



Highlights of [GAO-07-719T](#), a testimony before the Subcommittee on Financial Services and General Government, Committee on Appropriations, U.S. Senate

## Why GAO Did This Study

The Internal Revenue Service's (IRS) budget request shows how IRS intends to balance spending for enforcement and taxpayer service, including spending for new initiatives and the Business Systems Modernization (BSM) program. A combination of enforcement and taxpayer service promotes compliance with the tax laws. GAO was asked to (1) compare IRS's proposed FY 2008 budget to prior years' and assess how the new spending initiatives are justified, and (2) describe IRS's enforcement, filing season, and BSM performance.

GAO analyses are based on IRS's 2008 budget submission, supplementary IRS data, interviews with IRS officials, and prior GAO reports. Some of GAO's analyses have been reported earlier this year and updated here.

## What GAO Recommends

GAO recommends IRS have available basic descriptive, cost, and expected performance information on all new initiatives and include such information in future budget submissions. IRS agreed to provide more information with future budgets, but said it did provide basic information this year. However, some initiatives lacked any explanation of how the amount requested or staff needed were determined. Without such information, Congress would be unable to tell whether IRS spent the money as intended.

[www.gao.gov/cgi-bin/getrpt?GAO-07-719T](http://www.gao.gov/cgi-bin/getrpt?GAO-07-719T).

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

## INTERNAL REVENUE SERVICE

### Assessment of the 2008 Budget Request and an Update on 2007 Performance

#### What GAO Found

IRS's budget proposes to increase spending by almost 5 percent to \$11.6 billion. The budget proposes shifting a greater proportion of spending to enforcement, continuing a trend since 2004. IRS projects that revenue from the new initiatives will have a relatively small impact on the tax gap—less than one percent of the gap last estimated at \$290 billion in 2001. The tax gap is the difference between what taxpayers owe and voluntarily pay. Justifications for the new initiatives varied with some lacking descriptive, cost, and expected performance information. For example, an initiative for improving compliance estimates provided no information on how the budget and staff needed or work to be done were determined. Without such information, decision makers do not have an informed basis for approving and funding the new initiatives.

IRS has made noticeable progress in its enforcement efforts including increasing the amount of enforcement revenue collected and enforcement staffing. For example, between FY 2004 and 2006 enforcement revenue increased 13 percent to \$48.7 billion. Nevertheless, enforcement remains on GAO's high-risk list. The tax gap has been a persistent problem in spite of efforts to reduce it, as the rate of taxpayers' voluntarily compliance with the tax laws has changed little over the past three decades. To better target enforcement resources, IRS has requested funding to do additional compliance research which GAO has long supported. Finally, GAO has reported on IRS's lack of a data-based plan to improve compliance.

Filing season performance in 2007 improved in some areas compared to prior years', but there have been challenges. As of April 20, IRS processed about 104.6 million individual income tax returns and issued 88.2 million refunds. Electronic filing grew, telephone access is somewhat better, and Web site use continues to grow. However, fewer than 4 percent of eligible taxpayers used the Free File program. The latest release of Customer Account Data Engine (CADE), the new tax processing system, was delayed. As a result, millions of taxpayers did not benefit from CADE's faster processing of refunds. IRS recently issued its plan, the Taxpayer Assistance Blueprint, to improve taxpayer service.

Despite progress in implementing BSM projects including for CADE and improving management controls and capabilities, significant challenges and serious risks remain. Delays in the latest release of CADE resulted in continued contention for key resources and will likely impact future releases. IRS has more to do to address GAO's prior recommendations such as developing a long-term strategy that would include time frames for retiring legacy computer systems.