

**IRS Oversight Board
FY2009 IRS Budget Recommendation
Special Report**

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Executive Summary

The Internal Revenue Service (IRS) Oversight Board recommends an FY2009 IRS budget of \$11.737 billion, an increase of \$845 million over the enacted FY2008 amount of \$10.892 billion. This compares to the President's request of \$11.361 billion, which is an increase of \$469 million over the FY2008 enacted appropriation. Although the two budgets are within 3.3 percent of one another, they take different approaches to funding priority program initiatives.

The Board is mindful that a budget is more than a request for funding—it's a plan and a commitment. It represents the next leg on the journey of modernizing the IRS. The Oversight Board's recommended budget is aligned with the *IRS Strategic Plan 2005-2009*. The importance of linking the budget with the strategic plan is critical so that resources focus on programs and activities that will achieve the IRS strategic goals: (1) improve customer service; (2) enhance enforcement of the tax law; and (3) modernize the IRS through its people, processes and technology.

Achieving these three strategic goals will enable the IRS to address the most serious problem facing tax administration today—reducing the tax gap, the difference between what taxpayers should be paying and what they actually pay in a timely manner.

Given the severity of the tax gap, approximately \$290 billion (net) annually, based on 2001 tax returns, the Board believes a comprehensive long-term strategy is the most effective approach to reducing it. In submitting its FY2009 budget recommendations to the Treasury Department in June 2007, the Board identified increased funding for Business Systems Modernization (BSM), security, infrastructure, and research as high priorities. These initiatives offer the best opportunity to enable the IRS to reduce the tax gap in the long term.

Although both the Oversight Board's and President's budgets have as a core objective the reduction of the tax gap, the Board's recommended budget is more balanced in recommending funding initiatives across the full range of IRS functions and taxpayer segments. In contrast, the President's budget has as its central focus a short-term effort to build up IRS revenue-producing enforcement staffing at a time when the IRS is hard-pressed to replace the high number of experienced employees who are retiring. Increased staffing is important, but the Oversight Board believes the IRS cannot "audit its way out of the tax gap," and should avoid the temptation to close the tax gap with large staffing increases in revenue-producing functions that cannot be absorbed effectively. The

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Board believes its recommended budget avoids this problem by focusing on ways to make the IRS more efficient in the long term, and putting more resources into technology, infrastructure, and service as well as enforcement.

By following this approach, the Board's recommended budget maintains balance at its core. Enforcement, taxpayer service, business systems modernization, and employee development must all be adequately funded for the IRS to succeed in *all* parts of its mission and to ensure the long-term health of our tax administration system.

Changes to the tax code should also be considered as part of the overall approach to reduce the tax gap. That is why the Board fully supports the legislative proposals requested by the President's budget to increase the amount of information reporting by taxpayers and stakeholders. Research data have consistently shown that increased information reporting leads to better taxpayer compliance. Simplification of the tax code is also encouraged, as a simpler code will help taxpayers understand their obligations and eliminate the shadows that offer refuge for those who willingly seek to avoid their obligations.

This is not to say that the Board's FY2009 budget recommendations will resolve all the many challenges facing the IRS and our tax administration system. Reducing the tax gap requires a broad plan of action that promotes higher taxpayer compliance across all taxpayer segments. Because the tax gap has a number of root causes, ranging from unintentional mistakes to willful non-compliance, influencing taxpayers to become more compliant must be accomplished by a broad diversity of actions, such as making it easier for taxpayers to understand their obligations, modernizing technology to make filing and other tax transactions as easy as possible, and increasing civil and criminal enforcement.

Making this all happen will require innovative and strategic thinking, focused management attention, energizing goals, better research, partnerships with the private sector, continued oversight, and increased integrity in reporting and paying taxes by taxpayers. Ultimately, the IRS must be held accountable for achieving the results.

The use of measures will make it easier for oversight organizations to hold the IRS accountable for achieving expected results. A robust program of performance measurement will provide a context for informed decision-making and help provide a clearer picture of the health of the entire tax administration system. Included in this budget report are a recommended set of performance measures that the Oversight Board and others can use to evaluate the IRS' performance.

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 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 \$11.737 billion for the IRS—an \$844 million increase over FY2008. It also examines the President's FY2009 IRS budget request of approximately \$11.361 billion—an increase of \$469 million over the enacted FY2008 IRS appropriation of \$10.892 billion, and compares this request with the Board's recommendations.

I. Assessing the IRS' Needs for FY2009

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 and a commitment. 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. A performance budget is a management tool, and properly used, enhances the ability of the IRS to meet its short-term performance targets and the agency's three strategic plan goals: (1) improve customer service; (2) enhance enforcement of the tax law; and (3) modernize the IRS through its people, processes and technology.

Achieving these three strategic goals will enable the IRS to address the most serious problem facing tax administration today—reducing the tax gap, the difference between what taxpayers should be paying and what they actually pay in a timely manner. The size of the tax gap is significant, with the IRS' most recent estimates placing it at approximately \$290 billion (net) annually, based on 2001 tax returns. The imperative for closing the tax gap has never been greater. An annual net tax gap of \$290 billion averages to about \$2,200 per individual tax return, an enormous burden for the average taxpayer, and one that should not be tolerated by honest taxpayers. It is far too large to be dismissed lightly—it imposes a large burden on all taxpayers and undermines respect for tax administration.

Despite its severity, the Board believes a long-term view towards its solution is warranted. In submitting its FY2009 budget recommendations to the Treasury Department in June 2007, the Board identified increased funding for Business Systems Modernization (BSM), security, infrastructure, and research as high priorities. These initiatives offer the best opportunity to impact in a positive way the IRS' ability to reduce the tax gap in the long term.

By following this approach, the Board's recommended budget maintains balance at its core: enforcement, taxpayer service, BSM, and employee development must be adequately funded for the IRS to succeed in all parts of its mission and to ensure the long-term health of our tax administration system.

Over the past nine years, the IRS has reorganized and modernized itself to think strategically and operate with a customer-centric focus. It is

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becoming a strategically-focused, performance-driven, results-oriented organization that provides taxpayers with quality service through a variety of channels, including Internet, telephone, and in-person.

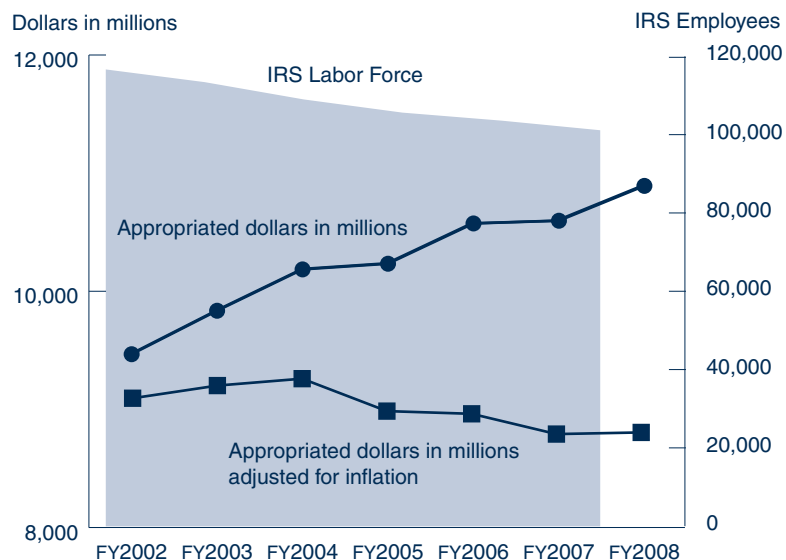
It is doing a better and more efficient job of enforcing the tax laws and collecting the taxes owed the federal government. The IRS has also improved its ability to interact with taxpayers electronically and is now delivering real world benefits to all types of taxpayers. For example, the IRS can now accept many types of electronically-filed returns and offers more self-serve options, such as “Where’s My Refund?”

The Oversight Board praises the IRS for this across-the-board improvement. The IRS has demonstrated to its skeptics that it can change, and change for the better. However, it still faces many challenges and must not become complacent. The existence of an annual \$290 billion net tax gap is a stark reminder that improvements in tax administration are still needed.

The IRS Oversight Board commends the IRS for the steady progress it has made in delivering quality customer service to taxpayers and improving tax return processing. To its credit, it has done so with declining resources. As shown in Figure 1, the IRS workforce has shrunk by almost 15,000 employees since 2002.

By sheer necessity, the IRS has been forced to do more with less. The growth in IRS efficiency is commendable. However, the Board believes that too much work is left undone, and most of the saved resources should be reinvested in tax administration activities.

Figure 1. Total IRS Employees FY2002 to FY2007



Although it is extremely difficult to measure the IRS progress in closing the tax gap, the Board recognizes the positive trend in enforcement activity and revenue collection over the past five years that the IRS has achieved with limited resources. The Board believes this progress reflects meaningful IRS actions to combat the tax gap. The challenge for the IRS is to maintain this upward trajectory. The IRS has shifted some resources from service to enforcement to increase its enforcement activity but the Board sees limited opportunity to further this trend without reducing taxpayer service.

The IRS has made slow but steady progress in replacing its antiquated IT systems. The most noticeable improvements to taxpayers have been increased use of electronic products and services to interact with the IRS, such as electronic filing of tax returns and Internet services such as "Where's my Refund." Infrastructure improvements have also allowed the IRS to improve toll-free telephone level of service through more effective call routing. However, the IRS' performance is still hampered by archaic data management systems used for central record-keeping that update taxpayer account information on a weekly, instead of a daily basis.

The Oversight Board has advocated since its inception in September 2000 that the BSM program be funded at a higher level so progress could be made more quickly. Admittedly, the program experienced a series of cost and schedule overruns during its first several years, and the result of those problems has been to slow down the funding stream to levels that dictate only modest progress can be made in modernizing the core IRS master files and account management systems. Such reductions in funding must now be restored so that the pace of IT modernization can be increased.

The Board is very conscious of the risks that the IRS' antiquated information technology systems place on tax administration. As the security threat to IT systems of all types seems to grow almost daily, the risks to information systems have never been greater. The IRS must place more emphasis on ensuring that all its information systems are safe from both direct threats and accidental disclosure.

The age of its information systems also inhibits the IRS from responding rapidly to emerging issues and changes in the environment. Late changes to requirements in the application of the Alternative Minimum Tax (AMT) threatened to delay the start of the filing season because of the length of time it takes the IRS to update its computer systems. Public policy decision-makers found that the IRS was limited in its ability to distribute tax rebate checks as various economic stimuli were being considered to lessen the threat of a possible recession. The fact is that systems as old as those used by the IRS for tax administration record-keeping are not capable of accommodating rapid changes in requirements.

Evaluating Results

This report by the IRS Oversight Board is not simply a report of the budget dollars requested for FY2009; it is a report on the resources needed by the IRS to provide an expected level of performance for the resources requested—a performance budget. The Oversight Board fully supports the principles of performance budgeting and believes that the alignment of the resource plan with the anticipated level of performance in the performance plan is a critical component to successful achievement of strategic goals and objectives.

The IRS provided an array of measures in its performance budget that it will use to track its performance levels in FY2009 by strategic goal. Although these measures are useful for monitoring certain aspects of IRS performance, the Board believes that an expanded array of performance standards that are customer-focused, easily understood by taxpayers, and evaluate many of the daily interactions between the IRS and taxpayers are needed to complement the performance measures in the budget. The Board intends to monitor these additional performance standards during the fiscal year and evaluate them at the end of the year.

The additional performance standards suggested by the Board will:

- Focus more attention on the taxpayer perspective of interactions with the IRS
- Assist in tracking taxpayer needs and reasonable expectations
- Provide a balance between business and customer focus, between service and enforcement objectives, and between efficiency and effectiveness
- Enhance the line of sight from fiscal year performance to the IRS strategic plan objectives and goals

The IRS performance measures and target values that were included in the IRS FY2009 performance budget submitted to the Board for approval in May 2006 are provided in Appendix A. The expanded performance standards the Board will use to complement the budget performance measures during FY2009 are contained in Appendix B.

The Board understands the difficulty in developing meaningful and reliable measures and performance goals. The Board does not believe that any array of measures can be perfect. Performance measurement should not be a static process, but rather a continual work in progress. The IRS must implement a process to review and improve its performance measurement system and measures every year. It should continually look at its measures to identify, develop, and use better measures where its current measures do not provide timely, accurate and valid performance information.

The use of measures will make it easier for oversight organizations to hold the IRS accountable for achieving expected results. A robust program of performance measurement will provide a context for informed decision-making and help provide a clearer picture of the health of the entire tax administration system.

II. Comparison of the Oversight Board's FY2009 IRS Budget Recommendation to the President's Request

IRS Oversight Board Recommended IRS FY2009 Budget

The IRS Oversight Board recommends an IRS FY2009 budget of \$11.737 billion, an increase of \$845 million over the FY2008 enacted appropriation of \$10.892 billion, as shown in Table 1. This recommendation compares to the President's request of \$11.361 billion, an increase of \$469 million over the FY2008 appropriation. The two budgets are within \$376 million of one another, but as discussed below, take different views of funding priorities.

In submitting its budget recommendations to the Secretary of the Treasury in June 2007, as required by 26 U.S.C. § 7802(d)(4)(B), the Board based its recommendations primarily on the need to adopt an IRS budget that can reduce the tax gap in the long term. Given the IRS' current resource limitations and the multiple causes for the tax gap, an expectation of dramatic progress is unrealistic, but the American taxpayer has a right to expect steady progress.

Even when considering subsequent payments of \$55 billion, the net annual tax gap stands at \$290 billion. The Oversight Board believes that more must be done to reduce the tax gap. In approving the FY2009 budget, the Board placed high emphasis on recommending a broad set of balanced initiatives that can contribute to reducing the tax gap.

Despite significant improvement in IRS performance, the size of the tax gap indicates that much remains to be done to strengthen the state of tax administration. Modernization of information technology systems has proceeded slowly due to management difficulties and low funding. However, as the Government Accountability Office notes,¹ the IRS has made significant progress in its business systems modernization management controls and capabilities, and now seems ready to make more substantial strides forward if funding is increased.

Both the Board's and President's FY2009 budgets are built on the same base, the FY2008 enacted appropriation of \$10.892 billion and use the same inflation adjustments and program savings of \$200.1 million, resulting in a base FY2009 budget of \$11.093 billion.

To facilitate the direct comparison of the Board's and President's FY2009 IRS budgets, Table 2 displays the Board's recommended budget by appropriation account.

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Table 1: **IRS Oversight Board Recommended
FY2009 IRS Budget**
(dollars in millions)

FY2008 Enacted Appropriation	\$10,892.38
Base Adjustments	\$262.62
Savings/Reinvestments	(\$61.65)
FY2008 Base	\$11,093.35
Initiatives	
Enforcement	
Reduce the Tax Gap for Small Business/Self-Employed	\$120.7
Increase Reporting Compliance of Domestic Taxpayers with Offshore Activity	\$16.4
Reduce the Tax Gap for Large Businesses	\$52.0
Expand Federal Payment Levy Program	\$17.3
Reduce Tax Fraud	\$72.2
Enhance Financial Investigations of Narcotics Trafficking Organizations	\$24.0
Enhance BSA Compliance Program	\$3.4
Address Complexity through Up-Front Guidance, Education, and Correction Opportunities	\$8.9
Expand Examination of Tax Exempt Organizations	\$28.6
Increase Tax Court Litigation	\$5.8
Implement New Procedural Tax Court Requirements	\$3.4
Improve Tax Gap Estimates, Measurement, and Detection of Non-Compliance	\$11.1
Increase Monitoring of Preparers	\$2.5
Total Enforcement	\$366.3
Taxpayer Service	
Maintain Processing of Critical Pension Plan Returns	\$6.3
Research Taxpayer Burden, Complexity, and Compliance	\$10.0
Increase Monitoring of Preparers	\$10.0
Total Service	\$26.3
Infrastructure/IT	
Enhance IT Security	\$16.7
Enhance Contingency Planning and Disaster Recovery	\$8.7
Implement Security Auditing	\$6.8
Redesign Form 990 for Tax Exempt Organizations	\$23.5
Preserve Quality IT Workforce in Applications Development	\$36.8
Build Alternate Power Supply for the Computing Centers	\$11.0
Total Infrastructure/IT	\$103.5
Business Systems Modernization (BSM)	\$142.4
HITCA	\$5.50
Total Initiatives	\$644.00
FY2009 Budget Recommendation	\$11,737.35
FY2009 Recommendation over FY2008 Enacted Appropriation	\$844.97
FY2009 President's Request for IRS	\$11,361.51
Increase over President's FY2009 Budget Request	\$375.8

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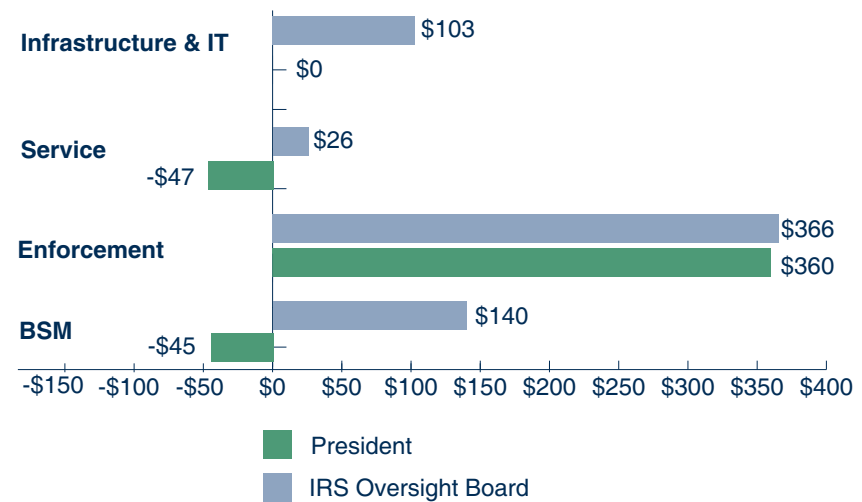
Table 2: **IRS Oversight Board's Recommended FY2009 IRS Budget by Function**
(dollars in millions)

	Taxpayer Services	Enforce-ment	Ops Support	BSM	HITCA	TOTAL
FY2008 Enacted Appropriation	\$2,150.0	\$4,780.0	\$3,680.1	\$267.1	\$15.2	\$10,892.4
Base Adjustments	\$54.7	\$125.0	\$81.2	\$1.4	\$0.3	\$262.6
Savings/Reinvestments	-\$10.5	-\$48.8	-\$2.2	\$0.0	-\$0.2	-\$61.6
FY2009 Base Budget	\$2,194.2	\$4,856.2	\$3,759.0	\$268.4	\$15.4	\$11,093.4
Initiatives						
Enforcement						
Reduce the Tax Gap for Small Business/ Self-Employed	\$2.9	\$94.0	\$23.8			\$120.7
Increase Reporting Compliance of Domestic Taxpayers with Offshore Activity		\$13.8	\$2.6			\$16.4
Reduce the Tax Gap for Large Businesses		\$44.0	\$8.0			\$52.0
Expand Federal Payment Levy Program	\$0.4	\$16.5	\$0.4			\$17.3
Reduce Tax Fraud		\$55.8	\$16.4			\$72.2
Enhance Financial Investigations of Narcotics Trafficking Organizations		\$21.0	\$3.0			\$24.0
Enhance BSA Compliance Program		\$2.8	\$0.6			\$3.5
Address Complexity through Up-Front Guidance, Education, and Correction Opportunities	\$1.1	\$6.5	\$1.3			\$8.9
Expand Examination of Tax Exempt Organizations	\$0.2	\$23.3	\$5.1			\$28.6
Increase Tax Court Litigation		\$5.0	\$0.8			\$5.8
Implement New Procedural Tax Court Requirements		\$2.8	\$0.5			\$3.4
Improve Tax Gap Estimates, Measurement, and Detection of Non-Compliance		\$7.6	\$3.5			\$11.1
Increase Monitoring of Preparers		\$2.2	\$0.4			\$2.5
Total Enforcement	\$4.7	\$295.2	\$66.5			\$366.3
Taxpayer Services						
Maintain Processing of Critical Pension Plan Returns	\$6.0		\$0.2			\$6.3
Research Taxpayer Burden, Complexity, and Compliance			\$10.0			\$10.0
Expand VITA and Low Income Tax Clinics	\$9.8		\$0.2			\$10.0
Total Service	\$15.8		\$10.5			\$26.3
Infrastructure/IT						
Enhance IT Security			\$16.7			\$16.7
Enhance Contingency Planning and Disaster Recovery			\$8.7			\$8.7
Implement Security Auditing			\$6.8			\$6.8
Redesign Form 990 for Tax Exempt Organizations			\$23.5			\$23.5
Preserve Quality IT Workforce			\$36.8			\$36.8
Build Alternate Power Supply for the Comp Centers			\$11.0			\$11.0
Infrastructure/IT Initiatives Subtotal			\$103.5			\$103.5
Business Systems Modernization (BSM)			\$1.2	\$141.2		\$142.4
HITCA					\$5.5	\$5.5
Total Initiatives	\$20.5	\$295.2	\$181.6	\$141.2	\$5.5	\$644.0
FY 2009 Budget Recommendation	\$2,214.7	\$5,151.4	\$3,940.6	\$409.7	\$20.9	\$11,737.4
FY 2009 Recommendation over FY08 Enacted	\$64.7	\$371.4	\$260.6	\$142.6	\$5.7	\$845.0
FY 2009 President's Request for IRS	\$2,150.0	\$5,117.3	\$3,856.2	\$222.7	\$15.4	\$11,361.5
Increase Over President's Budget Request	\$64.7	\$34.2	\$84.5	\$187.0	\$5.5	\$375.8

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The two budgets have divergent views on the priorities for program initiatives. The Board recommends a total of \$644 million in program initiatives, spread among four areas: enforcement, taxpayer service, infrastructure and Information Technology (IT), and Business Systems Modernization (BSM). The President's budget requests a nearly identical amount of funding for enforcement initiatives as the Board, but cuts taxpayer service and BSM funds, and includes no program initiatives for infrastructure and IT. Figure 2 shows the differences in graphic form.

Figure 2. **Program Initiative Funding**
(in dollars in millions)



Although both the Oversight Board's and President's budgets have as a core objective the reduction of the tax gap, the Board's recommended budget is more balanced in recommending funding initiatives across the full range of IRS functions and taxpayer segments. The Board's recommended budget calls for improving a broad range of tax administration functions, in contrast to the President's budget that has as its central focus a short-term effort to build up IRS revenue-producing enforcement staffing at a time when the IRS is hard-pressed to replace the high number of experienced employees who are retiring. Increased staffing is important, but the Oversight Board believes the IRS cannot "audit its way out" of the tax gap, and should avoid the temptation to close the tax gap with large staffing increases in revenue-producing functions that cannot be absorbed effectively. The Board believes its recommended budget avoids this problem by focusing on ways to make the IRS more efficient in the long term, and putting more resources into technology, infrastructure, and service as well as enforcement.

In testimony before the Senate Finance Committee in 2006, the IRS Oversight Board suggested that reducing the tax gap would require a comprehensive set of strategies with aggressive action on many fronts

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—from a simpler tax code and more complete income reporting to better enforcement and quality customer service. The Treasury Department released its tax gap strategy, *A Comprehensive Strategy for Reducing the Tax Gap*,² in late 2006 that identified the following recommendations:

1. Reduce Opportunities for Evasion
2. Make a Multi-Year Commitment to Research
3. Continue Improvements in Information Technology
4. Improve Compliance Activities
5. Enhance Taxpayer Service
6. Reform and Simplify the Tax Law
7. Coordinate with Partners and Stakeholders

The Board believes that its budget, by providing a balanced set of initiatives that improve information technology, infrastructure, enforcement, and service, are consistent with the Treasury Department's comprehensive strategy.

Because reducing the tax gap is of critical importance, the Board has identified a subset of its initiatives as having the highest priority. These initiatives are generally infrastructure and research intensive and will have the greatest effect on reducing the tax gap in the long term. The Oversight Board identified of its initiatives the same areas as high priority in the FY2008 budget. These initiatives are identified in Table 3.

Table 3: **IRS Oversight Board Highest Priority Initiatives**
(dollars in millions)

Fund Business Systems Modernization in Line with Current Strategy	\$141.2
Enhance IT Security	\$16.7
Enhance Contingency Planning and Disaster Recovery	\$8.7
Implement Security Auditing	\$6.8
Preserve Quality IT workforce in Applications Development	\$36.8
Build Alternate Power Supply for Computing Center	\$11.0
Infrastructure Subtotal	\$221.2
Enforcement	
Improve Tax Gap Estimates, Measurement, and Detection of Non-compliance	\$11.1
Taxpayer Service	
Research Taxpayer Burden, Complexity, and Compliance	\$10.0
Total Highest Priority Initiatives	\$242.3

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None of these initiatives, except the enforcement initiative for improving tax gap estimates, are funded in the President's budget. Moreover, as shown in Figure 2, the BSM program and taxpayer service programs undergo reductions of \$45 million and \$47 million, respectively. The Board recommends that the appropriated IRS FY2009 budget closely follow the priorities and balance reflected in this report.

The following sections discuss the Board's budget recommendations in the context of each of the IRS' three strategic goals.

Strategic Goal 1 – Improve Taxpayer Service

IRS customer service has made consistent gains since FY2002. For example, Toll-Free Tax Law Accuracy and Accounts Accuracy were at 91 percent and 93 percent respectively in FY2007, as compared to 84.4 percent and 90 percent five years ago. Of particular note, overall customer satisfaction with IRS Toll-Free Service has held steady at 94 percent for four consecutive years. Such stability is most welcome and an indicator that best practices have taken root.

As a result, a more pressing challenge is to deliver more extensive electronic self-assistance tools and to perform research that identifies innovative ways to expand taxpayer education and outreach to all taxpayer segments, especially those who are now under-served.

To a large degree, many of the IRS' customer service activities are designed to respond to taxpayer inquiries. Examples include toll-free telephone service and Taxpayer Assistance Centers. Overall, the IRS has done a good job fielding and answering questions, whether via toll-free telephone, the Internet, or in person at Taxpayer Assistance Centers.

The IRS expends considerably fewer resources on education and outreach services. A broader approach to customer service would entail giving taxpayers access to self-service applications so they could "pull" specific information on accounts or tax law, and "push" answers, information and updates to taxpayers, practitioners and other affected parties as the need for such information became apparent. Lastly, the IRS must seize opportunities to provide innovative outreach, education and community partnerships. For example, given limited resources and elimination of programs such as TeleFile, the IRS must also work to broaden and strengthen partnerships, such as Volunteers in Tax Assistance (VITA).

To take customer service to the next level, the IRS must better understand the taxpayers it serves. The IRS must conduct more insightful research, and based on this analysis, develop services better tailored to the specific needs of particular taxpayer segments. By better understanding taxpayers, the IRS can focus both its service and enforcement efforts to increase compliance through targeted pre-filing, filing, and post-filing efforts. The IRS must find out what kind of information and assistance taxpayers need and the most effective ways of delivering that information to them.

In the last two years, the IRS has put considerable effort into developing the Taxpayer Assistance Blueprint (TAB), which establishes a five-year plan for delivering service to taxpayers. This vision entails a much broader use of electronic interactions between taxpayers, practitioners and the IRS, such as account management and the ability to resolve taxpayer issues securely over the Internet. The TAB describes an IRS that is an “interactive and fully integrated, online tax administration agency” with the capability “for any exchange or transaction that occurs face-to-face, over the phone, or in writing to be completed electronically.” These types of services are much along the lines of what customers of large financial institutions already experience today but are still for the most part unavailable to taxpayers.

The Oversight Board disagrees with the President’s budget reductions for taxpayer service and recommends that the following three initiatives be funded for a total of \$26.3 million:

- Maintain Processing of Critical Pension Plan Returns (\$6.3 million)
- Research Taxpayer Burden, Complexity, and Compliance (\$10 million)
- Expand Volunteer Income Tax Assistance and Low Income Tax Clinics (\$10 million)

More information on each initiative is contained in Table C-1 in Appendix C. The first initiative supports taxpayer service by providing funds to maintain processing of essential pension plan return information while transitioning to a new mandated electronic filing system “EFAST2” in 2010. It also enables processing of residual returns that are IRS-only forms and not part of the mandated EFAST2 system (Form 5500EZ and Schedule SSA filings).

The second initiative provides funding to enhance understanding of the interaction between taxpayer burden, complexity of the tax law and process, and taxpayer compliance. This research will help improve understanding of these inter-relationships, in keeping with strategies put forth in the TAB and the Department of the Treasury *Comprehensive Strategy for Reducing the Tax Gap*.

The third initiative provides funding to enhance two programs to improve service delivery to two taxpayer population segments with specifically identified needs: the growing number of elderly and the ethnically diverse. These taxpayer segments face unique challenges in meeting their tax obligations because of limited access to, experience with, or ability to use all of the channels offered for service delivery. Additional resources will enhance the IRS’ volunteer return preparation and other services provided by the VITA program and the Low Income Tax Clinic program with emphasis on both targeted taxpayer segments. Such services help created a more fair and just tax system.

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Tables A-1 and B-1 in Appendices A and B, respectively, show the performance levels the IRS expects to achieve in support of Strategic Goal 1 to improve taxpayer service, and the measures that the IRS and the Board will use to monitor IRS taxpayer service performance in FY2009.

Strategic Goal 2 – Enhance Enforcement of the Tax Law

Increases in IRS enforcement activity intended to produce gains in direct revenue collection must be balanced with a broad view of the tax gap. The Board recognizes that increased enforcement activity over the past five years has produced noticeable results—enforcement revenue has increased from \$34.1 billion in FY2002 to \$59.2 billion in FY2007, a gain of nearly 74 percent. The IRS estimates that it can produce a four-to-one return on every dollar invested in additional enforcement resources, a fact that the Board believes warrants the appropriation of additional enforcement funding.

However, while the Board applauds the increases in enforcement activity and revenue, it also recognizes that the IRS cannot “audit its way out” of the tax gap. There is wide belief, as evidenced by the Board’s recommendations for reducing the tax gap and the aforementioned Treasury Department’s tax gap strategy, *A Comprehensive Strategy for Reducing the Tax Gap*, that an integrated set of comprehensive actions is needed. Even a large infusion of resources for more enforcement personnel—something highly unlikely—would not eliminate the tax gap. There are many reasons for taxpayer non-compliance, and only a balanced program that promotes voluntary compliance across a broad continuum of taxpayers, from education and service for those who want to comply, to enforcement and even criminal prosecutions for those who refuse to comply, can be effective.

Table 4 compares the Board’s and President’s enforcement initiatives. Although very close in dollars, the President’s initiatives place more emphasis on enforcement resources that can be shown to produce revenue in the short term. The Board’s recommendations take a broader view of enforcement. The Board recommends program increases in such areas as expanded collection of proper taxes from recipients of federal payments, investigation of tax-related criminal activity, Bank Secrecy Act compliance, tax exempt organization examination, more published guidance for TE/GE taxpayers, additional litigation staff, and tax preparer monitoring. More details about the Board’s recommended enforcement initiatives can be found in Table C-2 in Appendix C.

FY2009 IRS Budget Recommendations

Table 4. Comparison of Enforcement Initiatives for Board's and President's Budgets

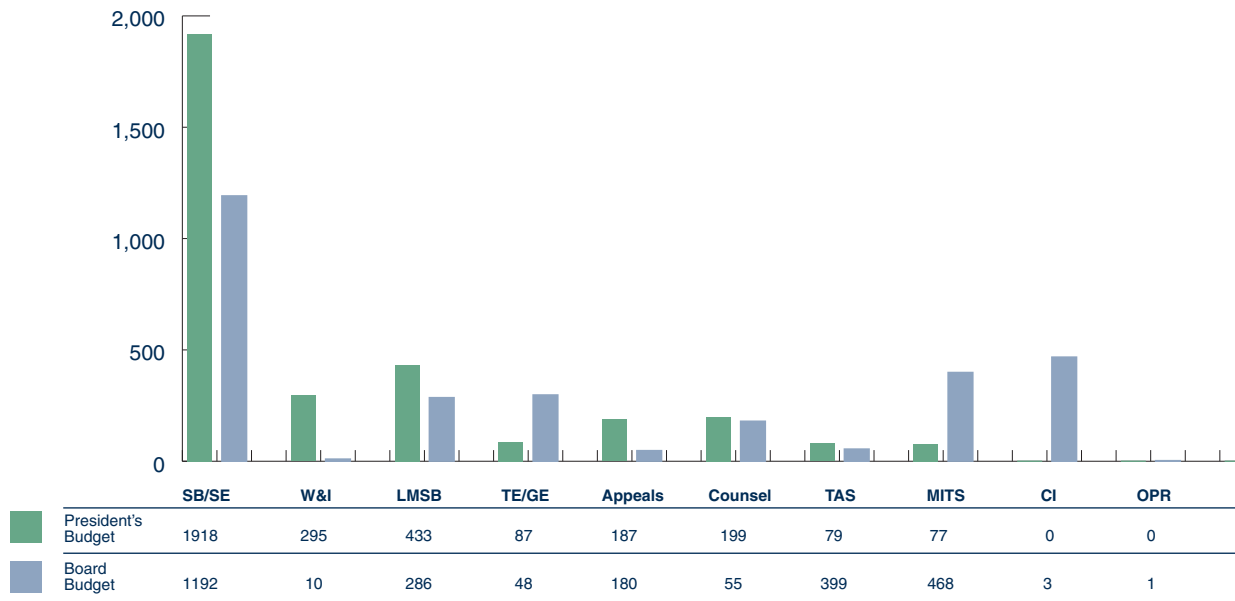
Oversight Board's Budget Enforcement Initiatives	Dollars (M)	President's Budget Enforcement Initiatives	Dollars (M)
Reduce the Tax Gap for Small Business/ Self-Employed	\$120.7	Reduce the Tax Gap for Small Business/ Self-Employed	\$168.50
Increase Reporting Compliance of Domestic Taxpayers with Offshore Activity	\$16.4	Improve Reporting Compliance of US Taxpayers with Offshore Activity	\$13.70
Reduce the Tax Gap for Large Businesses	\$52.0	Reduce the Tax Gap for Large Business	\$69.49
Expand Federal Payment Levy Program	\$17.3		
Reduce Tax Fraud	\$72.2		
Enhance Financial Investigations of Narcotics Trafficking Organizations	\$24.0		
Enhance BSA Compliance Program	\$3.4		
Address Complexity through Up-Front Guidance, Education, and Correction Opportunities	\$8.9		
Expand Examination of Tax Exempt Organizations	\$28.6		
Increase Tax Court Litigation	\$5.8		
Implement New Procedural Tax Court Requirements	\$3.4		
Improve Tax Gap Estimates, Measurement, and Detection of Non-Compliance	\$11.1	Improve Tax Gap Estimates, Measurement, and Detection of Non-Compliance	\$51.06
Increase Monitoring of Preparers	\$2.5		
		Expand Document Matching	\$35.06
		Implement Legislative Proposals to Improve Compliance	\$23.05
Total Enforcement	\$366.3	Total Enforcement	\$360.85

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Additional enforcement resources produce a positive return on investment and results in short-term revenue, so the benefits of increased enforcement are apparent. However, increases in enforcement resources must also be balanced with more systemic long-range actions that improve voluntary compliance, and priorities must be considered as budget resources are limited. The Oversight Board considers technology modernization and research a higher priority than additional enforcement resources, in recognition of the long-term impact that technology modernization and research have on the IRS' ability to work more efficiently to reduce the tax gap and to be better able to focus both its service and enforcement resources optimally.

Another factor that must be considered is the degree to which additional staffing can be absorbed into various IRS organizational units. Figure 3 depicts graphically the distribution of new hires in major IRS organizations that are required by the President's and Board's budget. The Board believes its budget recommendations strike a more balanced posture across all IRS organizational units and expands enforcement resources for a range of activities that are important elements of IRS enforcement, although they do not generate revenue directly, such as examination of tax exempt organizations, regulation of pension plans, criminal investigation of tax fraud, and abusive tax shelters. These activities are all part of a balanced, effective enforcement program that has as an ultimate goal of promoting voluntary compliance among all taxpayer segments.

Figure 3. New Hires by Organization: Board's vs. President's Budget



FY2009 IRS Budget Recommendations

To better understand the impact of both budgets on the Small Business/Self-Employed (SB/SE) and Large and Mid-Sized Business (LMSB) organizations, the Board examined hiring requirements during FY2009 for both divisions. Table 5 shows the number of Mission Critical Occupation (MCO) employees projected to be on-rolls as of September 30, 2008, as well as the hiring requirements contained in both budgets. The Board has used a rule of thumb that 15 percent of new hires is a reasonable limit on the amount of new hires that can be effectively accommodated into an organization in a year. It had concerns with the hiring implications of its own budget on SB/SE, but thought this risk could be mitigated. The President's budget would increase the percentage of new hires in SB/SE to over 23 percent of its employees in FY2009, and over 16 percent for LMSB.

Table 5. **SB/SE and LMSB Hiring Requirements in the Board's and President's FY2009 Budgets**

Operating Unit Mission Critical	Projected on Rolls as of 9/30/2008	Projected Attrition Hires in FY09	Projected New Hires in FY09 to Meet Budget Request	Total Attrition Hires and New Hires	Percent of Hires to Total MCO Population
IRS Oversight Board Budget					
SB/SE	19,394	2,612	1,177	3,789	19.5%
LMSB	5,126	403	273	676	13.2%
President's Budget					
SB/SE	19,394	2,612	1,918	4,530	23.4%
LMSB	5,126	403	433	676	16.3%

As in FY2006 through FY2008, the Administration proposes to include its requested enforcement increases as a Budget Enforcement Act program integrity cap adjustment. The Oversight Board believes that approximately \$220 million of its recommended enforcement initiatives would also qualify for such treatment, should Congress decide to make such an adjustment.

Tables A-2 and B-2 of Appendices A and B, respectively, show the measures that the IRS and Oversight Board will use to evaluate the IRS' performance toward achievement of its Strategic Goal 2 to enhance enforcement of the tax law. Although the change in performance targets may appear relatively flat from FY2008 to FY2009, the IRS process for evaluating performance takes into account the hiring and training process needed to bring new employees up to the same productivity levels of current employees. This lag time only serves to emphasize the importance of the IRS being able to grow its base of enforcement personnel in a measured fashion.

Strategic Goal 3 – Modernize the IRS Through its People, Processes and Technology

The most effective strategy for reducing the tax gap in the long term is to provide the IRS with modern technology that enables it to operate at a high performance level. The Board has no doubts that a high performing organization with high service, quality, and satisfaction levels also minimizes taxpayer burden. Under such conditions, service and enforcement activities are prompt, efficient, and correct.

The Board has identified program initiatives for IT and infrastructure activities that are funded under the BSM and Operations Support accounts. These initiatives will further modernize the IRS core IT systems used for tax administration, upgrade its infrastructure, and improve its security posture.

Business Systems Modernization Program Initiative

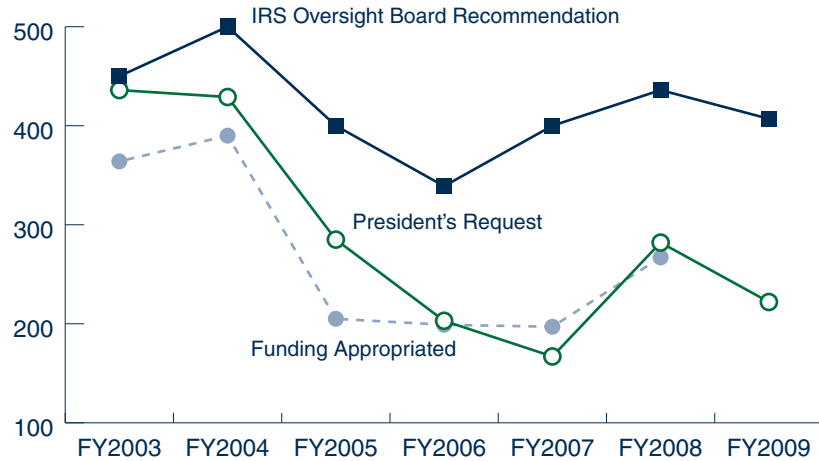
Tax administration is a knowledge-intensive activity and the IRS depends heavily on information technology (IT) to leverage the knowledge and perform its mission. The IRS has made slow but steady progress in replacing its antiquated IT systems. The most noticeable improvements to taxpayers have been increased use of electronic products and services to interact with the IRS, such as electronic filing of tax returns and Internet services such as “Where’s my Refund?”, “*¿Dónde está mi reembolso?*”, and Practitioner e-Services. Infrastructure improvements have also allowed the IRS to improve toll-free telephone level of service through more effective call routing. However, the IRS’ performance is still hampered by archaic data management systems used for central record-keeping that updates taxpayer account information on a weekly instead of a daily basis.

The Oversight Board has long advocated that the BSM program be funded at a higher level so progress could be made more quickly. Admittedly, the program experienced a series of cost and schedule overruns during its first several years, and the result of those problems has been to slow down the funding stream to levels that dictate only modest progress can be made in modernizing the core IRS master files and account management systems. Because of its long-term effect on reducing the tax gap, the Board considers increasing BSM funding so that the pace of IT modernization can be increased as having the highest priority.

Figure 4 compares the BSM budget recommended by the Oversight Board, the amount requested by the President, and the BSM funding appropriated by Congress for fiscal years 2003 to 2008. BSM funding needs to be restored to the levels realized in FY2003 and FY2004 to make progress faster. Had the Board’s funding recommendations been followed, the IRS would be closer to the day when it could update its central records on a daily basis.

FY2009 IRS Budget Recommendations

Figure 4. **BSM Funding FY2003 to FY2009**
(in dollars in millions)



The Board's and President's FY2009 budgets for the BSM program are shown on Table 6.

Table 6:
Application of FY2009 BSM Funding to Projects in the Oversight Board and President's Budgets
(in dollars in millions)

Project Activities	Oversight Board			President	
	FY2008	FY2009	Increase over FY2008	FY2009	Increase over FY2008
Customer Account Data Engine	\$58.5	\$80.0	\$21.5	\$58.8	\$0.3
Accounts Management Services	\$29.0	\$47.4	\$18.4	\$26.2	(\$2.8)
Modernized e-File	\$55.8	\$36.1	(\$19.7)	\$25.0	(\$30.8)
Common Services Project	\$0.0	\$16.0	\$16.0	\$0.0	\$0.0
Integrated Financial System	\$0.0	\$73.0	\$73.0	\$0.0	\$0.0
Core Infrastructure; Architecture Integration & Management; and Management Reserve	\$78.6	\$98.1	\$19.5	\$69.3	(\$9.3)
Subtotal Capital Investments	\$221.8	350.6	\$128.8	\$179.3	(42.6)
BSM Labor	\$45.2	\$56.7	\$11.5	\$43.4	(\$1.8)
BSM Program Total	\$267.1	\$407.3	\$140.2	\$222.7	(\$44.4)

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Details of the Board's BSM program initiatives are found in Table C-3 in Appendix C. The Board believes that when implemented, modernized IT systems will literally save taxpayers billions of dollars in burden reduction and make the IRS much more efficient. For example, replacement of the Individual Master File by the Customer Account Data Engine (CADE) will allow the IRS to update the tax accounts for individuals on a daily basis, instead of its current weekly update process. The Oversight Board expects that a rapid refund from the IRS of three to five days will reduce the number of Refund Anticipation Loans (RALs). The National Consumer Law Center and Consumer Federation of America estimate that approximately 12 million American taxpayers spent an unnecessary \$1.6 billion on RALs in 2004 (the latest year for which data is available) to obtain their refund monies faster by two weeks. Moreover, daily updating of account records will give IRS employees and taxpayers access to the most current taxpayer account data, eliminating the problems associated with having various data bases with less than current status. The Oversight Board expects that daily posting of account information will improve the IRS' analysis capability and greatly reduce the burdens associated with the account resolution process.

The Modernized e-File system not only makes it easier for taxpayers to file tax returns with the IRS, it reduces the human resources needed to receive and process tax returns and eliminates the error-prone transcription process. For corporate filers, it helps the LMSB division improve currency and cycle time in working large corporate tax cases. When implemented for individual tax returns, it will make the electronic filing process even simpler than it is today with the current legacy electronic filing system.

The Integrated Financial System (IFS) will provide necessary improvements to the system the IRS uses to manage its financial resources, clearly a must for any agency, especially one that is responsible for managing taxpayers' accounts as well as its own appropriated resources. The IFS upgrade is needed to ensure that the IRS remains in compliance with federal accounting and other financial management requirements. The additional funding for the IFS initiative will enable the IRS to add procurement and asset management modules to the existing IFS application and integrate related business processes with core accounting and financial management operations. The funding will also provide for the subsequent transfer of IFS to a Shared Service Center and thereby maintain its longer term viability.

The Board believes that funding for the BSM program should be accelerated, not slowed down. Failure to fund the IRS BSM program at higher levels, in the view of the Board, is a case of being penny-wise and pound foolish.

Information Technology/Infrastructure Program Initiatives

The IRS must be held to the highest standards for security and data integrity while increasing its engagement in the electronic world in which most taxpayers already live. Meeting this dual challenge of high security and a high degree of electronic interaction with taxpayers demands that the IRS have modern information systems and infrastructure.

The Board recommends six program initiatives for a total of \$103 million that will improve the IRS' operations by allowing it to make critical improvement to its technology and personnel infrastructure. Although it may take several years for these initiatives to produce benefits, the Board believes infrastructure improvements is an essential element of achieving IRS' strategic goals and objectives. By comparison, the President's budget contains no initiatives for IRS infrastructure.

Three of the initiatives, totaling \$32.2 million, enhance the IRS' security posture as the way the IRS does business continues to evolve and security threats seem to increase on a daily basis. Data security has taken on an expanded meaning in a post 9/11 world. Terrorists from around the globe are actively working to exploit weaknesses in government IT security systems with the intent of producing great physical and economic harm. Disrupting IRS returns processing and stealing sensitive information could wreak havoc on the economy and financial markets. The IRS cannot be complacent with respect to security, and the Board recommends the following security initiatives:

- Enhance IT Security (\$16.7 million)
- Enhance Contingency Planning and Disaster Recovery (\$8.7 million)
- Implement Security Auditing (\$6.8 million)

Table C-4 in Appendix C provides more information on these security initiatives. The first initiative enables the IRS to further implement key IT security and privacy safeguards to assure the integrity of sensitive taxpayer and employee data and supporting infrastructure processes. Protecting taxpayer data is paramount. The second initiative is to enhance the IRS enterprise-wide contingency planning and disaster recovery capabilities to support critical business systems. Any unavailability of critical IRS business systems poses an unacceptably high risk to the nation's security. The third initiative, Security Auditing, will allow the IRS to more effectively monitor key networks and systems to identify any unauthorized activities.

The remaining three initiatives, for a total of \$71.3 million, allow the IRS to improve other elements of its IT infrastructure. They are:

- Redesign Form 990 for Tax Exempt Organizations (\$23.5 million)
- Preserve Quality IT Workforce in Applications Development (\$36.8 million)
- Build Alternate Power Supply for the Computing Centers (\$11.0 million)

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Table C-4 in Appendix C provides more information on these initiatives. The first initiative, the only one that is not considered high priority, is recommended because it brings new efficiencies to tax filing for a segment of taxpayers who are frequently ignored because their tax returns do not produce revenue—tax exempt organizations. The Form 990 tax return is difficult for tax exempt organizations to complete and for the public to comprehend. Worse, it fails to provide the IRS with sufficient information to detect and analyze compliance trends in the sector and target enforcement actions as needed.

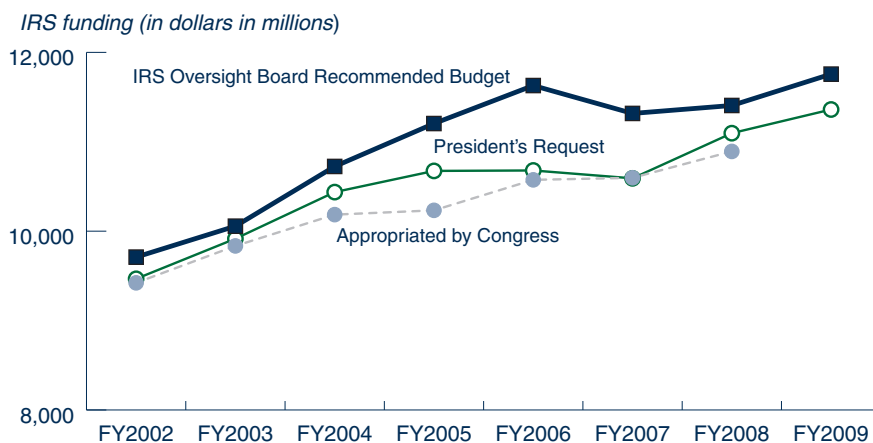
The second initiative will give the IRS better tools to retain its IT workforce by mitigating intellectual and experiential loss through a series of supporting strategies such as workforce re-tooling, succession planning, and retention. The third initiative provides alternate power supply for three of the IRS' computing centers. Currently there is but a single power supply facility at each of the computing centers. An alternate power supply capability at each center would ensure the continuous operation of, and access to, tax processing systems at the center during unplanned emergencies and planned power supply tests, and avoid the revenue loss and overtime expense associated with the current process that requires total shut down periods.

Tables A-3 and B-3 of Appendices A and B, respectively, show the measures that the IRS and Oversight Board will use to evaluate the IRS' performance toward achievement of its Strategic Goal 3 to modernize the IRS through its people, processes and technology. The additional performance standards used by the Board to complement the measures in the IRS FY2009 budget focus primarily on measures not associated with the BSM program, in order to recognize the importance of modernizing its people, process, and technology in areas that fall outside the scope of the BSM program. Such programs and activities also make an important contribution to IRS effectiveness and efficiency.

III. Budgetary Process and Scoring Mechanisms

In spite of recommendations made by the IRS Oversight Board, the IRS has not been funded at the most effective levels to achieve its strategic objectives. Figure 5 illustrates funding recommendations made by the Board since its inception, the President's budget request during this same time frame, and the funding appropriated by Congress. One of the principal reasons for this so-called "resource gap" is the budget process which treats the IRS the same as it does all other discretionary spending requests. It does not credit the IRS with bringing in 95 percent of all the revenue to fund the federal government, nor does it recognize the four-to-one return on every dollar invested in tax enforcement.

Figure 5. IRS Funding History FY2002-2009



The Oversight Board has urged Congress in previous reports to view funding of the IRS as an investment.³ Other members of the tax administration community, such as the National Taxpayer Advocate and the National Treasury Employees Union, have made similar recommendations.⁴

There are a number of approaches that Congress could take to achieve this result, such as funding the IRS outside of budget caps, and the Board believes that the implementation of such a change is best left for Congress to decide. The Board would be remiss, however, if it did not point out providing additional funds to the IRS has been consistently supported by nearly two out of three members of the public. In its annual Taxpayer Attitude Survey, the Board has asked taxpayers whether they

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support additional funding for the IRS. The results for 2005 through 2007 are shown in Table 7.

Table 7. **Results of Taxpayer Attitude Survey on IRS Funding**

	Percent Completely Agree			Percent Mostly Agree		
	2007	2006	2005	2007	2006	2005
The IRS should receive extra funding to enforce tax laws and ensure taxpayers pay what they owe.	24	24	20	40	39	43
The IRS should receive extra funding so it can assist more taxpayers over the phone and in person.	21	24	22	42	42	44

The Board believes such strong support indicates the public understands the need for effective tax administration and realizes that, ultimately, it pays for itself.

IV. Conclusion

Approving a budget is not just about money; it is also about choices. The Board believes its budget recommendations, if implemented, will put the IRS on an effective long-term path to achieving the IRS strategic goals, improving voluntary compliance, and reducing the tax gap.

Although the Board's recommended budget is only \$376 million more than the President's request, there are some important decisions that must be made with respect to priorities and balance. The Congress must not only decide the amounts to be appropriated, but must also choose whether it wants to pursue short-term growth in enforcement over a more balanced path that stresses the benefits of long-term investments in technology, infrastructure, service, and research.

Both the Oversight Board's and President's budgets have as a core objective the reduction of the tax gap. The Board's budget is more balanced in recommending funding initiatives across the full range of tax administration functions and taxpayer segments, and not having as its central focus short-term efforts to build up IRS staffing at a time when the IRS is hard-pressed just to replace the high number of experienced employees who are retiring. Increased staffing is important, but the Oversight Board believes the temptation to achieve a short-term increase in enforcement revenue should not lead to staffing increases the IRS cannot absorb effectively. The Board believes its recommended budget avoids this problem by focusing on ways to make the IRS more efficient in the long term, and spreading staffing increases across a broad spectrum of enforcement and service functions where they are needed.

By following this approach, the Board's recommended budget maintains balance at its core: enforcement, taxpayer service, BSM, and employee development must be adequately funded for the IRS to succeed in all parts of its mission and to ensure the long-term health of our tax administration system.

Both budgets recognize the importance of reducing the \$290 billion net tax gap, but the Board believes its approach is a better and more lasting way to achieve this goal. The Board's mission is to ensure the IRS' budget is adequate to meet its long-term goals. The recommendations in this report are intended to meet that objective and serve the taxpayers' best interests.

Endnotes

1. General Accounting Office, *Business Systems Modernization: Internal Revenue Service's Fiscal Year 2007* (GAO-07-240).
2. U.S. Department of Treasury, *A Comprehensive Strategy for Reducing the Tax Gap*, September 26, 2006.
3. IRS Oversight Board, *FY2006 IRS Budget Recommendations/Special Report; FY2007 IRS Budget Recommendations/Special Report; and FY2008 IRS Budget Recommendations/Special Report*.
4. National Taxpayer Advocate, *2006 Report to Congress*, Section 2, p. 445, and Statement of Colleen M. Kelley, President, National Treasury Employees Union, before the House Committee on Ways and Means, May 23, 2007.

Appendices:

Appendix A. IRS Performance Measures Included in the
FY2009 Budget

Appendix B. IRS Standards of Performance Monitored by
the Oversight Board

Appendix C. FY2009 IRS Program Initiatives

Appendix A

IRS Performance Measures Included in the FY2009 Budget

The measures contained in this appendix were included in the IRS FY2009 performance budget submission and are part of the President’s FY2008 budget request to Congress. The IRS will have an opportunity to update the FY2009 performance targets for these measures based upon the final budget resources included in its FY2009 funding. At the end of FY2009, the IRS will report on its progress in achieving the FY2009 performance targets in the Treasury Performance and Accountability Report.

Table A-1. Performance Measures for Strategic Goal 1: Improve Taxpayer Service

Measure	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
	Actual				Planned	
Timeliness of Critical Filing Season Tax Products to the Public (Ot)	76.0%	91.4%	83.0%	83.5%	86.0%	86.0%
Timeliness of Critical Other Tax Products to the Public (Ot)	76.0%	80.0%	61.2%	84.0%	86.0%	86.0%
Taxpayer Self Assistance Rate (E, L)	46.4%	42.5%	46.8%	49.5%	51.5%	52.5%
Refund Timeliness - Individual (paper) (Oe)	98.3%	99.2%	99.3%	98.9%	98.4%	98.4%
Percent Individual Returns Processed Electronically (Oe, L)	46.5%	51.1%	54.1%	57.1%	61.8%	64.7%
Percent of Business Returns Processed Electronically (Oe, L)	17.4%	17.8%	16.6%	19.1%	20.8%	22.8%
Customer Accuracy - Tax Law Phones (Oe)	80.0%	89.0%	90.9%	91.2%	91.0%	91.0%
Customer Accuracy - Accounts (Phones) (Oe)	89.3%	91.5%	93.2%	93.4%	93.5%	93.7%
Customer Contacts Resolved per Staff year (E)	8,015	7,585	7,414	7,648	8,000	8,100
Customer Service Representative (CSR) Level of Service (Oe,L)	87.3%	82.6%	82.0%	82.1%	82.0%	82.0%
Percent of Eligible Taxpayers Who File for EITC (Oe)	80.0%	N/A	*	*	75%-80%	75%-80%

* Data to estimate the eligibility rate will be available late in 2008.

**Table A-2.
Performance Measures for Strategic Goal 2: Enhance Enforcement of the Tax Law**

Measure	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
	Actual				Planned	
Examination Coverage - Individual (Oe, L)	.8%	.9%	1.0%	1.0%	1.0%	1.0%
Field Exam Embedded Quality (Oe, L)	N/A	N/A	85.9%	87.0%	87.0%	87.0%
Office Exam Embedded Quality (Oe, L)	N/A	N/A	88.2%	89.4%	90.0%	90.0%
Examination Quality (LMSB) - Industry (Oe, L)	74.0%	77.0%	85.0%	87.0%	88.0%	89.0%
Examination Quality (LMSB) - Coordinated Industry (Oe, L)	87.0%	89.0%	96.0%	96.0%	96.0%	96.0%
Examination Coverage - Business (Corps. > \$10M) (Oe, L)	7.5%	7.8%	7.3%	6.8%	6.6%	6.8%
AUR Efficiency (E, L)	1,514	1,701	1,832	1,956	1,961	1,823
AUR Coverage (E, L)	1.9%	2.2%	2.4%	2.5%	2.5%	2.5%
Examination Efficiency - Individual (E, L)	N/A	121	128	137	137	134
Collection Coverage - Units (Oe, L)	N/A	53.0%	54.0%	54.0%	53.0%	53.0%
Collections Efficiency - Units (E, L)	N/A	1,514	1,617	1,723	1,751	1,751
Field Collection Embedded Quality (Oe, L)	N/A	N/A	84.2%	84.0%	86.0%	86.0%
Automated Collection System (ACS) Accuracy (Oe)	87.8%	88.5%	91.0%	92.9%	92.0%	92.0%
Criminal Investigations Completed (Ot, L)	4,387	4,104	4,157	4,269	4,000	4,025
Number of Convictions (Ot, L)	2,008	2,151	2,019	2,155	2,135	2,135
Conviction Rate (E, L)	91.2%	91.2%	91.5%	90.2%	92.0%	92.0%
Conviction Efficiency Rate (E, L)	362,849	295,316	328,750	314,008	317,625	317,625
TEGE Determination Case Closures (Ot)	143,877	126,481	108,462	109,402	100,000	98,500

Key:

Oe - Outcome Measure
 E - Efficiency Measure
 Ot - Output/Workload Measure
 M - Management/Customer Satisfaction
 L - Long Term Goal

Table A-3. Performance Measures for Strategic Goal 3: Modernize the IRS Through its People, Progress and Technology

Measure	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
	Actual			Planned		
BSM Project Cost Variance by Release/Subrelease (E)	N/A	N/A	N/A	10.0%	10.0%	10.0%
BSM Project Schedule Variance by Release/Subrelease (E)	N/A	N/A	**	10.0%	10.0%	10.0%

** Cost and schedule variance based on +/- 10% and is reported on several project releases/subreleases.

Key:

- Oe - Outcome Measure
- E - Efficiency Measure
- Ot - Output/Workload Measure
- M - Management/Customer Satisfaction
- L - Long Term Goal

Appendix B

IRS Standards of Performance Monitored by the Oversight Board

The Oversight Board regularly conducts performance reviews on IRS performance levels and regularly monitors specific performance measures and targets. The performance measures included in the IRS budget submission do not provide a complete and distinct picture of IRS performance expectations for FY2009. Therefore, the Board has chosen to add a small number of additional performance measures and targets to its budget report that the Board will monitor and report progress at the end of FY2009.

These measures are focused on IRS taxpayer service activities. The Board has chosen an array of measures that include telephone activities, the timeliness of actions, actions that can cause taxpayer burden, customer satisfaction and a few internal IRS measures of efficiency. These measures are only a small number of the performance measures monitored by the Board.

Telephone Measures – The IRS handles millions of phone calls every year from taxpayers calling to ask questions, obtain information, respond to a notice, learn the status of an exam, and for other reasons. While more and more taxpayers are obtaining services from the IRS web site, the main contact point between taxpayers and the IRS is via telephone. Thus, more detailed information about telephone calls and the performance levels of some of the secondary phone systems with lesser call volumes will be monitored.

Error Rate Measures – Notice and deposit errors can cause rework, problems for the IRS, and additional taxpayer burden and can take significant time and resources to resolve.

Timeliness Measures – The amount of time it takes for the IRS to complete an interaction, answer the phone, or respond to a taxpayer's correspondence is a critical aspect of performance.

Customer Satisfaction Measures – Customer satisfaction measures are important indicators of how successful the IRS is at its interactions with taxpayers. Survey information can provide valuable insights into the needs and reasonable expectations of taxpayers.

Table B-1. Standards of Performance for Strategic Goal 1: Improve Taxpayer Service

Standards of Performance	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
	Actual				Target	
Avg. Wait Time on Hold (in seconds)	158	258	242	266	270	270
Primary Abandoned Call Rate (percent of callers who hang up before talking to a representative)	14.9%	14.2%	14.8%	15.3%	No target	No target
Secondary Abandoned Call Rate	8.0%	12.1%	6.1%	12.6%	No target	No target
Automated UnderReporter Telephone Level of Service	73.0%	71.3%	64.7%	73.8%	74.0%	74.0%
Notice Error Rate (individual)	9.5%	9.2%	5.4%	N/A	N/A	*
Notice Error Rate (business)	21.3%	7.4%	4.9%	N/A	N/A	*
Notice Error Rate (combined)	Measure combined in FY2007			4.4%	Combined into new measure	
Deposit Error Rate (individual)	3.5%	2.2%	1.6%	N/A	N/A	
Deposit Error Rate (business)	1.0%	0.9%	1.3%	N/A	N/A	
Deposit Error Rate (combined)	Measure combined in FY2007			1.3%	1.3%	1.2%
Correspondence Error Rate (w/ systemic errors)	New measure for FY08*				4.3%	4.1%
Determination Letters Timeliness (days) Exempt Organizations	104	124	134	122	120	124
Determination Letters Timeliness (days) Employee Plans *	208	324	242	401	366	251
Exempt Organization Determination Customer Satisfaction	70.0%	69.0%	70.0%	69.0%	70.0%	70.0%
Accounts Management Customer Satisfaction (adjustments)	65.0%	65.0%	66.0%	67.0%	67.7%	68.4%
Practitioner Toll-Free Telephone Service Customer Satisfaction	N/A	81%	87.0%	93.0%	91.0%	92.0%

* Beginning in FY2008 notice error rate and letter error rate combined to new Correspondence Error rate measure.

**Table B-2. Standards of Performance for Strategic Goal 2:
Enhance Enforcement of the Tax Law**

Standards of Performance	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
	Actual				Target	
Automated Collection System (ACS) Accuracy - composite	87.8%	88.5%	91.0%	91.4%	92.0%	contained in budget measures
W&I - Exam Timeliness (discretionary-correspondence) (days)	162	144	139	149	148	147
W&I - Exam Timeliness (EITC-correspondence) (days)	185	183	190	185	190	190
SB/SE Correspondence Exam Cycle Time (days)	190	175	181	177	177	177
SB/SE Correspondence Exam Cycle Time (non-EITC) (days)	173	177	199	177	177	177
Business Collections (days to close)	27	23	31.2	20.4	23	21
Individual Collections (days to close)	13.6	13.6	15.2	13.9	*	TBD
Exam Timeliness (Large and Mid-Size Business - combined) (months)	42.25	40.41	34.3	32.5	30	28
% OIC Field closed in less than 9 months	N/A	N/A	70%	68%	73%	73%
Customer Satisfaction (high rating)						
Correspondence Exam (SB/SE)	46%	52%	53%	50%	52%	53%
Correspondence Exam (W&I)	33%	41%	41%	43%	44%	45%
Automated Underreporter (SB/SE)	53%	57%	58%	60%	60%	61%
Automated Underreporter (W&I)	53%	62%	62%	64%	65%	66%
Collections (Business)	57%	56%	54%	55%	55%	56%
Collections (Individual)	58%	64%	63%	58%	*	TBD
Field Collections	61%	63%	62%	60%	61%	62%
Field Exams	57%	63%	59%	65%	66%	67%

* baseline

**Table B-3. Standards of Performance for Strategic Goal 3:
Modernize the IRS Through its People, Progress and Technology**

Standards of Performance	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
	Actual				Target	
Percentage of Mission Critical Positions hires achieved	N/A	N/A	99%	100%	99%	99%
Percent managers receiving leadership training timely			69.5%	N/A	Baseline ²	90%
Real Estate Portfolio Cost ¹			-2.15%	1.99%	2.4% ³	2.0%
Internal customer satisfaction			86.1%	87.3%	88.0%	88.0%
Timeliness of completed service calls ²			85.0%	80.5%	88.0%	88.0%
Number of Compliant Systems - FISMA			96.0%	98%	100%	100%

*** Methodology changed from sampling in 100% review.*

¹ *Changing from mail survey to telephone survey in 2008.*

² *Establishing database to track measure result unavailable. Measure will be redefined in FY09*

³ *The target is to limit the increases in rent expenses to the rate of non-pay inflation in the President's Budget. The FY08 and FY09 targets are the rate of non-pay inflation, currently at 2.4% and 2.0% respectively.*

Appendix C

FY2009 IRS Program Initiatives

Table C-1. Taxpayer Service Program Initiatives

Initiative/Benefit	Recommended Budget (\$M)		
	Board's Recommendation	President's Recommendation	Difference
<p>Maintain Processing of Critical Pension Plan Returns</p> <p>This initiative has two components. First, this initiative requests \$5.3 million for contractor costs to maintain processing of essential pension plan return information while transitioning from ERISA Filing Acceptance System (EFAST) to a mandated electronic filing system (EFAST2) in 2010. The IRS, as well as three other federal agencies – Department of Labor (DOL), Pension Benefit Guaranty Corporation and Social Security Administration – depend on the ongoing processing of pension plan return information (Form 5500 Series filings) and are impacted by the change to EFAST2. Second, this initiative requests \$1.0 million for the continuance of processing residual returns that are IRS-only forms and not part of the mandated EFAST2 system (Form 5500EZ and Schedule SSA filings).</p> <p>Key Benefits: enables IRS to complete the processing of certain Employee Plans (EP) returns required for proper tax administration in the area of employee pensions—including approximately 1.4 million paper Form 5500 series EP returns submitted before an electronic filing mandate in 2010 takes effect, and some additional paper Form 5500EZ and Schedule SSA returns (approximately 400,000 returns per annum) that will be outside the scope of the new e-file mandate/system.</p>	\$6.3	0	\$6.3
<p>Research Taxpayer Burden, Complexity, and Compliance</p> <p>This initiative provides \$10 million and 10 FTE to enhance understanding of the interaction between taxpayer burden, complexity of the tax law and process, and taxpayer compliance. This research will help improve understanding of these inter-relationships, in keeping with strategies put forth in the Taxpayer Assistance Blueprint (TAB) and the Department of the Treasury Comprehensive Strategy for Reducing the Tax Gap.</p> <p>Key Benefits: pursues key strategies from the TAB and the Treasury Department's plan to reduce the tax gap relative to a multi-year commitment to research, including studies of the impact of service on compliance; helps the IRS to better target taxpayer services and develop programs to improve voluntary compliance by funding research aimed at enhancing understanding of the inter-relationships between complexity, compliance, why taxpayers make errors and taxpayer burden.</p>	\$10.0	0	\$10.0

Table C-1. Taxpayer Service Program Initiatives

Initiative/Benefit	Recommended Budget (\$M)		
	Board's Recommendation	President's Recommendation	Difference
<p>Expand Volunteer Income Tax Assistance and Low Income Tax Clinics</p> <p>This initiative provides for an increase of \$10.0 million and 12 FTE to enhance two programs to improve service delivery to taxpayer population segments with specifically identified needs. The taxpayer population is growing, the average age is increasing, and the population is becoming more ethnically diverse. Several populations of interest were specifically recommended for study during Phase 2 of the Taxpayer Assistance Blueprint by Congress: low income, limited English proficient (LEP), disabled and elderly taxpayers. These taxpayer segments face unique challenges in meeting their tax obligations because of limited access to, experience with, or ability to use all of the channels offered for service delivery. This initiative targets these special interest populations and addresses the need to align service tasks and channels with the most effective and efficient method of delivery possible. Resources of \$8.0 million and 10 FTE will enhance the IRS's volunteer return preparation and services provided by the Volunteer Income Tax Assistance (VITA) program. An additional \$2.0 million and 2 FTE will improve the Low Income Tax Clinic Program and increase outreach/education and provide asset-building services for low-income taxpayers. This initiative will enable better service access and assistance for low-income, English as a second language (ESL), limited English-proficient (LEP), elderly, and disabled populations of taxpayers.</p> <p>Key Benefits: helps to create a fairer and more just tax system by providing low-income persons, individuals with LEP, and other disadvantaged taxpayers with access to tax preparation and representation services for free or a nominal fee; increases the quality of training, partnering services, automated processes, security arrangements and other support in the VITA program areas; also strengthens the Low Income Tax Clinic (LITC) program by opening new LITC clinics in underserved areas including added coverage in rural areas, and by expanding existing LITC clinics.</p>	\$10.0	0	\$10.0

Table C-2. Enforcement Initiatives

Initiative/Benefit	Recommended Budget (\$M)		
	Board's Recommendation	President's Recommendation	Difference
<p>Reduce the Tax Gap for Small Business/ Self-Employed</p> <p>This initiative provides for an increase of \$120.7 million and 1,111 full time employees (FTE) to address and improve compliance among Small Business and Self-Employed (SB/ SE) taxpayers in the tax gap elements of reporting, filing and payment compliance. Over \$342 million of additional revenue in FY2009 will be produced by increasing examinations of business and high income returns, exams involving flow-through entities, implementing voluntary tip agreements, increasing document matching audits, increasing coverage of taxpayers who don't file returns as well as those who underpay their tax liability.</p> <p>The overall gross tax gap is estimated at \$345 billion, reflecting a noncompliance rate of 16.3 percent. Of that amount, 75 percent, or \$257 billion, is attributable to SB/SE taxpayers. Underreporting constitutes nearly 83 percent of the tax gap while nonfiling and underpayment comprise 7.8 percent and 9.6 percent, respectively.</p> <p>Key Benefits: focuses on the primary taxpayer segment responsible for the largest share of the tax gap, i.e., small business and self-employed; entails IRS enforcement actions in all three areas of tax noncompliance, i.e., nonfiling, underpayment and underreporting; estimated to generate over \$342 million in direct enforcement revenue in FY 2009 and \$779 million in FY 2011, with an approximate return-on-investment (ROI) of over 5-to-1 over the three year period.</p>	\$120.7	\$168.5	(\$47.8)
<p>Increase Reporting Compliance of Domestic Taxpayers with Offshore Activity</p> <p>This initiative provides for an increase of \$16.4 million and 125 FTE to address domestic taxpayer offshore activities. Abusive tax schemes are a prime channel for tax avoidance by the wealthy. Abusive "Offshore" tax schemes involve the use of foreign jurisdictions that have enacted financial secrecy laws in an effort to attract investments from outside their borders. Domestic promotions lure taxpayers with the promise of tax benefits that are false and not in conformity with current law and are being marketed as devices that reduce, eliminate, or help evade income, self-employment, employment, estate, gift, and/or excise taxes.</p> <p>One of the most difficult tasks the IRS encounters in addressing offshore compliance remains identifying individual taxpayers who are involved in offshore arrangements. By</p>	\$16.4	\$13.7	\$2.7

Table C-2. Enforcement Initiatives

Initiative/Benefit	Recommended Budget (\$M)		
	Board's Recommendation	President's Recommendation	Difference
<p>their very nature, offshore arrangements are designed to conceal the identity of the taxpayers and to shield their ownership of assets and income from detection. The most practical way in which to identify taxpayers involved in offshore arrangements is by "following the money." A few offshore secrecy jurisdictions have Tax Information Exchange Agreements (TIEAs) in place as a means for the U.S. to receive information. To take advantage of TIEA while addressing offshore activities, the IRS plans to establish five new domestic taxpayer offshore activity groups to fill gaps in geographic areas. The additional specially trained Revenue Agents will uncover use of offshore credit cards, disguised corporate ownership and brokering activities.</p> <p>Key Benefits: helps to address one of the more egregious methods used by some high-income individuals to underreport their tax liabilities, i.e., using abusive tax schemes operating in foreign jurisdictions to hide income and/or overstate deductions; estimated to generate \$35 million in direct enforcement revenue in FY 2009 and \$90 million in FY 2011, with an approximate ROI of 4.5-to-1 over the 3-year period.</p>			
<p>Reduce the Tax Gap for Large Businesses</p> <p>This initiative provides \$52 million and 391 FTE to address the tax gap derived primarily from the underreporting of income tax by large, usually multi-national businesses. To narrow this gap, the IRS will continue to improve identification of risk, implement more effective approaches to address non-compliance, and allocate resources to the highest risk areas (taxpayer and issues). The funds in this initiative will add agents, particularly those with international, financial products, and valuation expertise; operational support for certain critical compliance information systems; and increases for Counsel attorney and Appeals support.</p> <p>Beyond the compliance achieved by the direct examination of taxpayers, the additional impact will be increased voluntary compliance due to more timely published guidance, more timely interaction with taxpayers, and increased presence of the tax administrator through increased audit coverage and other vehicles. In addition to traditional audits, the IRS will make expanded use of pre-filing methods such as the Compliance Assurance Process (CAP), which benefit from the post-Sarbanes-Oxley Act environment of transparency in financial disclosures including required disclosure of uncertain tax positions.</p>	\$52.0	\$69.5	(\$17.5)

Table C-2. Enforcement Initiatives

Initiative/Benefit	Recommended Budget (\$M)		
	Board's Recommendation	President's Recommendation	Difference
<p>Key Benefits: helps to address the tax gap associated with the underreporting of tax liabilities by certain large, typically multi-national, businesses; leverages multiple approaches to increase voluntary compliance including more timely prefilling guidance; increases electronic filing to facilitate more timely interaction with taxpayers; and adds more extensive post-filing audit coverage; estimated to generate \$98 million in direct enforcement revenue in FY 2009 and \$467 million in FY 2011, with an approximate ROI of over 5-to-1 over the 3-year period.</p>			
<p>Expand Federal Payment Levy Program</p> <p>This initiative reduces the tax gap by expanding the means of collecting delinquent taxes. Increase of the Federal Payment Levy Program's (FPLP) capacity will allow processing 400,000 additional levies annually adjusted for a 20 percent fee increase by Financial Management Service (FMS) in FY2009. The investment of \$17.3 million and 6 FTE into this program will result in the generation of approximately \$88.8 million in additional tax revenue collected in FY2009. The 6 FTE fund Taxpayer Advocate Service (TAS) personnel needed to support the increased work load resulting from growth in the FPLP.</p> <p>Key Benefits: increases the effectiveness of IRS to collect delinquent taxes by taking advantage of the increased capacity of the FPLP to identify additional federal payments that can be offset against existing tax debts prior to the release of the payments; balances that increased tax collection activity with increased funding for Taxpayer Advocate Service staffing to assist with unique hardship cases; estimated to generate an additional \$89 million in direct enforcement revenue in FY 2009 with an approximate ROI of 5-to-1.</p>	\$17.3	0	\$17.3
<p>Reduce Tax Fraud</p> <p>This initiative reduces the tax gap by aggressively attacking tax evasion. The IRS Criminal Investigation (CI) will focus resources and efforts on abusive tax schemes, corporate fraud, non-filers, employment tax fraud, general fraud, narcotics, as well as tax and other financial crimes identified through Bank Secrecy Act (BSA) related examination and case development efforts.</p> <p>This initiative also seeks permanent funding for CI's Electronic Crimes Program and additional staffing needed to remain on the cutting edge of electronic forensic accounting. Given</p>	\$72.2	0	\$72.2

Table C-2. Enforcement Initiatives

Initiative/Benefit	Recommended Budget (\$M)		
	Board's Recommendation	President's Recommendation	Difference
<p>the increased complexity and scope of financial schemes perpetrated using digital media, additional funding is crucial to maintaining CI's position as a premier agency in the area of electronic forensics.</p> <p>Key Benefits: helps to address serious criminal tax activities including abusive tax avoidance schemes openly advertised on the Internet, tax fraud by corporate executives and officials, nonfiling by high-income individuals, and the pursuit of terrorist funding operations as identified through the efforts to enforce the Bank Secrecy Act; also provides permanent funding for the E-Crimes Program—the computer forensics capability for IRS Criminal Investigation.</p>			
<p>Enhance Financial Investigations of Narcotics Trafficking Organizations</p> <p>This initiative provides \$24 million and 131 FTE to enhance IRS participation in Organized Crime Drug Enforcement Task Force (OCDETF) financial investigations. Both the Attorney General and the Director of the Office of National Drug Control Policy (ONDCP) requested that the IRS's Criminal Investigation (CI) devote additional resources to OCDETF financial investigations. Recently, CI has been able to make a small increase of resources devoted to OCDETF investigations, at the expense of reducing other non-tax related investigations. CI does not have the resources to further increase OCDETF participation.</p> <p>CI's contribution to federal law enforcement anti-drug efforts is its unique financial expertise and special statutory authority needed to reduce or eliminate the financial gains (profits) of major narcotics trafficking and money laundering organizations.</p> <p>CI has been a participating member of the OCDETF program since its inception in 1982. Criminal Investigation's success in dismantling narcotic organizations through financial investigations is unmatched in law enforcement. By primarily focusing on those sophisticated cases which meet OCDETF-designation standards, CI has made a significant contribution to many high-impact investigations and CI receives considerable publicity on these cases.</p> <p>Key Benefits: helps to address national and international narcotics trafficking which is detrimental to the national</p>	\$24.0	0	\$24.0

Table C-2. Enforcement Initiatives

Initiative/Benefit	Recommended Budget (\$M)		
	Board's Recommendation	President's Recommendation	Difference
economy and global monetary systems, and a driving force behind the expansion of tax havens around the world; plays a crucial role in the seizure and forfeiture of the assets, depriving narcotics traffickers of their ill-gotten gains; provides a deterrent to tax evasion; estimated to result in over \$8 million in asset forfeitures per year.			
<p>Enhance BSA Compliance Program</p> <p>This initiative provides an increase of \$3.4 million and 30 FTE to enhance enforcement of the anti-money laundering provisions of the Bank Secrecy Act (P.L. 92-508) and the USA PATRIOT Act (P.L. 107-5).</p> <p>In 1986, the Bank Secrecy Act (BSA) was amended to make money laundering a crime in its own right in recognition of the growth and seriousness of the problem. Money laundering has long been associated with tax evasion, organized crime and narcotics trafficking operations. Far beyond the scope of narcotics, it is often found that money laundering is a component of many financial crimes including: corporate fraud, public corruption, abusive offshore trusts, bank and mortgage fraud, and terrorist financing. For this reason, the IRS is one of the key agencies involved in money laundering investigations.</p> <p>Key Benefits: helps to address criminal tax evasion and money laundering; enhances national security by helping to detect and deter terrorist financing.</p>	\$3.4	0	\$3.4
<p>Address Complexity through Up-Front Guidance, Education, and Correction Opportunities</p> <p>This initiative provides an increase of \$8.9 million and 68 FTE to address the level of change and complexity in the tax-exempt and governmental sectors. The complexity of the code and frequent changes such as the recent Pension Protection Act of 2006 create openings for inadvertent errors and aggressive regulatory stances that can have serious consequences. This level of change and complexity comes at a high price, particularly for the exempt organizations and governmental sectors, where expert help is generally too costly to pursue. To ensure a robust technical guidance program, funding is requested to augment Employee Plans (EP) and Exempt Organizations (EO) technical staffing,</p>	\$8.9	0	\$8.9

Table C-2. Enforcement Initiatives

Initiative/Benefit	Recommended Budget (\$M)		
	Board's Recommendation	President's Recommendation	Difference
<p>which has seen a substantial decline since FY2000. Funding is requested for additional staffing to develop and deliver outreach to communicate new guidance as a response to concerns raised by National Taxpayer Advocate and others about the insufficient availability of outreach to smaller entities. In addition, complexity can breed inadvertent errors on the part of the taxpayers; this initiative incorporates resources for staffing to meet the rise in demand for self-correction by the taxpayer.</p> <p>Key Benefits: increases IRS service, much of it through broad proactive methods, to taxpayers in the tax exempt and employee plans communities that helps them to avoid tax reporting errors and to deal with the tax law complexities associated with their unique activities.</p>			
<p>Expand Examination of Tax Exempt Organizations</p> <p>This initiative provides \$28.6 million and 236 FTE to protect the tax base and address targeted coverage gaps across the tax-exempt and governmental sections through increased examination activity and development of a division-wide capacity to conduct remote compliance checks, enhancing the breadth and agility of IRS enforcement presence. The tax-exempt and governmental sector has experienced dramatic growth over the last several years, outstripping IRS enforcement resources, and resulting in a sharp decline in coverage.</p> <p>Key Benefits: increases IRS enforcement presence within the tax-exempt and governmental sectors which helps to deter fraud and abuse of the special benefits afforded these entities; also enables IRS to build a more innovative compliance capability.</p>	\$28.6	0	\$28.6
<p>Increase Tax Court Litigation</p> <p>This initiative provides an increase of \$5.8 million and 42 FTE (35 attorneys and seven support) for increased tax court litigation work, especially in regard to tax shelter cases. At present, the combined factors of increased workload, more complex cases and reduced resources leaves Counsel's Tax Court Litigation Program weakly positioned to meet its objectives in FY2009 and beyond.</p> <p>From FY2002–2008 (projected), Counsel is experiencing an 80 percent increase in tax litigation case receipts</p>	\$5.8	0	\$5.8

Table C-2. Enforcement Initiatives

Initiative/Benefit	Recommended Budget (\$M)		
	Board's Recommendation	President's Recommendation	Difference
<p>while dropping 3 percent in FTE. In FY2009, based on the historical trend, receipts are projected to rise by approximately 9 percent.</p> <p>Key Benefits: increases IRS ability to conduct effective and targeted litigation and is expected to lead to the disposition of a large number of cases through global settlement initiatives and with specific emphasis on establishing legal precedents in the shelter area that are favorable to the government; given past experience and the issues to be litigated, some of the subsequent settlements expected to flow out of this funding initiative could entail tax liabilities in the billions of dollars.</p>			
<p>Implement New Procedural Tax Court Requirements</p> <p>This initiative provides an increase of \$3.4 million and 28 FTE (14 attorney, eight paralegal, and six support staff) to handle the increased workload due to the March 13, 2007, amendment to Rule 173 of the Rules of Practice and Procedure for the Tax Court. This amendment requires the Commissioner to file an answer in all small tax cases (S Cases). The decision to answer S Cases has been optional since May 1, 1979. The changes to Rule 173 have been made, in part, to promote earlier identification of novel issues and assist the Court in making informed and timely decisions whether to convert them from S cases to regular litigation cases.</p> <p>Key Benefits: enables IRS Chief Counsel to effectively manage the increased workload caused by the new amendment to Rule 173 of the Rules of Practice and Procedure for the Tax Court without negatively impacting its ability to handle the remaining docket work.</p>	\$3.4	0	\$3.4
<p>Improve Tax Gap Estimates, Measurement, and Detection of Non-Compliance</p> <p>This initiative provides \$11.1 million and 75 FTE to support ongoing research studies of filing, payment, and reporting compliance to provide a comprehensive picture of the overall level of taxpayer compliance. The goal of the measures is to provide benchmarks against which the IRS can evaluate the effectiveness of programs designed to improve compliance with the tax code and reduce the tax gap.</p>	\$11.1	\$51.1	\$(40.0)

Table C-2. Enforcement Initiatives

Initiative/Benefit	Recommended Budget (\$M)		
	Board's Recommendation	President's Recommendation	Difference
<p>This initiative supports ongoing Reporting Compliance Studies through the National Research Program (NRP). The request funds research studies of reporting compliance for new segments of taxpayers (such as corporations, partnerships, and other business entities) and updates existing estimates of reporting compliance (e.g., individual taxpayers). The initiative will enhance an existing base of operating division examiners with varying expertise to perform reporting compliance studies to limit the diversion of resources from operational priorities. The staffing distribution will entail 16 FTE in the LMSB operation division; 57 FTE in the SBSE operating division; and in MITS for 2 FTE.</p> <p>Key Benefits: increases the scope and timeliness with which IRS can compile updated measurements of taxpayer compliance and the achievement of certain IRS strategic goals; also data captured during the studies enables the IRS to develop strategies to combat specific areas of non-compliance, improve voluntary compliance to reduce the tax gap, allocate resources more effectively, and reduce burden on compliant taxpayers by improving workload selection formulas and reducing the number of IRS audits with “no change.”</p>			
<p>Increase Monitoring of Preparers</p> <p>This initiative targets tax practitioner conduct and the personal tax compliance of tax practitioners who represent taxpayers before the IRS. This initiative allows the IRS to be more proactive and productive in case identification and resolution. Increasing enforcement staff will deter misconduct and better ensure the integrity of tax professionals. This initiative will add attorneys, tax technicians and paralegals to handle practitioner misconduct and enable the IRS to better identify and resolve instances of practitioner misconduct that pose the greatest threat to tax administration. The additional staffing will enable the Office of Professional Responsibility to commence extensive outreach with the States’ Boards of Accountancy and Bar Associations to share information on disciplinary actions, and to commit additional resources to educate the tax professional community on practice standards and expectations.</p> <p>Key Benefits: helps to address misconduct by certain tax practitioners through a combination of increased enforcement and additional educational outreach among the tax professional community.</p>	\$2.5	0	\$2.5

Table C-3. Total Budget for BSM - Base plus Initiative Requests

Initiative/Benefit	Recommended Budget (\$M)		
	Board's Recommendation	President's Recommendation	Difference
<p>Customer Account Data Engine (CADE)</p> <p>The IRS's new master file, CADE, continues to process returns through a modernized and secure platform; has posted millions of 1040, 1040 EZ and 1040A returns with numerous schedules; and has issued over \$11 billion in refunds. As CADE moves the IRS towards its long-term IT Modernization Vision, it plays a significant role in providing the technology to facilitate expeditious access to compliance data. Access to this data is a critical component in the effort to close the tax gap.</p> <p>This initiative provides \$80 million for CADE to continue development that primarily adds Form 1040X processing, delinquent returns processing, penalty computations and increased fraud detection issues processing, and to begin requirements development for 1040 schedules C and F with EIN, payment traces, innocent spouse, manual refunds, restricted penalties, and interest and fraud penalties.</p> <p>Closing the tax gap continues to be a sizeable challenge—one that GAO believes can benefit from better use of technology. CADE serves as the foundation of IRS modernization. CADE is the IRS's lynchpin modernization project replacing the antiquated master file. These master files are based on flat files with weekly updates achieved by batch processing of a sequential file repository, which takes two weeks to update taxpayer tax accounts. This batch process compares poorly to the real-time updates provided by all other financial institutions. The delay in updating data allows data inconsistencies to develop among the various applications in use across the IRS. These inconsistencies prevent IRS employees from being able to resolve many taxpayer issues on the first attempt, which increases taxpayer burden. By providing daily or real-time updates to taxpayer accounts, CADE will enable the Account Management Services project to provide real-time access to taxpayer account information containing current data.</p> <p>Key Benefits: furthers the replacement of the 1960s era master file, and its limited capacity for only weekly updates, with the modern CADE technology that accommodates daily updating; reduces taxpayer burden by reducing the volume of erroneous IRS notices and hastening the delivery of tax refunds which should reduce taxpayer need for refund anticipation loans; enhances IRS compliance efforts by enabling the application of new and more timely automated enforcement tools; contributes to other operational improvements and efficiencies which IRS can leverage to develop a world-class tax administration system.</p>	\$80.0	\$58.8	\$21.2

Table C-3. Total Budget for BSM - Base plus Initiative Requests

Initiative/Benefit	Recommended Budget (\$M)		
	Board's Recommendation	President's Recommendation	Difference
<p>Accounts Management Services (AMS)</p> <p>This initiative provides \$47.4 million to continue the development of the AMS project. The ability to provide immediate access to integrated account data, enable real-time transaction processing, and settle accounts on a daily basis is critical to improving customer service and business results. Realization of these capabilities requires the implementation of tools such as the AMS that allow for the retention of taxpayer accounts in the modernized CADE database through on-line access, monitoring, and adjustment.</p> <p>When completed, AMS will provide the data presentation services to display and validate changes to update the taxpayer account. AMS will store and manage actions and activities by the IRS employees, such as work assignments, transfers, case closures, and the generation of letters to taxpayers. AMS will provide the frontend applications for adjustments, penalties, interest, abatements, credit and debit transfers, name and address changes, bankruptcies, installment agreements, changes to the automated treatment streams, and many other taxpayer account related functions required for customer service and compliance. AMS will provide applications that monitor taxpayer accounts for follow up activity or deferred actions.</p> <p>Key Benefits: furthers the delivery of key customer service and enforcement applications front-line IRS employees will need to leverage the rapid processing capabilities of CADE and deliver more timely and accurate service to individual taxpayers with account related issues.</p>	\$47.4	\$26.2	\$21.2
<p>Modernized e-File (MeF)</p> <p>The MeF project provides a standard filing structure for all IRS return types, a robust platform that can meet performance and capacity needs, enhanced and up-to-date technologies, and a great appeal to external customers and stakeholders. With MeF, the IRS will store all tax return data in XML format in a modernized Tax Return Database (TRDB) allowing all authorized viewers of the data to see a whole tax return online over the Internet. Once fully implemented, all tax returns and transmission files will adhere to the formal IRS rules (schemas). MeF initially covered 1120, 1120S (return for subchapter S corporation), and 990 filers and the IRS brought Form 1065 (partnership income) onto the modernized platform in January 2007. Future plans call for implementing Forms 1040, 1041, and 94X.</p>	\$36.1	\$25.0	\$11.1

Table C-3. Total Budget for BSM - Base plus Initiative Requests

Initiative/Benefit	Recommended Budget (\$M)		
	Board's Recommendation	President's Recommendation	Difference
<p>This initiative provides \$36.1 million to fund the balance of Form 1040 MeF Phase II and begin work on Phase III. MeF will develop and implement the Form 1040 family of forms in three Phases. Phase I will include the 1040, schedules A, B, and D; and six supporting forms and expected to be deployed in 2009. This phase will reach 61 percent of the e-File population. Phase II 1040, once it is ready for deployment in 2010 will support the rollout of an additional 90 supporting schedules and forms that will expand the reach of MeF to 99 percent of the e File population. Phase III will complete the reach of MeF to 100 percent of the e-file population when it is deployed in 2011.</p> <p>While the IRS begins development and deployment of 1040 Phase I, it also includes requirements gathering and Logical and Physical Designs for all three 1040 phases, as the interconnection of all three phases allows for economies of scale.</p> <p>Key Benefits: furthers the delivery of the new, more user-friendly e-file platform for individual tax returns to replace the old and rigid electronic filing system currently in use for nearly two decades; enables the electronic filing of additional forms and attachments associated with individual returns, and with greater ease—contributing to growth in individual e-file and the attainment 80 percent e-file goal.</p>			
<p>Common Services Project</p> <p>This initiative provides \$16 million for the introduction of the Common Services Projects (CSP), providing funding for new portals, which are technology platforms that meet many IRS business needs through web-based front-ends and provide secure access to data, applications, and services.</p> <p>The portals are mission-critical components of the enterprise infrastructure required to support key business processes and compliance initiatives. The IRS portals support Underreporter initiatives in the Examination and Criminal Investigations programs; and Underpayment initiatives in Collection; Modernized E-file; and other E-Government, E-services, and user fee initiatives. The current portals, designed in the late 1990s and implemented in 2000 and 2001, are outdated; capacity is limited; and 90 percent of the hardware components and 70 percent of software products supporting the current portals have reached or exceeded their useful life.</p> <p>Funds for CSP cover the costs of program/contract management; design and engineering for the new portal</p>	\$16.0	0	\$16.0

Table C-3. Total Budget for BSM - Base plus Initiative Requests

Initiative/Benefit	Recommended Budget (\$M)		
	Board's Recommendation	President's Recommendation	Difference
<p>environment; planning and testing of new portal-related application projects and modification of existing projects (E-services, E-file, Integrated Financial System, Internet Refund/Fact of Filing, etc.) to run on the new portals; new portal security mechanisms for access control, intrusion detection, identity management, auditing; and acquisition of new portal development, test and production environments.</p> <p>The benefits accruing from delivery and implementation of BSM projects provide value to taxpayers, the business community, and government. Many of these benefits contribute to operational improvements and efficiencies within the IRS. The program combines best practices and expertise in business solutions and internal management from IRS, business, and technology sectors to develop a world-class tax administration system.</p> <p>Key Benefits: enables IRS to keep certain critical technology components of its web-based infrastructure that support key business processes and compliance initiatives from becoming obsolete.</p>			
<p>Integrated Financial System</p> <p>This initiative provides \$73 million to upgrade the enterprise-wide Integrated Financial System (IFS) and to migrate to a commercial Shared Service Provider (SSP) in compliance with OMB Federal Management Line of Business (FMLOB) and Federal Systems Integration Office (FSIO) requirements. The current IFS version of the SAP software is seven years old, and although SAP has agreed to provide support for this version through 2011, SAP will not commit to making additional changes to accommodate federal accounting requirements or other desired enhancements. Upgrade implementation will take one to two years, and therefore, FY 2009 funding will result in implementation in 2011, thus ensuring that IFS remains compliant and supported. If the IRS cannot implement subsequent new federal accounting requirements or changes to existing standards, IRS compliance with federal financial management standards, and potentially the GAO audit opinion, could be jeopardized.</p> <p>The IRS intends to upgrade to the latest version of MySAP 2005 that provides federal accounting functionality. The current IFS version of the SAP software is based on commercial accounting practices, rather than federal accounting practices. Migration to software based on federal accounting practices would eliminate current work-around processes necessary to support adjustments and reimbursable receivables activities not provided in the current system, and</p>	\$73.0	0	\$73.0

Table C-3. Total Budget for BSM - Base plus Initiative Requests

Initiative/Benefit	Recommended Budget (\$M)		
	Board's Recommendation	President's Recommendation	Difference
<p>improve project management capability and enhanced budget reports—shortcomings in current IRS financial management processes that are regularly cited as significant weaknesses by GAO in its annual audits of IRS' financial statements.</p> <p>Key Benefits: improves IRS project management capabilities relative to costs and assets; reduces the costly and labor-intensive "work around" processes IRS must use now to produce its annual financial statement; addresses the IRS need to replace specialized financial accounting software that is nearing obsolescence; helps IRS to comply with an OMB mandate, and to address an IRS material weaknesses identified by GAO, relative to financial management.</p>			
<p>Core Infrastructure; Architecture Integration & Management; and Management Reserve</p> <p><i>Core Infrastructure [\$44.0M]</i></p> <p>This initiative provides \$44 million in Core Infrastructure Funding to provide critical services in architecting, engineering and deploying a standardized, consolidated, virtualized, and secure modernized production environment for use by major and non-major IT projects. The continued development and management of this infrastructure aligns with the IRS's Modernization Vision and Strategy (MV&S) and incorporates the identification and development of common infrastructure, security, and application integration services for use and re-use by major and non-major projects. By leveraging this shared infrastructure, projects can speed time to delivery and reduce application development and maintenance costs.</p> <p>A significant portion of the IRS's technology infrastructure supporting the core tax processing systems is composed of incompatible mainframe computers, mid-range systems, multiple workstation configurations, and insufficient security controls. Most of these systems are incompatible due to dissimilar operating systems, hardware configurations, software configurations, and business applications. Stand-alone networks further complicate access to these systems, especially by IRS employees who need to use several systems to perform their jobs—including resolving taxpayers' problems. Due to the nature of the IRS's legacy infrastructure, the management, maintenance, and update of these systems and networks requires significant expenditures of time and money. While the IRS has done much to improve and modernize this infrastructure, there is more work to be done. Once modernized, there is a continued need to refresh this environment as new technologies become available to support the business needs of the IRS.</p>	\$98.1	\$69.3	\$28.8

Table C-3. Total Budget for BSM - Base plus Initiative Requests

Initiative/Benefit	Recommended Budget (\$M)		
	Board's Recommendation	President's Recommendation	Difference
<p>Of the \$44 million requested for Infrastructure Shared Services, \$29 million will be used to deliver fully integrated shared information technology development and production infrastructure which includes hardware, software, shared applications, data, telecommunications, security, and an enterprise approach to systems and operations management. This approach results in overall reductions in time and dollars to develop, deploy and maintain the infrastructure and the business applications that use the infrastructure.</p> <p>The remaining \$15 million initiative under the Core Infrastructure will fund development, integration and testing (DITE) which supports the expanding number of projects that utilize the DITE in support of their development, integration and testing needs; maintain Federal Information Security Management Act (FISMA) compliance using updated security monitoring tools; and provide a virtualized environment for remote application developers. DITE is a standardized development and test environment comprised of all of the modernized infrastructure components and applications that are needed by projects that plan to use and integrate into the modernized production environment. DITE uses streamlined processes and standard tools that enable thorough development and testing in a controlled environment ensuring that projects work effectively and seamlessly within the modernized production environment</p> <p><i>Architecture, Integration & Management [\$43.5M]</i></p> <p>This initiative provides \$43.5 million to provide continued support to the Architecture, Integration & Management (AI&M) program. AI&M provides management operations essential to delivering a program of the magnitude, nature, and complexity of BSM. To date, overall financial performance continues to demonstrate successful, sound, and sustainable BSM financial management discipline. Each primary AI&M component performs a different and critical role, such as: ensures system solutions meet business needs and provides authoritative source of guidance for effectively integrating each project as it moves from the development environment to the business environment; ensures BSM services are aligned with each business unit's vision and enables projects to deliver desired business results; provides a single point of accountability for the PRIME contractor activities.; and provides true national experts in systems engineering, architectural design, and IT security which are critical to modernization success.</p>			

Table C-3. Total Budget for BSM - Base plus Initiative Requests

Initiative/Benefit	Recommended Budget (\$M)		
	Board's Recommendation	President's Recommendation	Difference
<p><i>Management Reserve [\$10.6M]</i></p> <p>Key Benefits: leverages specific IT expertise, products and services from the private sector in a manner that effectively augments IRS capabilities; serves to develop and implement systems equal to those achieved through private and public sector best practices; manages the risks inherent in such a large and complex undertaking as the modernization of IRS' critical IT systems.</p>			
<p>BSM Labor</p> <p>This initiative provides for government labor costs associated with the Accounts Management Services (AMS), Modernization e File, Common Services, and Integrated Financial System Projects.</p>	\$56.7	\$43.4	\$13.3

Table C-4. Infrastructure Initiatives (non-BSM)

Initiative/Benefit	Recommended Budget (\$M)		
	Board's Recommendation	President's Recommendation	Difference
<p>Enhance IT Security</p> <p>This initiative enables the IRS to further implement key information technology (IT) security and privacy safeguards to assure the integrity of sensitive taxpayer and employee data and supporting infrastructure processes. The way the IRS does business continues to evolve. The IRS has grown increasingly reliant on the seamless interconnectivity of internal and external IRS systems to deliver mission critical applications via an “electronic storefront” of internet-based services to taxpayers and partners, as well as intranet-based services to employees. The upgrades needed to support as well as enhance the integrity of IT security is \$16.7 million and 23 FTE.</p> <p>Key Benefits: strengthens IRS IT systems against unauthorized access and malicious cyber attacks.</p>	\$16.7	0	\$16.7
<p>Enhance Contingency Planning and Disaster Recovery</p> <p>The intent of this task is to enhance the IRS enterprise-wide contingency planning and disaster recovery capabilities to support critical business systems. The cost is estimated to be \$8.7 million for FY 2009 with 6 FTE. It is the goal of this initiative is to continue to develop an IRS-wide risk-based contingency planning and disaster recovery capabilities to sufficiently plan and test the activities required to restore certain critical business systems when unexpected events occur.</p> <p>Key Benefits: enables IRS to develop an agency-wide risk-based contingency planning and disaster recovery capabilities in the event of a major unexpected disruption of IRS operations; addresses an existing IRS “material weakness” relative to disaster recovery as identified by government auditors.</p>	\$8.7	0	\$8.7
<p>Implement Security Auditing</p> <p>The purpose of the Security Auditing initiative is to effectively monitor key networks and systems to identify any unauthorized activities. The cost estimate is \$6.8 million for FY 2009 with 8 FTE. This initiative provides a capability to capture, analyze, and archive relevant security audit information at the enterprise level from multiple systems and components. In addition, it is necessary to implement an audit capability to monitor communications resources and networks and systems to identify unauthorized activities and inappropriate system configurations.</p>	\$6.8	0	\$6.8

Table C-4. Infrastructure Initiatives (non-BSM)

Initiative/Benefit	Recommended Budget (\$M)		
	Board's Recommendation	President's Recommendation	Difference
<p>Key Benefits: enables IRS to better protect taxpayer information by implementing capability to effectively monitor key networks, archive relevant security audit information to identify, and respond to unauthorized system activities; addresses an existing IRS "material weakness" relative to system audit trails as identified by government auditors.</p>			
<p>Redesign Form 990 for Tax Exempt Organizations</p> <p>This initiative provides \$23.5 million and 83 FTE to redesign the Form 990, Return of Organization Exempt from Tax. Last substantially revised in 1979, the current Form 990 has not kept pace with subsequent changes and is no longer effective. The current form is difficult for organizations to complete and for reviewers government and general public to comprehend and fails to provide the IRS with sufficient information to target enforcement actions and to detect and analyze compliance trends in the sector. The Government Accountability Office has noted that the insufficient Form 990 data has contributed to the IRS being challenged in executing its oversight role. The Form 990 annual information return is the primary tool by which the IRS, state nonprofit and charity officials and other stakeholders obtain information about tax-exempt organizations and their activities. Most public charities (excluding churches, private foundations and organizations with incomes of less than \$25,000) and other tax-exempt organizations are required to file the Form 990, and a majority of states accept the form with respect to charities that file with them. Images of these returns are published on the Internet, where grant-making organizations and the public can review the form when making contribution decisions. Researchers and the media also utilize Form 990 data to study the exempt sector.</p> <p>Key Benefits: streamlines the Form 990 and certain associated schedules to capture more precise data from exempt organizations and to make the forms easier to complete; provides for easier review by the IRS, state agencies, charity officials and the general public of the activities of most public charities and other major tax-exempt organizations to identify compliance concerns relative to such things as their executive compensation, governance, foreign activities, fundraising practices, grant-making, and compliance with other federal tax laws.</p>	\$23.5	0	\$23.5

Table C-4. Infrastructure Initiatives (non-BSM)

Initiative/Benefit	Recommended Budget (\$M)		
	Board's Recommendation	President's Recommendation	Difference
<p>Preserve Quality IT Workforce in Applications Development</p> <p>This initiative provides funds to retain and integrate information technology expertise and software solutions to the IRS by mitigating intellectual and experiential loss. Through a series of supporting strategies such as workforce re-tooling, succession planning, and retention, the IRS can effectively mitigate current intellectual and experiential losses.</p> <p>The challenges facing the government in maintaining a high quality information technology (IT) workforce are long-standing and widely recognized. In the case of the IRS, where it is implementing one of the largest, most visible, and sensitive government modernization programs with an IT workforce that is on the brink of retirement—these challenges are becoming more and more acute. The IRS anticipates on average, over 100 retirements of key IT staff over the next several years. Strengthening and ensuring the continuity of IT skills is essential to the business success and the ability to retire and consolidate legacy systems in the next three to five years. To effectively support knowledge transfer from veteran staff to new hires, the IRS requires additional resources of \$32 million to provide an adequate period of staff overlap, \$3.8 million for annual relocation benefits and an additional \$1.0 million for retention bonuses.</p> <p>Key Benefits: minimizes risk of disruptions to critical IT systems during an anticipated period of IRS staff transition by allowing new analysts and managers to get up to speed on specific IT projects and other existing support for a variety of specialized business functions; synchronizes the hiring of new staff with the retirement of older staff such that adequate knowledge transfer can occur relative to the legacy systems.</p>	\$36.8	0	\$36.8
<p>Build Alternate Power Supply for the Computing Centers</p> <p>This initiative provides alternate power supply for three of the IRS's computing centers. Currently there is a single power supply facility at each of the computing centers. The power supply facility at each computing center is tested biannually to ensure the proper functioning of physical components. Each test results in a shutdown of tax processing systems at the test site for about 16 hours (approximately 32 hours per year for each computing center). If problems occur during power shutdown or power up, systems down time could be even greater. These scheduled shutdowns stop tax processing</p>	\$11.0	0	\$11.0

Table C-4. Infrastructure Initiatives (non-BSM)

Initiative/Benefit	Recommended Budget (\$M)		
	Board's Recommendation	President's Recommendation	Difference
<p>and prevent on-line access to tax processing systems by both internal and external customers at the site being tested. An alternate power supply capability at each of the three computing centers would ensure the continuous operation of, and continuous access to, tax processing systems at the computing centers during power supply tests.</p> <p>Key Benefits: enables the IRS to service key internal and external customers continuously over a full year, in a 24-7 manner, and avoid the loss revenue from necessary power shut-down periods at the computing centers; reduces IRS costs by eliminating the need to dedicate over 50 full-time employees and contractors, who receive overtime and holiday pay, to power down and power up the tax processing platforms and peripheral devices.</p>			

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