IRS Oversight Board

Request for Stakeholder Comments from the IRS Oversight Board Of Proposed IRS Long Term Measures

Background

The IRS Strategic Plan 2005-2009, approved by the IRS Oversight Board in May 2004, identifies the following mission for the IRS:

Provide America's taxpayers top-quality serviced by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

This mission statement describes the IRS role and the public's expectation regarding how it should perform that role. The plan goes on to identify three strategic goals for guiding the future direction of the IRS:

- Improve Taxpayer Service
- Enhance Enforcement of the Tax Law
- Modernize the IRS through its People, Processes, and Technology

The Board and other oversight organizations have long recognized that an important part of the goal setting is the ability to measure progress in achieving established goals. Accordingly, the Oversight Board has requested that the IRS identify enterprise-wide long term measures that can be used to evaluate the IRS' progress in achieving the three goals established by the Strategic Plan. Once the Board approves the measures, it will use them to hold the IRS accountable for progress in achieving its strategic goals.

As part of its commitment to represent the interests of taxpayers, the Board desires to obtain stakeholder comments prior to approving the proposed goals. It invites public comment from organizations that directly or indirectly represent taxpayers and from taxpayers themselves. The subsequent sections describe each goal, how it is proposed to be measured, and Oversight Board commentary on each measure.

Discussion

The IRS has proposed to the Board the following five measures and target values that it believes should be used to evaluate progress in achieving its three strategic goals:

Table 1. Proposed Long Term Enterprise Measures and Target Values

Long-term Measure	Target Value/Target Date
• E-file participation rate	• 80 percent/2012
• Individual taxpayer satisfaction index	• 69 (out of 100)/2009
• Employee engagement	• 4.0 (out of 5.0)/2009
• Voluntary compliance rate	• 85 percent/2009
• Non-revenue enforcement activity index	• Index of 137.6/2009

The Board suggests that stakeholders use the following two questions in evaluating the proposed measures:

- Are the five long-term measures in Table 1 an effective way to evaluate progress in achieving the three strategic goals established in the strategic plan?
- Do the five long-term measures provide sufficient coverage of the strategic goals to ensure that a complete evaluation of all three goals is being made?

In evaluating the measures that the IRS is proposing, stakeholders are reminded that the establishment of long term goals is not intended to replace any existing reporting of annual performance by the IRS. Annual performance reporting is done to ensure that the IRS is meeting its annual operational performance expectations. Long term goals are intended to establish a sustainable, broad direction for the IRS over a multi-year period.

More information is presented on each measure in the succeeding paragraphs.

Goal 1: E-file Rate

Measure Background

The IRS has been tracking the rate of electronic filing for individual tax returns since the inception of electronic filing in 1987. The IRS Restructuring and Reform Act of 1998 (RRA 98) established the policy of Congress that paperless filing should be the preferred and most convenient means of filing federal tax and information returns, and established a goal for the IRS to have at least 80 percent of all such returns filed electronically by the year 2007. Since the passage of RRA 98, the IRS has been reporting the number of individual tax returns (Form 1040) that have been filed electronically and has made significant progress, although it will fall short of the 2007 goal. The RRA 98 goal was ambiguous in that it did not specify whether various types of returns that were capable of being filed electronically should be tracked separately, although that was the common practice of both the IRS and oversight groups.

Measure Definition

The proposed measure is defined as the percent of all major tax returns filed electronically by individuals, businesses, and tax exempt entities. Major tax returns are those in which filers account for income, expenses, and or tax liabilities. The definition does not include information reporting returns.

Target Value

The target value for this measure is 80 percent of all major tax returns filed electronically by 2012.

Oversight Board Commentary

The Board reported in its 2005 Electronic Filing Report to Congress that the IRS, despite excellent efforts in influencing taxpayers to file individual tax returns electronically, would not achieve 80 percent of all individual tax returns by 2007. The Board recommended that Congress retain the goal at 80 percent but make it effective for the year 2011. This proposed goal retains the 80 percent, but applies it to all major tax return types and sets the year of achievement as 2012.

The Board believes the expansion of the goal to apply to all tax returns is appropriate as the IRS has expanded the number of return types that can be filed electronically. The Board does not see a problem with applying the goal to tax returns only because the percent of information returns that have been filed in paperless form exceeded 80 percent even before RRA 98 was enacted, so the measure is moot for information returns.

Goal 2: ACSI All Individual Taxpayer Score

Goal Background

As described by the University of Michigan, the American Customer Satisfaction Index (ACSI) is a national economic indicator of customer satisfaction with the quality of products and services available to household consumers in the United States. Established in 1994, the ACSI produces indices of customer satisfaction and related measures. It is updated each quarter with new measures for different sectors of the economy. Each December, the ACSI issues a report on satisfaction of recipients of services from the federal government. Agency participation is voluntary.

In 1999, the Federal government selected the ACSI to be a standard metric for measuring citizen satisfaction. Over 55 Federal government agencies have used the ACSI to measure citizen satisfaction of more than 110 services and programs. The Index is produced by the University of Michigan in partnership with the American Society for Quality (ASQ) and CFI Group, an international consulting firm.

Measure Definition

The proposed measure is the ACSI rating for all individual tax filers, the broadest base IRS-related measure reported in the ACSI. The actual scores for this category in 2004 and 2005 were 64, out of a possible 100.

Target Value

The target value for this measure is a score of 69 by 2009.

Oversight Board Commentary

This measure is produced by an outside agency. It is the broadest measure of overall taxpayer satisfaction identified by the IRS and the Oversight Board.

Goal 3: Employee Engagement

Goal Background

The IRS for several years has been using the Gallup Organization to conduct an employee survey using its Q12 methodology. The Gallup Q12 is a set of questions where employees can offer responses on a 1 (least satisfied) to 5 (most satisfied) scale. Gallup provides a full report containing various measures, but a key measure is Gallup's computation of an overall employee engagement measure based on its proprietary formula.

Measure Definition

This measure is defined as the overall employee engagement level as reported by Gallup based on employee responses.

Goal Target

An overall engagement level of 4.0 by FY2009 is the target value.

Oversight Board Commentary

The Gallup Organization computes this measure using its proprietary formula and provides it directly to the IRS. The Board notes that the survey participation rate decreased last year and may decrease again this year. The IRS performs a separate analysis to ensure that the employees participating in the survey constitute a valid sample of the employee population. This analysis would be unnecessary if the participation rate was restored to 2004 levels.

Goal 4: Voluntary Compliance Rate:

In 2006, the IRS reported an annual gross tax gap of approximately $345 billion for Tax Year 2001. Components of this gap included a gap of $27 billion attributed to nonfiling, a gap of $285 billion attributed to underreporting, and a gap of $33.5 attributed to underpayment. These estimates are based in part on the National Research Program (NRP) evaluation of 2001 individual income tax returns and extrapolation of earlier estimates attributed to other taxpayer segments.

Measure Definition

This measure is defined as the amount of tax for a given tax year that is paid voluntarily and timely, expressed as a percentage of the estimate of true tax liability for that year. It reflects the impact of nonfiling, underreporting, and underpayment combined.

Target Value

The IRS has estimated the voluntary compliance rate for Tax Year 2001 as 83.5 percent. The target value for the voluntary compliance rate in 2009 is 85 percent.

Oversight Board Commentary

If the IRS had only a single measure, it would be the voluntary compliance rate, which is the most important single metric to evaluate the effectiveness of the tax system. The issue of concern, however, is the measurement methodology.

The IRS uses data from the National Research Program (NRP) and other sources to estimate the voluntary compliance rate. The core NRP methodology is an in-depth evaluation of a randomly chosen sample of returns. Much like a loaf of bread is composed of multiple slices, the voluntary compliance rate has many slices that in the aggregate comprise the overall non-compliance picture. For example, in 2006, the IRS estimated the Tax Year 2001 individual income tax underreporting gap based on the TY 2001 NRP reporting compliance study. This information was combined with older estimates of other parts of the tax gap to estimate the overall gross tax gap. The delay is based on the amount of time it takes the IRS National Research Program to sample and audit the completed returns, perform the analysis, evaluate the data, and report the results. Other components of the tax gap were projected to 2001 from much older data.

Using this methodology to estimate the Tax Year 2009 tax gap based means the results will not be available until 2013 or 2014. This lag makes it difficult to assess whether sought after results are being achieved, apply lessons learned, and hold executives accountable for results. The Board has recommended additional funding to make the NRP a permanent program that could report compliance trends more rapidly, but no such funding has been authorized to date. The current constraint is largely the lack of audit resources, since NRP relies on the diversion of regular audit resources to conduct the research audits.

The Board believes that the voluntary compliance is a measure without equal, but seeks stakeholders' comments on ideas to make its measurement more rapid and effective.

Goal 5: Non-revenue Enforcement Activity

Goal Background

The IRS performs a number of activities that are primarily regulatory in nature and are not reflected in any of the other four goals. Examples include its role in granting tax exempt status to qualifying organizations, reviewing qualifying employee plans, enforcing the regulations of the Bank Secrecy Act (BSA), and dealing with non-federal Government entities such as states, municipalities, and Indian tribes on tax issues. BSA functions are performed in the Small Business/Self Employed (SB/SE) division; the other nonrevenue functions are performed in the Tax Exempt/Government Entities (TE/GE) division.

To include these activities into one overall measure, the IRS has proposed an index of such activity based on outcomes in non-revenue related functions. The index would function much like the Consumer Price Index (CPI). It would reflect a set of activities much like the CPI reflects the prices paid by urban consumers for goods and services over a period of time. Much like changes in consumer prices can be assessed by examining changes in the CPI, changes in the IRS' nonrevenue performance can be assessed by examining changes in the nonrevenue enforcement activity index.

Goal Definition

The IRS has proposed that baselines be established for the non-revenue enforcement activity based on three-year rolling averages. The index would be computed by using TEGE and BSA measures of enforcement outcomes. TEGE outcomes would be weighted 40 percent Exempt Organizations, 40 percent Employee Plans, and 20 percent Government Entities; BSA outcomes would be weighted 40 percent field Title 31, 10 percent field Form 8300, and 50 percent Detroit Computing Center actions. Overall, TEGE's set of weighted outcomes contributes two-thirds to the index while BSA's outcomes contribute one-third.

Target Value

The FY2005 index was 125.1. The target value for the non revenue activity index is 137.6 by FY2009, an approximate 10 percent increase.

Oversight Board Commentary

Although difficult to understand the component parts of the index, the proposed method establishes a weighted index that allows the Oversight Board and others to evaluate relative changes in performance. The Oversight Board welcomes stakeholder comments on this measure and any suggestions for improvement.

Additional Remarks

Stakeholders are encouraged to offer their opinions on whether the proposed five measures provide a complete set of measures to evaluate IRS' progress in pursuing its strategic goals. A concern discussed by the IRS and the Oversight Board was that the measures do not capture any activity to modernize the IRS processes and technology. It may not be necessary to include such measures because modernizing IRS technology and processes will enable IRS success in achieving the business goal of improving customer service and enhancing enforcement.

Nonetheless, there may be compelling reasons to include some measures associated with outcomes that are powerful enablers of IRS business goals, such as the percent of individual accounts that are on the CADE system. The Board encourages stakeholders to provide it with their views on this subject.