



Highlights of [GAO-05-416T](#), a report to Subcommittee on Oversight, Committee on Ways and Means, House of Representatives

INTERNAL REVENUE SERVICE

Assessment of Fiscal Year 2006 Budget Request and Interim Results of the 2005 Filing Season

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) the 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. For the 2005 filing season, GAO assessed IRS's performance in processing returns and providing taxpayer service.

What GAO Recommends

GAO recommends 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-05-416T.

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.

What GAO Found

IRS's fiscal year 2006 budget request of \$10.9 billion proposes increased funding for enforcement, but reduced funding 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.

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.

IRS has generally maintained or improved its filing season performance in 2005. Processing is more efficient, the accuracy of answers provided by telephone assistants is improved, and telephone access is relatively comparable to last year. This is particularly noteworthy, because IRS received less funding for taxpayer service in 2005 than it spent in 2004. Because the filing season is not over, the full impact on taxpayers and IRS operations is not yet known. However, there are indications of slippage in telephone access such as more abandoned calls and longer wait times.

IRS Budget Summary for Key Activities, Fiscal Years 2004-2006 (dollars in millions)

	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.