



# INTERNAL REVENUE SERVICE

## Assessment of the Fiscal Year 2006 Budget Request

Highlights of [GAO-05-566](#), a statement for the record for the Subcommittee on Transportation, Treasury, the Judiciary, Housing and Urban Development, and Related Agencies, Committee on Appropriations,

### Why GAO Did This Study

The Internal Revenue Service (IRS) has been shifting its priorities from taxpayer service to enforcement and its management of Business Systems Modernization (BSM) from contractors to IRS staff. Although there are sound reasons for these adjustments, they also involve risks.

With respect to the fiscal year 2006 budget request, GAO assessed (1) how IRS proposes to balance its resources between taxpayer service and enforcement programs and the potential impact on taxpayers, (2) status of IRS's efforts to develop and implement the BSM program, and (3) the progress IRS has made in implementing best practices in developing its Information Technology (IT) operations and maintenance budget.

### What GAO Recommends

In a related statement (GAO-05-416T), GAO recommended that the Commissioner of Internal Revenue supplement the 2006 budget request with more detailed information on how proposed service reductions would impact taxpayers. GAO has recommendations still outstanding related to BSM management controls and IT budget justification.

[www.gao.gov/cgi-bin/getrpt?GAO-05-566](http://www.gao.gov/cgi-bin/getrpt?GAO-05-566).

To view the full product, including the scope and methodology, click on the link above. For more information, contact James R. White (202) 512-9110 or [whitej@gao.gov](mailto:whitej@gao.gov).

### What GAO Found

IRS's fiscal year 2006 budget request of \$10.9 billion is an increase of 3.7 percent over last year's enacted levels. This includes an 8 percent increase for enforcement, and a 1 percent and 2 percent decrease for taxpayer service and BSM. However, the potential impact of these changes on taxpayers in either the short- or long-term is unclear, because IRS has not provided details of proposed taxpayer service reductions, and although it is developing long-term goals, they are not yet finalized. Because of the proposed reductions and new and improved taxpayer services in recent years, this is an opportune time to examine the menu of services IRS provides. It may be possible to maintain the overall level of service to taxpayers by offsetting reductions in some areas with new and improved service in other areas such as on IRS's Web site.

Taxpayers and IRS are seeing some payoff from the BSM program, with the deployment of initial phases of several modernized systems in 2004. Nevertheless, the BSM program continues to be high-risk, in part, because projects have incurred significant cost increases and schedule delays and the program faces major challenges in areas such as human capital and requirements management. As a result of budget reductions and other factors, IRS has made major adjustments. It is too early to tell what effect these adjustments will have on the program, but they are not without risk and could potentially impact future budgets. Further, the BSM program is based on strategies developed years ago, which, coupled with the delays and changes brought on by budget reductions, indicates that it is time for IRS to revisit its long-term goals, strategy, and plans for BSM. Because of these challenges, IRS is redefining and refocusing the BSM program.

Likewise, IRS has made progress in implementing best practices that would improve its budget development and support for its IT operations and maintenance request. In particular, the recent release of a modernized financial management system included a cost module. However, at this time, historical data is not yet available for IRS to use this module in formulating its IT operations and maintenance request.

	Fiscal year 2004 (enacted)	Fiscal year 2005 (enacted)	Fiscal year 2006 (request)	Percent change (2004-2005)	Percent change (2005-2006)	Percent change (2004-2006)
Taxpayer service	\$3,710	\$3,606	\$3,567	-2.8%	-1.1%	-3.8%
Enforcement	6,052	6,392	6,893	5.6	7.8	13.9%
BSM	388	203	199	-47.6	-2.0	-48.7%

Source: GAO analysis of IRS data.

Note: Numbers may not add due to rounding.