

## IRS Oversight Board

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### IRS Oversight Board Releases Annual Report to Congress

The IRS Oversight Board released its 2009 *Annual Report to Congress* today. The report evaluates the IRS' performance during fiscal year (FY) 2009, describes the strategic challenges facing tax administration, and provides a series of "scorecards" that measure the IRS' performance during FY2009.

The IRS faced significant service challenges during FY2009 as a result of new tax law provisions designed to assist taxpayers in difficult economic times. These provisions required rapid implementation, including two versions of first-time home-buyers tax credits and a recovery rebate credit relating to the Economic Stimulus Act of 2008. As a result, telephone call volume to the IRS remained high, and the level of service on the IRS' toll-free telephone lines in FY2009 was 70 percent. This service level was a significant improvement over the previous year's 53 percent, but far below the levels achieved during FY2003 to FY2007, when service levels ranged between 82 and 87 percent.

Enforcement activity in 2009 was generally stable. The number of audits performed increased among individuals, particularly those with incomes exceeding \$1 million. However, enforcement revenue fell from \$56.4 billion in FY2008 to \$48.9 billion in FY2009.

"Overall, the IRS had a challenging year in 2009, but performed fairly well," noted Board Chairman Paul Cherecwich, Jr. "The demand for help by taxpayers over the toll-free telephone lines grew significantly and tested the IRS' ability to meet its own service goals. This underscores the need for resources to provide service when needed," he added.

However, despite reporting on a relatively smooth filing season, the Board raised continuing concerns over two serious and systemic weaknesses in the tax administration system: the tax gap and the IRS' information technology. The annual tax gap is the difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time. It serves as an overall measure of taxpayer compliance with the tax laws. The most recent estimate of the annual net tax gap is \$290 billion, an amount that the Oversight Board views as unacceptably high.

"The tax gap is a significant challenge that we must take on as a nation," commented Chairman Cherecwich. "The IRS collects 96 percent of federal revenue. Taxpayers who do not meet their tax obligations cost the United States \$290 billion each year. This is unfair and unjust, and calls for an adjustment – whether it's through better access to service or more vigorous enforcement – for those who do not comply with the law."

The report also noted that the IRS continues to use outdated information technology to perform tax administration functions. Correcting these two weaknesses will require a sustained long-term effort. The report stated that although the IRS made little measureable progress this past year in correcting them, it took several actions in 2009 that have the potential for remedying these weaknesses in the future. However, it is too soon to fully assess the improvements that will result. These actions include:

- A plan to establish standards for professional tax preparation;
- Progress in combating the use of offshore financial institutions to evade US taxes; and

- Restructuring the Customer Account Data Engine program so that 140 million individual account records will be stored in a central database that has the capability to update taxpayer account information on a daily basis by 2012.

Finally, the Board underscores the importance of enterprise risk management of our nation's tax administration system. "Whether the risk be natural or man-made, external or internal, directed at employees or facilities, the IRS must be vigilant in its efforts to protect its employees, its facilities, and its operations from threats of all kinds," the report states.

The entire report can be downloaded at [www.irsoversightboard.treas.gov](http://www.irsoversightboard.treas.gov).

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