formulation of the President's budget.

Any changes that occurred after the Board submitted its approved budget to the Department, such as changes in inflation rates, estimated savings, or changes in requirements, were unknown to the Board. The Board only saw the President's final budget request when it was made available to the public. Upon receipt of the final budget, the Board adjusted its previously approved budget to account for the following circumstances:

- The Board's initial FY2011 budget was based on the FY2010 President's request, not the enacted appropriation, and was adjusted to use the FY2010 enacted level as the base.
- The inflation factors for labor and non-pay inflation were only estimated at the time when the Board approved the IRS budget, and were subsequently adjusted to reflect the lower base as well as any changes in inflation rates.
- The IRS budget approved by the Board did not contain all the savings contained in the President's budget. During subsequent reviews with the Treasury Department and OMB, additional savings were identified. The Board's budget has been adjusted to reflect these additional savings.
- The Board also re-evaluated its recommendations for all initiatives based on program developments and shifting priorities that occurred between April 2009 and February 2010 and made adjustments accordingly.

ⁱ Treasury Appendix, pages 1055-1056.

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