IRS Oversight Board

Annual Report to Congress 2008

March 2009

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Appendices:

Message from the Internal Revenue Service Oversight Board

The Internal Revenue Service (IRS) collects more than two trillion dollars each year and provides the United States Government with 96 percent of its revenue. It processes more than 138 million tax returns for individuals and families, and millions more for businesses and non-profit organizations. The IRS' performance – from how efficiently it collects taxes to how well it helps taxpayers understand their obligations – is critical to our nation's economic wellbeing.

This report has a dual focus: it evaluates the IRS' performance during the past year, but it also looks at the IRS' ability to meet its strategic goals in the future. While the IRS has accomplished much, it still faces several formidable challenges.

In 2008, the IRS implemented an ambitious Economic Stimulus Payment (ESP) program at the end of the regular tax filing season and processed more than 119 million stimulus checks. Implementing this program in such a short period represented a challenge for the IRS.

As successful as this effort was, the IRS – and taxpayers – experienced reduced service levels, particularly in toll-fee telephone service as a result. While quality and accuracy measures remained high, it was harder for taxpayers to get help over the telephone. Service levels on the IRS' primary toll-free telephone line fell from 81 to 57 percent.

One lesson learned was that our nation's tax administration system should not be taken for granted. As we enter a new year, many more Americans are affected by the economic downturn, and the IRS is planning to provide more assistance for taxpayers who need help. Despite the IRS' success in managing both the filing season and the ESP program in 2008, the Oversight Board believes the tax administration system has two serious systemic weaknesses that need to be addressed.

The first is the tax gap. 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 deprives the nation, and hence its citizens, of money it is legally owed. As a result of the tax gap, the federal government has $290 billion less to spend each year than it should have if all taxpayers complied with the law, an average of over $2,600 per household. Above all, taxpayers expect fairness from the tax administration system, and the tax gap violates that foundational principle of fairness.

The tax gap is caused by a wide variety of factors, including willful non-compliance, unintentional non-compliance, lack of IRS enforcement and service resources, and the complexity of the tax code. Two IRS oversight agencies, the Government Accountability Office (GAO) and the Treasury Inspector General for Tax Administration (TIGTA), have expressed serious concerns about the tax gap. The enforcement of tax laws has been designated high risk since the GAO first began its report on risk in 1990. TIGTA lists the tax gap as the one of the top three challenges facing the IRS. Because of the wide variety of factors that cause the tax gap, there is no single way or means to solve it. Rather, there must be a multi-faceted and concerted effort by the Administration, Congress, IRS, third-party stakeholders, and taxpayers to take the necessary actions to close the tax gap.

The Oversight Board would be remiss if it did not also point out that the complexity of the tax code has a direct bearing on the tax gap. Tax law complexity confounds those who want to comply, provides numerous opportunities for those who don't, and creates a dense fog that permeates the entire tax administration system making detection of non-compliance, whether accidental or intentional, exceedingly difficult.

The second weakness is the archaic nature of the IRS information technology systems. The IRS Business Systems Modernization program has been designated by the GAO as high risk since 1995. The GAO placed this program on its high risk list because it believed that the IRS relied on obsolete automated systems for key operational and financial management functions. Unfortunately, that situation has not changed. To the Board, it is unacceptable for this program to remain on the GAO's high risk list for more than a decade. It is time for the IRS, the Administration, and Congress to agree upon a plan to complete the IRS' program of technology modernization and transition to a program that allows for steady, evolutionary management of its technology systems.

In other developments, the Board has worked with the IRS over the last 18 months to develop an updated strategic plan that will set a course for the agency from 2009 to 2013. The Board has approved the plan and it will be released by the IRS in early 2009. The plan establishes two strategic goals and identifies two strategic investments that will strengthen tax administration.

To deliver the performance that taxpayers expect and deserve from their tax administration agency, the Oversight Board believes the IRS must accomplish the following four tasks:

- Build more robust taxpayer services that make it easier for taxpayers to voluntarily understand and meet their tax obligations.
- Increase the IRS' enforcement presence to more effectively encourage compliance by those taxpayers who need more than service and their personal integrity to voluntarily comply
- Modernize IRS technology to place it on a par with private sector business practices
- Strengthen the IRS workforce infrastructure to meet the challenges of the 21st century

Progress in pursuing these tasks must be measurable and reportable. The Board has added an appendix to its annual report that contains performance measures of service, enforcement, people and technology (see Appendix 1). In addition, in conjunction with the updated strategic plan, the Board has approved specific numeric goals to which the IRS is being held accountable to achieve, and is working with the IRS on developing additional measures to evaluate progress in other key areas.

Lastly, the Board honors taxpayers for their role in tax administration. Our tax system works because the vast majority of taxpayers honestly assess their tax obligations and pay what they owe on a timely basis. The Board's *2008 Taxpayer Attitude Survey* indicates that 89 percent of those surveyed think it is "not at all" acceptable to cheat on their taxes – the highest level ever recorded for this question on the survey.

A large majority of Americans, 81 percent, also say that their personal integrity has a "great deal of influence" on whether they report and pay their taxes honestly – far more than their fear of an audit (36 percent) or information reporting to the IRS by third parties (40 percent).

The Board encourages the IRS to find ways to leverage this strong support for voluntary tax compliance and reinforce the message that tax compliance is a "social norm," much like obeying laws against drunk driving.

Now more than ever, a healthy and effective tax administration system is critical to the nation's economic health. Failure to pay attention to its needs could prove costly in the future.

Preface

In June 1997, the National Commission on Restructuring the IRS recommended the creation of an IRS Oversight Board to serve as a new governance and management body that would focus on strategic issues facing the IRS. The following year, the IRS Restructuring and Reform Act of 1998 (RRA 98) established the Board to "oversee the Internal Revenue Service in its administration, management, conduct, direction, and supervision of the execution and application of the internal revenue laws or related statutes and tax conventions to which the United States is a party."[1]

The Board is composed of nine members; seven come from "private life" and are appointed for five-year terms by the President and confirmed by the Senate. These private life members have professional experience or expertise in key business and tax administration areas. Of the seven, one must be a full-time federal employee or a representative of employees. The Secretary of Treasury and the Commissioner of Internal Revenue also serve as members of the Board. However, to preserve its independent oversight responsibilities and objectivity, neither the Secretary nor the Commissioner approve the Board's annual report, although their comments and guidance are both solicited and welcomed.

RRA 98 requires that the private life members of the Board be appointed without regard to political affiliation, and solely on the basis of their professional experience and expertise in one or more of the following areas:

- Management of large service organizations
- Customer service
- Federal tax laws, including tax administration and compliance
- Information technology
- Organization development
- The needs and concerns of taxpayers
- The needs and concerns of small businesses

The Board has many characteristics of a corporate board of directors, but is tailored to fit a public sector organization. RRA 98 gives the Board specific responsibilities to review and approve strategic plans of the IRS; review IRS operational functions; the selection, evaluation, and compensation of IRS senior executives; and review and approve the budget request of the IRS prepared by the Commissioner.

This report satisfies a statutory requirement in RRA 98 for the Board to report annually to the President and Congress. It contains a summary of the current state of tax administration, a discussion of the strategic challenges facing the IRS, and a section describing what must be done to strengthen tax administration that aligns with the updated IRS strategic plan, followed by a section on measuring progress and a conclusion.

I. Summary of the Current State of Tax Administration

The Internal Revenue Service (IRS) Oversight Board is pleased to report to the Congress and the American public on the progress that the IRS has achieved during the past year on its journey toward a modern tax administration system.

This report has a dual focus. First, it reports on the IRS' performance during the past year. More importantly, it also reports on the agency's progress in transforming itself into a modern tax administrator as set forth in its strategic plan. This year, the Board approved a new IRS strategic plan, *IRS Strategic Plan 2009-2013*, to replace its previous plan, *IRS Strategic Plan 2005-2009*.

The past year was particularly challenging for the IRS. Its beginning was marked by budget uncertainty as the IRS was funded by a Continuing Resolution for the first quarter of the fiscal year. In February 2008, the Economic Stimulus Payment (ESP) program legislation was enacted, which required the IRS on short notice, to implement information outreach efforts, modify its computer programs during the filing season, and distribute stimulus checks to taxpayers after the filing season.

Implementing the ESP program forced the IRS to place its primary focus on near-term operational issues. In addition to managing the normal filing season, the distribution of 119 million stimulus checks amounted to almost a second filing season.[2] The GAO acknowledged the additional workload in its annual assessment of the filing season and gave the IRS good marks for its accomplishments:

> *Even with the significant new workload associated with ESP, IRS delivered a generally successful filing season—with one key exception—access to telephone assistors. As of September 12, 2008, IRS had processed 150 million individual income tax returns, including almost 9 million ESP-only tax returns from people who would not otherwise have to file a return. In addition, IRS processed 105 million tax refunds totaling $246 billion, plus 116 million stimulus payments totaling $94 billion.*[3]

Despite these successes, the GAO also reported some problems. Because of additional demands on IRS toll-free customer service telephone lines, the IRS had to shift hundreds of collection staff to answer telephone calls. While the accuracy of the IRS answers remained high, over 90 percent, the level of service on its main customer service line fell from 81 percent to 57 percent.

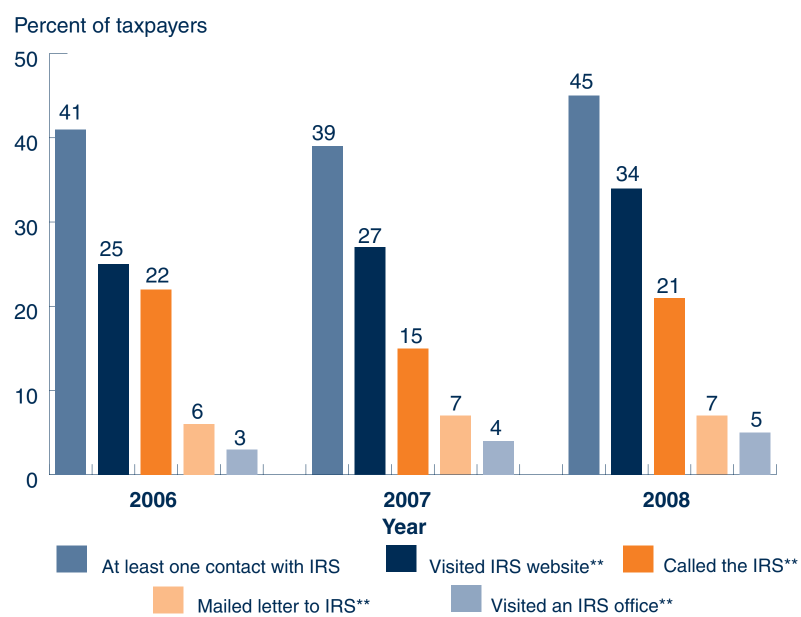
The ESP program also had a monetary impact. The IRS incurred $305 million in expenses administering the program but, more significantly, lost $655 million in tax revenue that otherwise would have been collected had personnel not been shifted to customer service duties.[4]

The Treasury Inspector General for Tax Administration (TIGTA) identified another major problem when it reported that the IRS placed the development of the Customer Account Data Engine (CADE) Release 4 at risk because of the need to incorporate additional requirements to process stimulus payments. Although the ESP program added five weeks to the CADE Release 4 development schedule, the computer modernization program was delivered on schedule.[5]

Taxpayer Service Trends in 2008

Serving taxpayers involves more than processing tax returns; it starts with providing information to taxpayers through various methods including toll-free telephone service, the IRS web site, and local walk-in offices. Taxpayers seek information and assistance from the IRS by using channels that best serve their needs. Survey data indicate that about 45 percent of taxpayers contacted the IRS for assistance at least once during 2008. The extent to which taxpayers depend on the IRS for information and assistance is shown in Figure 1.

Figure 1. Percent of Taxpayers Contacting the IRS, 2006-2008*

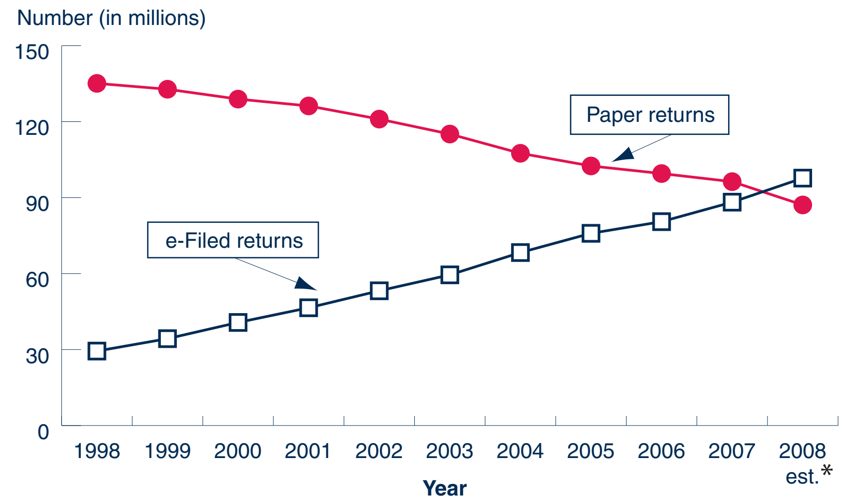


Source: 2006 data from IRS Oversight Board's Channel Preference Survey; data for 2007 and 2008 based on IRS' Market Segment Survey

* *Estimates based on sampling.*
** *These percentages are not mutually exclusive.*

In addition to service options, the IRS offers taxpayers two tax return filing options: electronic or paper. Because of the many benefits electronic filing offers taxpayers and the IRS, the agency has a goal to make electronic filing the medium of choice for all types of tax returns, whether they come from individuals, businesses, or non-profit organizations. As shown in Figure 2, in 2008, the IRS received for the first time a majority of its major tax returns electronically.

Figure 2. Major Tax Returns Filed: e-Filed vs. Paper

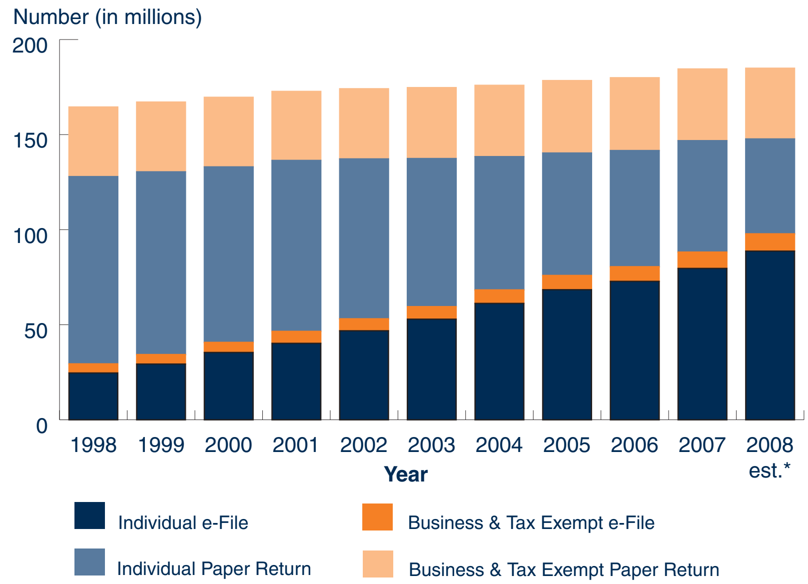


Source: IRS plus IRS Oversight Board estimates

** Data for 2008 excludes estimates of one-time only individual returns filed solely to receive economic stimulus payment.*

Electronic filing of individual tax returns has shown a steady growth for over ten years, but electronic filing of other tax return types has been more modest, in part due to the limited availability of flexible e-file options. With more business and tax exempt returns now able to be filed electronically, the number of these return types is starting to grow, as shown in Figure 3. However, despite new e-file applications and some electronic filing mandates for large corporations and tax exempt organizations, there are still far more paper than electronic returns filed by businesses and tax exempt organizations.

Figure 3. Major Tax Return Types by Filing Method



Source: IRS plus IRS Oversight Board estimates

* *Data for 2008 excludes estimates of one-time only individual returns filed solely to receive economic stimulus payment.*

Nevertheless, electronic tax administration (ETA) continues to be a bright spot for the IRS. It has achieved some notable accomplishments in 2008 with respect to having taxpayers choose to interact electronically with the agency. The IRS has:

- received around 99 million major individual, business, and tax exempt returns electronically in 2008, up about 12 percent from the 88 million in 2007;[6]
- successfully implemented the new Form 990-N modernized e-file (MeF) application in 2008, which enabled over 213,000 small tax-exempt organizations to meet their new annual filing requirement by electronically filing their simple Form 990-N “e-postcard” (return) directly with the IRS’ web site;[7] and
- used its web site during 2008 to help answer taxpayers questions about their economic stimulus payments including the deployment of two new tools, the Economic Stimulus Payment Calculator and the “Where’s My Stimulus Payment?” application. Overall, the IRS web site recorded around 348 million web page visits on IRS.gov in 2008 – more than a 60 percent increase over the 215 million web page visits experienced in 2007.[8]

Enforcement Trends in 2008

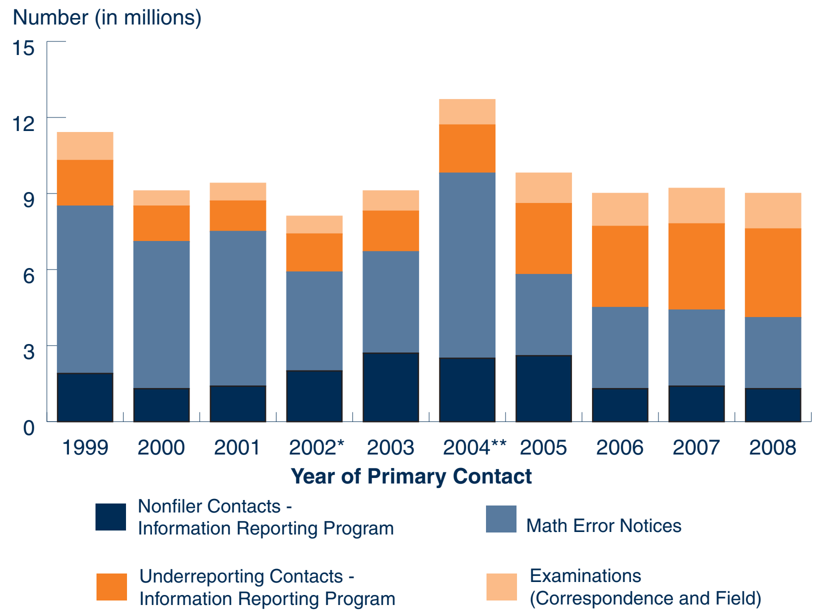
The IRS enforces the tax law by contacting taxpayers in a number of ways. For individual taxpayers, some of the more common may include the IRS:

- sending a notice to a taxpayer because it has an information return that indicates a taxpayer has income but has not filed a tax return;

- correcting a mistake made by the taxpayer, using its authority to correct math errors and related problems on a return as filed;
- informing a taxpayer that it has a record of income that does not appear on a tax return;
- conducting an examination by mail, known as correspondence exams; and
- notifying a taxpayer that he or she is being subject to a face-to-face (field) audit

Figure 4 shows the approximate number of these common touches for individual taxpayers for the period 1999 through 2008.

Figure 4. Number of IRS Enforcement Contacts with Individuals by Method



Source: IRS plus IRS Oversight Board estimates

* *Excludes large number of math error notices associated with one-time Rate Reduction Credit*
** *Includes unusually large number of math error notices associated with advance Child Tax Credit payments*

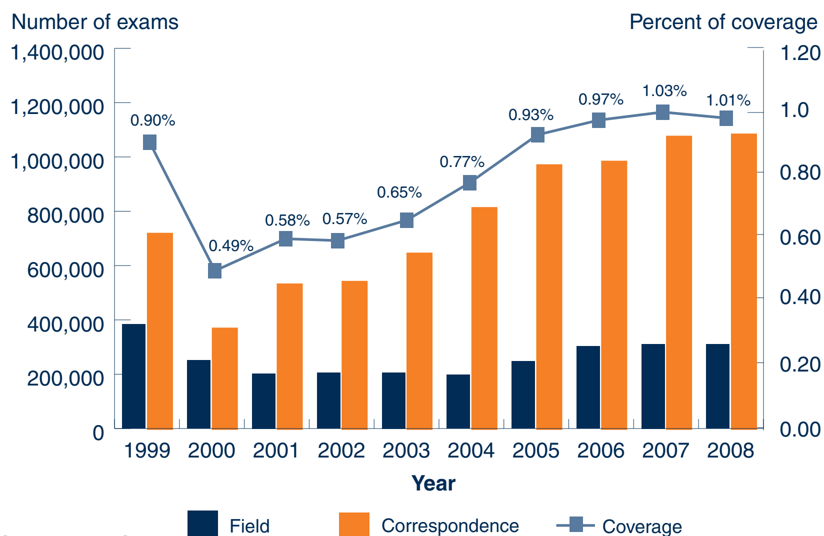
With few exceptions, the number of total annual IRS enforcement contacts has been relatively steady during the last ten years at around nine million, although the reasons for contacting taxpayers have changed. In recent years, the number of non-filer contacts and math error notices has decreased, while the number of underreporter contacts has increased. Examinations, either in-person or correspondence, make up a relatively small percentage of total contacts.

As further indicated in Figure 5, the number of examinations of individual tax returns conducted by the IRS during the FY1999 to FY2008 period hit a low point in FY2000, when only 0.49 percent of all individual returns were subject to examination. Since then, the coverage rate (the percent of returns subject to examination) has doubled, exceeding the one percent mark in FY2007, when the coverage rate was 1.03 percent. In FY2008, the coverage rate decreased slightly to 1.01 percent.

As can be seen in Figure 5, the coverage rate was increased to one percent by relatively small increases in the number of field, or in-person, examinations, and large increases in the number of correspondence examinations. The benefit of correspondence examinations is that they often focus on a single issue, consume less IRS resources, and are less burdensome for the taxpayers.

The primary disadvantage of correspondence examinations is that the IRS might overlook other misreported issues on a tax return that a field examination would uncover. Nonetheless, the IRS' overall thinking in pursuing this strategy is that the benefits of "touching" more taxpayers, using a less burdensome approach, outweigh the disadvantages of conducting more in-depth field examinations. However, the Board has requested the IRS to evaluate its business processes for conducting correspondence examinations to ensure its processes are not creating unintended burdens for taxpayers.

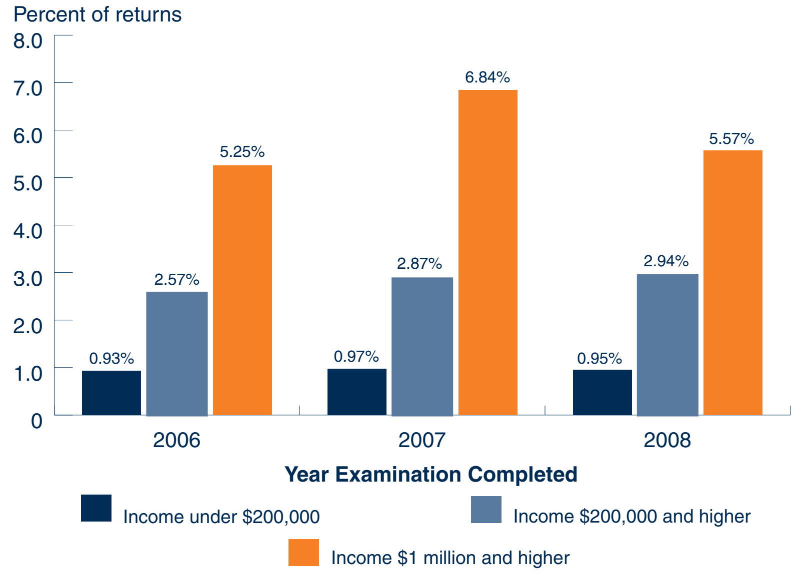
Figure 5. Individual Examination Trends FY1999 to FY2008



Source: IRS

The IRS modified its measurement system for classifying examinations of individual tax returns several years ago to allow it to better track the examination coverage rate by income segment. This change allows the IRS to focus additional resources on high income taxpayers, where greater amounts of misreported taxes are more likely to occur, as shown in Figure 6. Although the examination coverage for taxpayers with income over $1 million has decreased in the last year, it is still almost double that of taxpayers in the $200,000 or higher range, and about six times higher than that of taxpayers with income under $200,000.

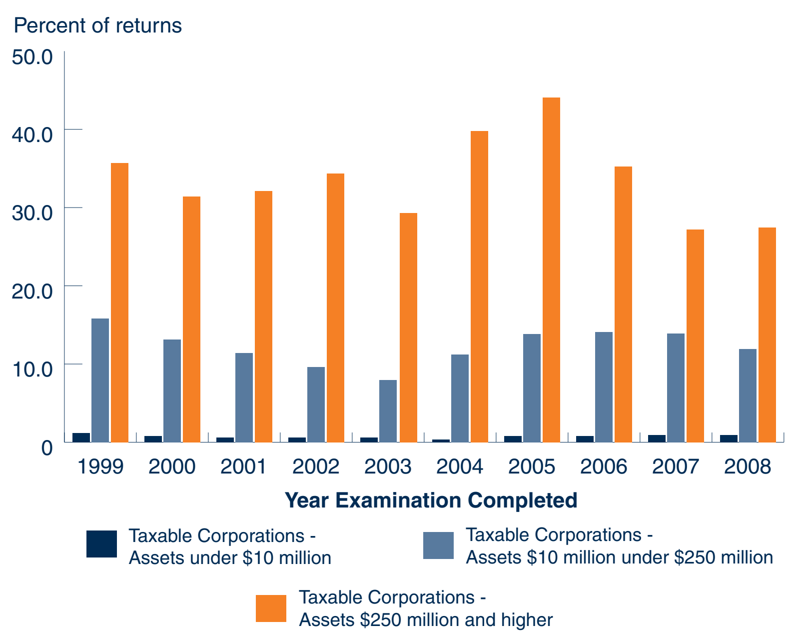
Figure 6. Examination Coverage Rates for Individual Filers by Income Range



Source: IRS

The IRS' approach to examining corporate tax returns follows a similar pattern, as shown in Figure 7, with corporations with larger assets having a higher examination rate. In 2008, examination rates for the largest corporations have decreased from the high point in 2005. Nevertheless, the coverage rate for these large corporations remains substantially higher than corporations in smaller asset categories.

Figure 7. Examination Coverage Rates for Taxable Corporation Returns by Asset Size



Source: IRS plus IRS Oversight Board analysis

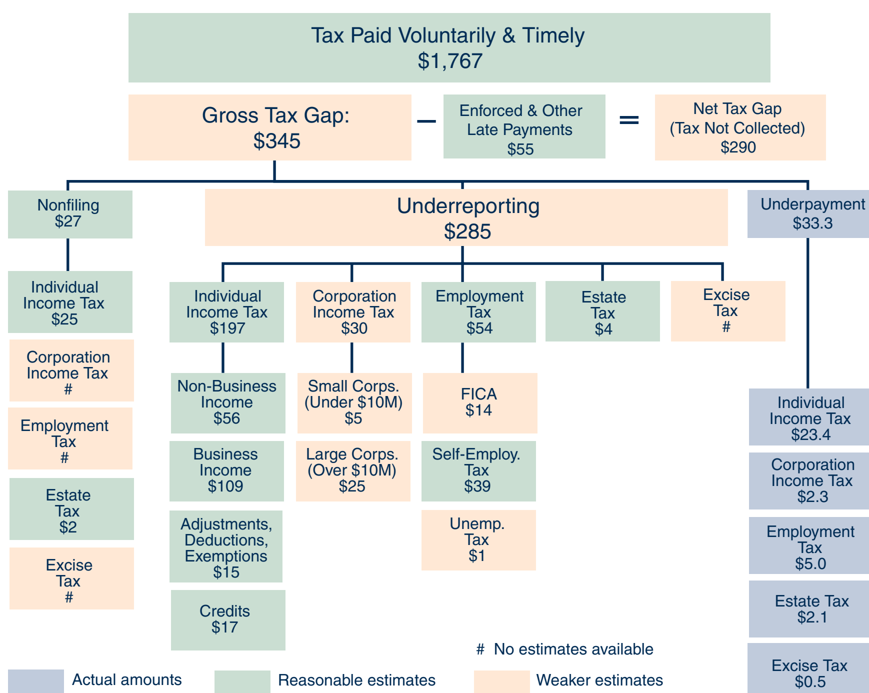
II. Strategic Challenges to Tax Administration

The IRS Oversight Board believes the tax administration system has two serious systemic weaknesses that must be addressed: the tax gap and IRS' archaic information technology systems. Failure to do so will create long-term performance issues for the tax administration system. With tax administration so critical to the nation's economic health, strengthening the country's tax administration system must be a national priority.

The Challenge of the Tax Gap

The annual tax gap is the difference between the amount of tax that taxpayers legally owe the government and the amount that is actually paid voluntarily and on time. It serves as an overall measure of taxpayer compliance with our nation's tax laws. The IRS estimates that the net annual tax gap[9] is $290 billion, as shown in Figure 8, which the Board, Congress and the Administration view as unacceptably high. As a result of the tax gap, the federal government has $290 billion less to spend each year than it should if all taxpayers complied with the law, an average of over $2,600 per household.[10]

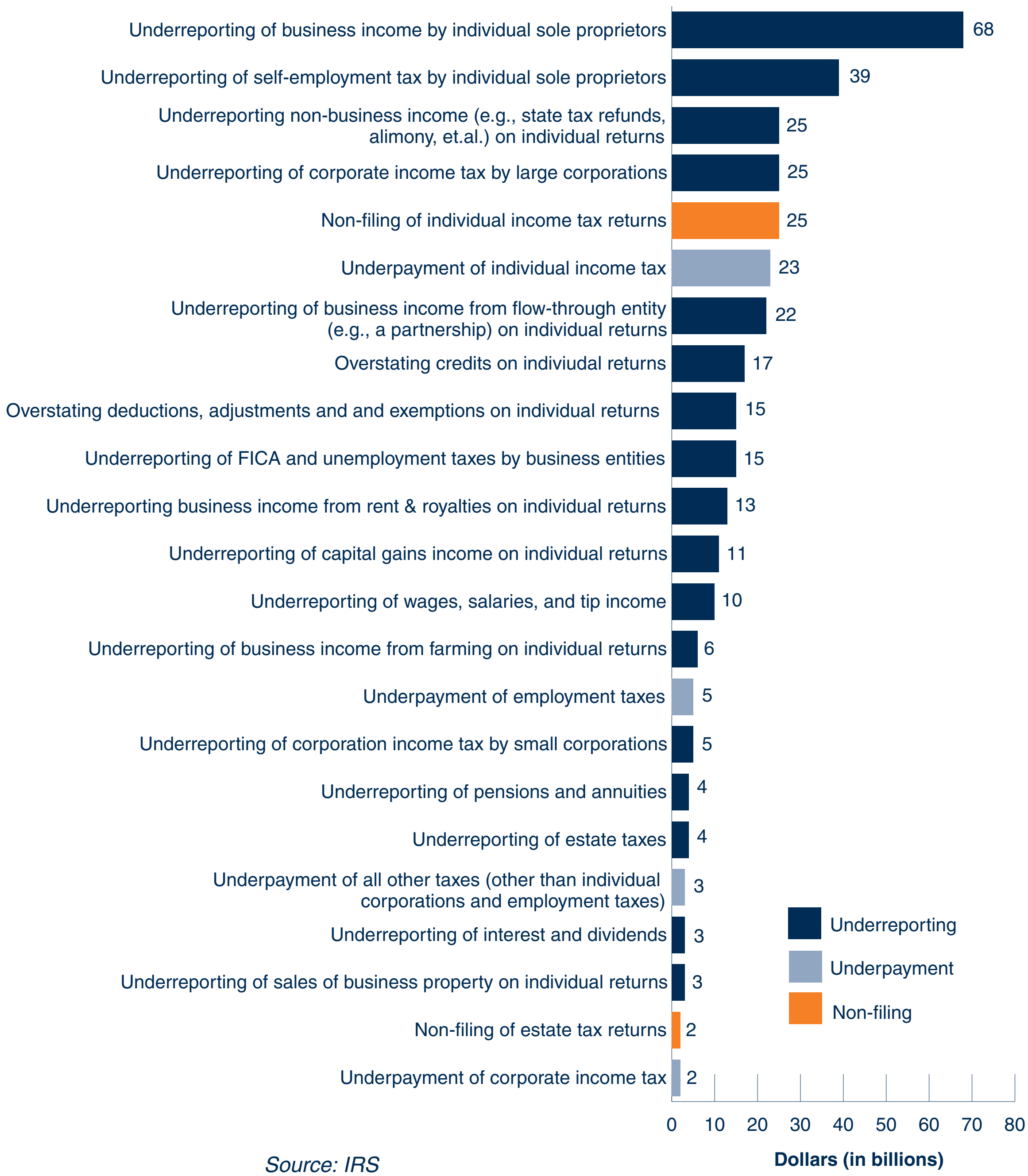
Figure 8. Tax Gap Map for Tax Year 2001 (in billions)



Source: IRS

The tax gap is caused by a wide variety of factors, including willful non-compliance, unintentional non-compliance, lack of IRS enforcement and service resources, and tax code complexity. The GAO and TIGTA have expressed serious concerns about the tax gap. The GAO has designated the enforcement of tax laws as "high risk" since it first began reporting on risk in 1990.[11] TIGTA considers the tax gap as one of the three critical challenges facing the IRS.[12,13] Figure 9 provides a further breakdown of the major components of the tax gap, ranked by size.

Figure 9. Gross Tax Gap by Major Components (Tax Year 2001)

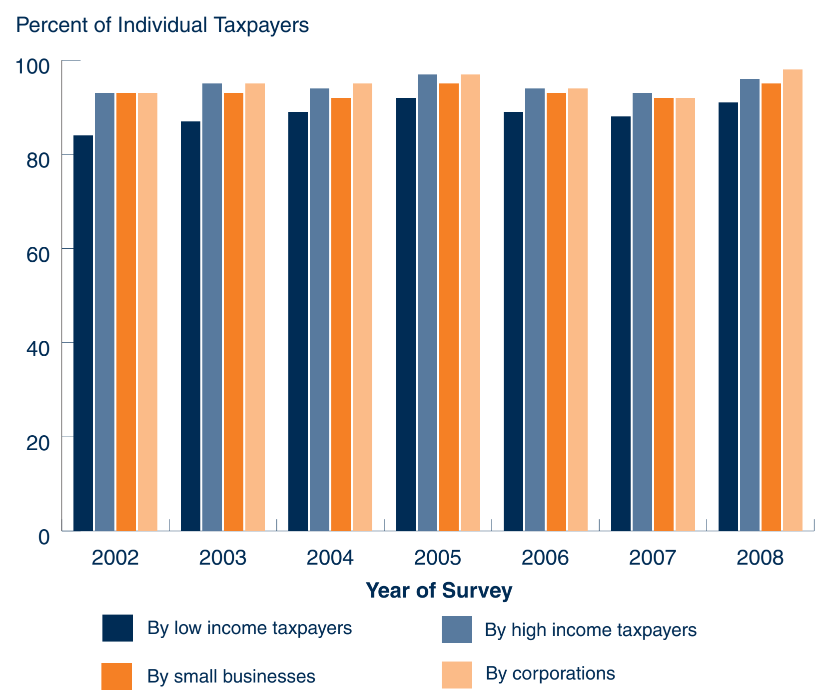


Source: IRS

The IRS estimates that collectively around $148 billion of the tax gap is caused by underreporting of business income and self-employment taxes by individuals[14]; and that the highest amounts of underreporting occur where there is little or no third party reporting of income or expenses. A reasonable explanation for much of this underreporting is a belief by the taxpayers involved that they will escape the detection of the IRS. Thus, many critics of the tax administration system argue that tax gap costs, which unfairly burden honest taxpayers by adding hundreds of billions of dollars to the national debt each year, are largely predicated on the expectation that tax administration does not have the manpower and resources to prevent the abuse.

The tax gap is important not only because it deprives the government of $290 billion in tax revenue each year, but it undermines taxpayers' beliefs that the tax system is fair. IRS Oversight Board surveys have long indicated that it is important to taxpayers that the IRS ensure that all pay their taxes honestly. Figure 10 shows that taxpayers' expectations have been high in this regard, and their expectations extend across a broad spectrum of taxpayers and income levels, from low income individuals to corporations.

Figure 10. Taxpayers Who Say It is Somewhat or Very Important IRS Ensures Taxes are Paid Honestly



Source: IRS Oversight Board Taxpayer Attitude Survey

The Department of the Treasury, in September 2006, published *A Comprehensive Strategy for Reducing the Tax Gap*. That document was followed by an IRS report, *Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance*, on August 2, 2007. This document identified seven components to the IRS' tax gap reduction strategy:

- Reducing opportunities for evasion through the 16 proposals in the President's 2008 budget, some of which have been enacted;
- Making a long-term commitment to research sources of non-compliance;
- Improving information technologies such as those for electronic filing;
- Improving examination, collection, and document-matching activities;
- Enhancing taxpayer service to curb taxpayers' unintentional errors;
- Simplifying the tax law to reduce unintentional errors;
- Coordinating with state and foreign governments, as well as bar and accounting associations to share information and compliance strategies.[15]

Execution of this plan requires sustained long-term effort on the part of the entire tax administration community, including the IRS, Administration, Congress, third-party stakeholders and taxpayers. Because of the long time lag in conducting research to measure underreporting on prior year tax returns, it will take years to quantify the extent to which the plan influences taxpayer compliance.

The Challenge of Information Technology

The IRS Business Systems Modernization (BSM) program has been designated by the GAO as an area of high risk since 1995. The GAO made this determination because it believed that the IRS relied on obsolete automated systems for key operational and financial management functions. The Board is concerned that having the BSM program being labeled "high risk" is becoming accepted as the normal way of doing business. It should not.

However, the GAO said in its most recent high risk report that the IRS is making some progress:

> *For example, IRS (1) delivered releases of key tax administration projects; (2) developed policies, procedures, and tools for developing and managing project requirements; and (3) took steps to further develop its modernization vision and strategy. In addition, IRS implemented the initial phase of the system intended to serve as a subsidiary ledger for its tax administration activities, as well as identification numbers for tax revenue and refund transactions that, once fully implemented, are together expected to provide transaction traceability and detailed support for all of its tax-related transactions and balances. IRS also made significant progress in addressing long-standing deficiencies in controls over tax revenue collections,*

> *tax refund disbursements, and hard-copy tax receipts and related data. In addition, IRS completed several pilot projects to demonstrate its ability to determine the full cost of its programs and activities.*[16]

TIGTA has a requirement to identify annually the most serious management and performance challenges confronting the IRS. In its latest report in October 2008, TIGTA identified the IRS modernization program, security, and tax compliance initiatives as the IRS' top three challenges.[17] These ratings are consistent with the GAO list.

In its most recent report on areas of high risk, the GAO noted that the Office of Management and Budget (OMB) led an initiative to help federal agencies develop corrective action plans for high-risk areas and praises the Federal Aviation Administration (FAA) for its progress in addressing the problems that previously led the GAO to classify air traffic control modernization as high risk. Based on the FAA's aggressive program to implement a corrective action plan, the GAO removed the program's high-risk designation. This is an encouraging sign for all agencies that have areas on the high risk list, as it demonstrates that it is possible to make real progress solving problem programs. Discussions between the GAO and Oversight Board officials indicate that the GAO would welcome a similar initiative to remove tax law enforcement and the BSM program from the high risk list.

One specific example of how the IRS' archaic information technology systems affect taxpayers involves the issuance of refunds. Taxpayers whose accounts are among the 30 million that the IRS processes using the Customer Account Data Engine have their returns processed in about five days, which is a week or two faster than IRS' legacy systems.

As a result, these taxpayers receive their tax refunds in about five days if they file electronically and request a direct deposit of their refund. The remaining 110 million taxpayers whose tax returns are processed by IRS legacy systems have to wait longer for their refunds. Those who file electronically and request a direct deposit receive their refunds in about 10 to 17 days. Taxpayers who file a paper tax return and receive a refund check wait the longest—up to 42 days.

In 2008, around ten million taxpayers applied for refund anticipation loans (RALs)[18]. However, a recent IRS survey asked respondents whether they would still apply for a RAL if they could receive a refund in about three days. Only 22 percent indicated they would still apply for a RAL. With annual RAL fees at about $900 million[19], a reduction of 78 percent would save taxpayers well over a half a billion dollars annually.

The Price of Imperfect Tax Administration

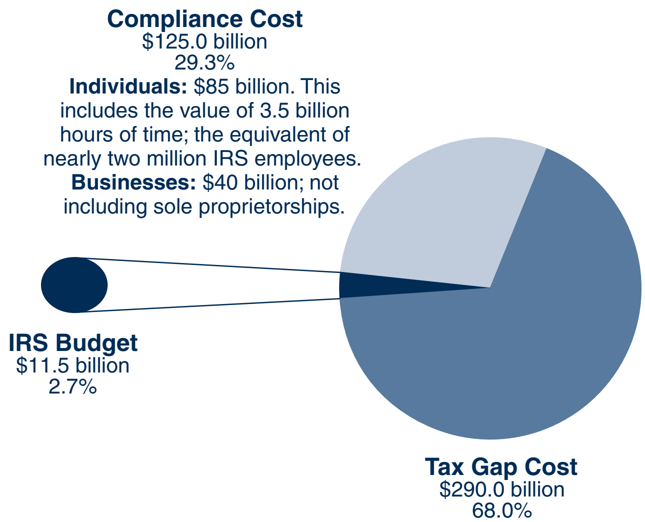
Tax administration is not simple, free, or perfect. In fact, the complexity of the tax code makes it difficult for taxpayers to understand their obligations; it is costly to comply; and invites both unintentional and willful non-compliance. Moreover, tax administration burden on taxpayers can be subtler and less visible than the withholding on taxpayers' paychecks. However, these costs are as real as the direct taxes paid to the federal government and should be considered in the broad context of tax administration in order to understand the full financial burden placed on taxpayers.

Cost burdens associated with tax administration can be divided into three broad categories:

- **Compliance costs:** the direct burden in time and money expended by taxpayers to understand tax rules, keep records, and meet their tax obligations. A noted expert in the field of tax administration, Professor Joel Slemrod of the University of Michigan, estimated that compliance costs were approximately $125 billion in 2005. Approximately $85 billion of these costs were borne by individual taxpayers and $40 billion by corporations.[20] Prof. Slemrod also found that compliance costs are particularly high for self-employed taxpayers.
- **Tax gap costs:** The tax gap deprives the nation and its people of $290 billion in tax revenue each year that should be collected. Put another way, if the tax gap was zero, the federal government would have an additional $290 billion each year that it could either spend on programs or refund to taxpayers. Thus, the tax gap is a real cost to taxpayers.
- **IRS budget costs:** The IRS appropriated budget in fiscal year 2009 was approximately $11.5 billion. These funds pay for the costs the IRS incurs to administer taxes, including service, enforcement, management, and infrastructure costs.

Figure 11 depicts this broader view of tax administration costs. The total annual cost of tax administration is estimated at approximately $426 billion, almost 40 times larger than the IRS FY2009 budget of $11.5 billion.

Figure 11. Tax Administration Costs Over $426 billion in FY2009



Source: Dr. Joel Slemrod, The Costs of Tax Complexity and IRS Oversight Board analysis

The next section discusses how to strengthen tax administration and make it benefit all taxpayers. As investments are being considered to implement this plan, the price of not improving tax administration should also be recognized. Reducing the IRS budget at the expense of taxpayer compliance costs or tax gap costs provides a concrete example of the expression, “penny wise and pound foolish.”

III. Strengthening Tax Administration

Despite the IRS' steady improvement in performance during the last decade, the tax administration system is so critical to the nation's economic health that strengthening it must be a national priority. The Board believes the IRS must accomplish four tasks to achieve its strategic objectives and deliver the performance that taxpayers expect and deserve from their tax administration agency. It must:

- Build more robust taxpayer services that make it easier for taxpayers to voluntarily understand and meet their tax obligations
- Increase the IRS' enforcement presence to more effectively encourage compliance by those taxpayers who need more than service and their personal integrity to voluntarily comply
- Modernize IRS technology to place it on a par with private sector business practices
- Strengthen the IRS workforce infrastructure to meet the challenges of the 21st century

These four tasks align with the objectives of the updated *IRS Strategic Plan 2009-2013*, and will be described in the succeeding four sections.

Strategic Goal 1:
Improve service to make voluntary compliance easier

As discussed in Section I, the IRS is to be commended for delivering a generally successful 2008 filing season in light of the strong challenges it faced. However, the decline in toll-free telephone service due to higher than normal telephone demand driven by the ESP program illustrates that the IRS capacity to deliver taxpayer services should be more robust.

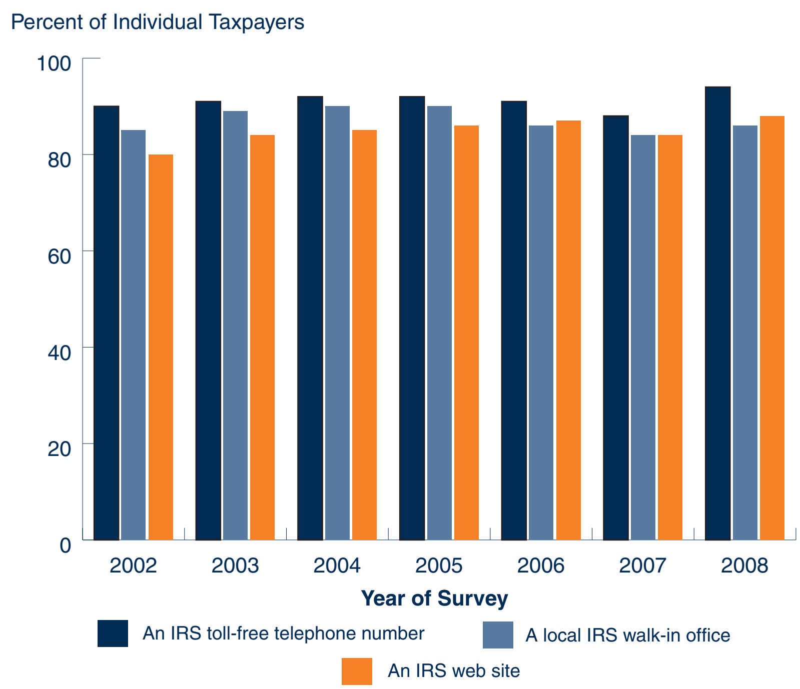
Serving taxpayers involves more than processing tax returns; it starts with providing information to taxpayers through a broad variety of channels so they can easily understand and report their tax obligations. Taxpayers seek information and assistance from the IRS using channels of their own choosing, including toll-free telephone service, the IRS web site, and local walk-in offices. Oversight Board surveys indicate that taxpayers place a high value on the importance of these different channels, as shown in Figure 12, with approximately 90 percent of taxpayers saying consistently that it is very or somewhat important that the IRS provides them.

The IRS should do more to directly assist taxpayers using existing service channels. Existing services should be expanded and new services added, with a focus on assisting taxpayers experiencing financial difficulties.

The IRS should also expand and strengthen its network of volunteers, also known as Volunteer Income Tax Assistance (VITA). In the past few years, the Board visited volunteer sites in Salt Lake City, Atlanta, Kansas City, Chicago, New York City, and Boston, and was impressed with the volunteers' contributions. The IRS has been very successful at the municipal level in partnering with other agencies that are delivering services to urban areas. However, more should and can be done to extend and improve this volunteer network. Every major city should have such a program.

The volunteer network proved its effectiveness in reaching underserved taxpayers during the ESP program, and may prove even more useful to taxpayers who are now experiencing financial difficulties in the current economic downturn. There is another benefit: by helping taxpayers obtain the benefits to which they are entitled, such as the Earned Income Tax Credit, more money is pumped into the local economy.

Figure 12. Taxpayers Who Value Specific Customer Service Channels



Source: IRS Oversight Board Taxpayer Attitude Survey

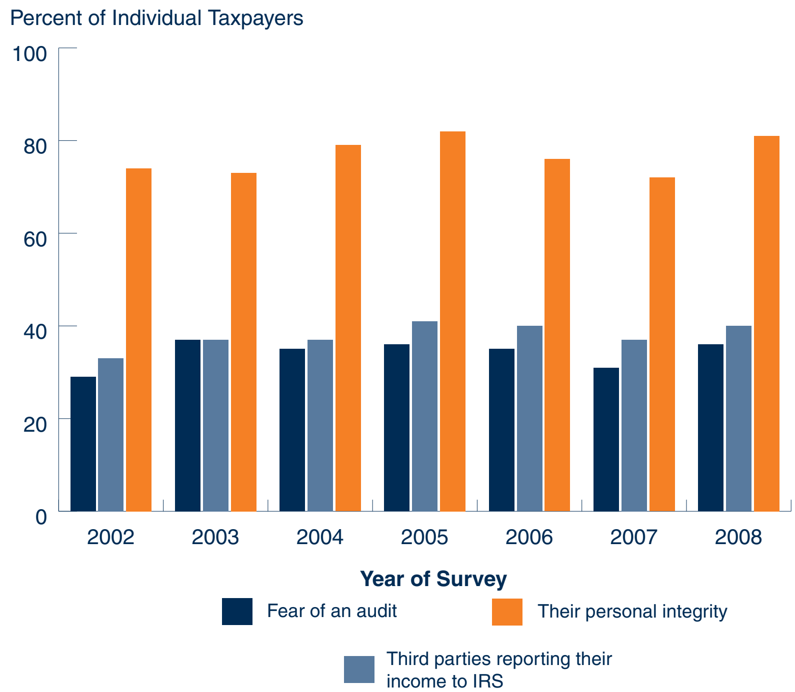
Moreover, the Board believes that VITA sites are important for a number of reasons that go beyond the number of returns that volunteers prepare. The program taps into a long national tradition of volunteerism, leverages federal funding by using volunteers to prepare income tax returns, and builds relationships between community-based non-profit service organizations and local governments that can be extended into other areas that assist low income citizens.

At several sites, the Board has visited, a level of trust has developed that encourages non-filers to come into the tax administration system. In a larger sense, the relationships that are built instill a sense of civic responsibility in everyone who has a stake in the outcome, including volunteers, clients, and employees of the participating organizations.

The IRS should also expand its partnerships with professional tax preparers so that they become the first line of defense in reducing non-compliance. Around 60 percent of all individual taxpayers use third party representatives for tax preparation; and over 70 percent for small businesses and sole proprietors[21]—the largest segment of non-compliant taxpayers. The growing non-profit sector also poses similar challenges. The IRS should not and can not be the sole organization promoting tax compliance. Tax professionals must do their part to ensure the integrity of the tax system

The foundation of our tax administration system is taxpayer self-assessment. The Board believes that personal integrity is a critical factor in this process, and public surveys support this view. The IRS, its partners in the professional tax community, and public policy-makers should do more to stress the importance of integrity in making tax decisions. Board surveys have demonstrated the high value that taxpayers place on personal integrity in making decisions about whether to report taxes honestly, as shown in Figure 13.

Figure 13. The Importance of Personal Integrity in Making Tax Decisions*



Source: IRS Oversight Board Taxpayer Attitude Survey

* *Indicates the percentage of taxpayers who say specific factors have a "great deal of influence" on whether they pay their taxes honestly.*

The Taxpayer Assistance Blueprint: A Vision of Service

The Taxpayer Assistance Blueprint (TAB), a five-year plan for improving taxpayer service, defines the IRS vision of taxpayer service for the future. The TAB calls for a much broader use of electronic interactions between taxpayers, practitioners and the IRS, such as account management and the ability to resolve taxpayer account 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 currently occurs face-to-face, over the phone, or in writing to be completed electronically."[22] This is much along the lines of what customers of large financial institutions can already do today but is not fully available to taxpayers.

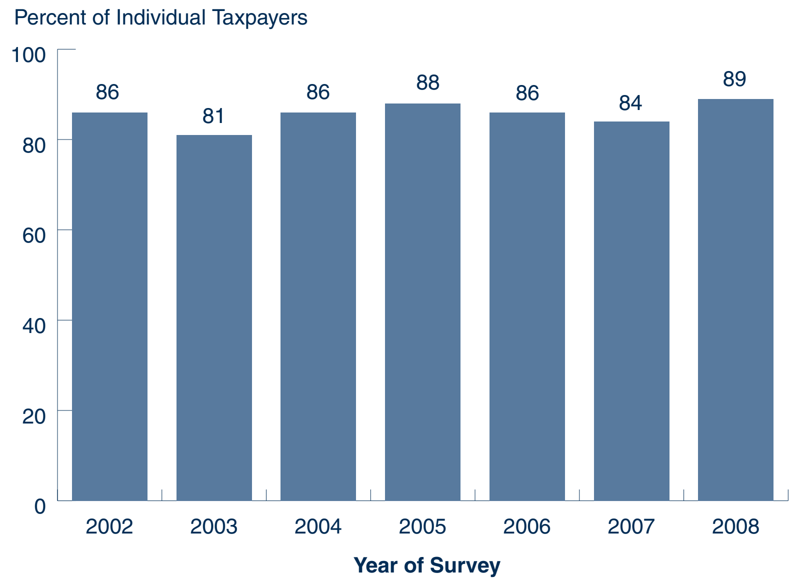
The TAB's Service Improvement Portfolio provides a roadmap to that vision. Its recommended initiatives for the Electronic Interaction Enablement category address critical areas and gaps, such as service governance, content management, end-to-end portal and application monitoring, web site design and usability, online support tools, publication search capability, evaluation of Frequently Asked Questions, and authentication for account-related tools.

Strategic Goal 2: Enforce the law to ensure everyone meets their obligations to pay taxes

Reducing the tax gap remains a high priority for the IRS and our nation. Such a priority would be appropriate even without an economic downturn, but is even more compelling in light of the current economic conditions and the high demand for federal resources.

Taxpayers are not tolerant of those who cheat. Oversight Board survey results have shown that 80 to 90 percent of taxpayers have consistently indicated it is "not at all acceptable to cheat on your income taxes," as show in Figure 14. The 2008 result, 89 percent, represents the highest percentage of taxpayers who hold this view since the Board began asking this question.

Figure 14. Taxpayers Who Say It is Not At All Acceptable to Cheat on Your Income Taxes



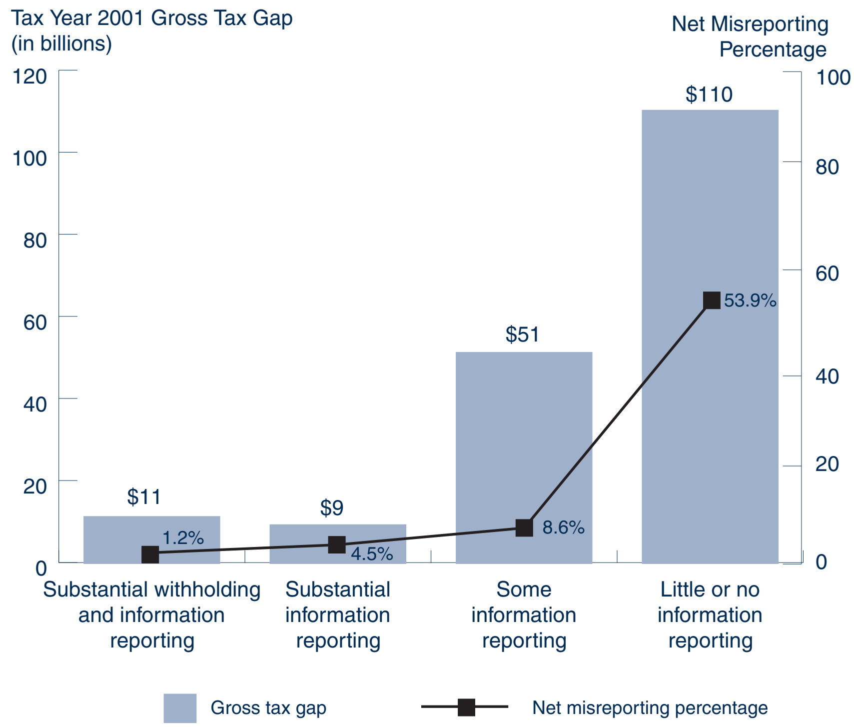
Source: IRS Oversight Board Taxpayer Attitude Survey

Enforcement resources are most effective when applied systematically to reduce non-compliance. Systemic methods of enforcement generally are much more efficient than case-by-case methods. One of the most efficient ways of increasing the IRS' systemic enforcement efforts is to increase document matching of third party information reports. Such matching programs, when effectively administered, have a large deterrent effect in addition to the direct revenue they produce. Beginning in 2011, the IRS will be receiving new information reports on credit card receipts for merchants, and must expand its efforts to use this new information effectively. An improved capability in this area should also have significant indirect effects as it will encourage small business taxpayers to become more compliant in their original tax filings.

The importance of the new information reports can be illustrated by Figure 15, which shows the results of IRS studies that have correlated the relationship between underreporting of income and information reports and withholding. As previously noted, most of the tax gap involves income for which little or no information reporting exists. Conversely, where there is substantial information reporting, the tax gap is considerably smaller, as is the relative percentage of misreporting.

This strong relationship between underreporting and information reporting makes it imperative that the IRS develop processes to make the best and most effective use of the new information reports. If the IRS is able to demonstrate such an effective use, the additional information reporting requirements will be seen as an important tool in reducing the tax gap. If not, the requirements will be viewed as simply another taxpayer burden.

Figure 15. Individual Income Tax Underreporting Tax Gap and the Impact of Withholding and Information Reporting



Source: IRS

The IRS should also increase its examination coverage rates among taxpayer segments that are most likely to be non-compliant. The IRS should carefully research the effectiveness of various data analysis techniques to more effectively identify non-compliant taxpayers. In addition, the IRS has increased its examination coverage in recent years and should use this experience to target additional examinations in those areas that will have the greatest impact on improving voluntary compliance while avoiding audits of those who are compliant.

The global economy continues to offer many opportunities for non-compliance and the IRS is often playing "catch-up." To its credit, the IRS has been successful at uncovering some high profile examples of offshore tax evasion but it must build up its capability and expertise to better combat non-compliance and outright tax evasion at this level. The Board is pleased that the IRS is committed to expanding its focus of international tax enforcement and is putting additional resources behind it.

IRS accounts receivable are also growing despite some increases in enforcement revenue in recent years.[23] Too often, both individual and business taxpayers are able to avoid paying known assessments simply because the IRS does not have enough collection employees. Collection cases might reasonably be expected to rise in the near future as a result of financial difficulties many taxpayers are now facing.

Moreover, more attention should also be placed on collection techniques and practices used by world class organizations, be they in the private or public sector. In this regard, the IRS is to be commended for providing its front line enforcement personnel greater flexibility during this time when previously compliant taxpayers may not be able to make a payment. There are means of resolving tax debt other than paying in full, including installment agreements and offers in compromise. Achieving appropriate resolution allows taxpayers to get their tax issues behind them and get out of the economic shadows.

However, too many taxpayers simply do not file taxes at all, and the problem is not restricted to low-income taxpayers. The IRS should launch a major campaign to identify non-filers and get them to meet their tax obligations. The IRS could also adopt administrative procedures to encourage non-filing taxpayers to reconcile their outstanding tax obligations while encouraging future compliance.

In the past several years, the IRS has made great inroads combating tax fraud, especially with those who promote tax evasion schemes for naïve or greedy taxpayers. Putting promoters of abusive tax shelters and tax fraud out of business is a high priority in the IRS' strategic plan and can serve as a broad deterrent to all taxpayers who might otherwise consider such action.

Data sharing is also important. The IRS shares some data with other governmental entities but better information sharing between the IRS and state and local governments could contribute to greater compliance. Many small businesses that contribute to the tax gap are licensed by state governments but few connections are made between the federal tax obligations of these businesses and local licensing authorities.

Strategic Foundations: Invest for High Performance in People and Technology

Investing in People

The complexity of the tax code puts a premium on the importance of a talented, skilled, well-trained, and dedicated workforce to deliver comprehensive and understandable customer service and effective enforcement of the tax code. The IRS' greatest asset is its employees who deliver services to taxpayers and enforce the tax laws effectively. The IRS had been experiencing two troublesome human capital trends in recent years:

- The number of workers who are retirement eligible has been growing and they will take critical skills and experience with them when they retire
- Attrition rates for new hires have been increasing over historic levels, making it more difficult to retain newly-hired employees

Although both problems may be temporarily mitigated by the economic downturn, the underlying issues still require long-term attention. The Board believes that both the IRS and its employees will benefit if the IRS develops creative and effective approaches to boost workforce engagement.

Independent studies have found that employee engagement makes a difference. The Corporate Leadership Council issued a report in 2004 based on a worldwide survey of 50,000 private sector employees, and found, "Those employees who are most committed perform 20% better and are 87% less likely to leave the organization – indicating the significance of engagement to organizational performance."[24]

The private sector results are mirrored in a recent report issued by the Merit Systems Protection Board, *The Power of Federal Employee Engagement*, which found that the federal agencies that had higher employee engagement also had higher scores on the program results/ accountability portion of the Program Assessment Rating Tool (PART) scores.[25]

These two reports also identify other advantages to high employee engagement: engaged employees stay in their jobs longer; use less sick leave, file fewer grievances, and take less time off related to work injuries.

Based on the 2008 Employee Survey, the IRS computed a mean Service-wide "employee engagement index" of 3.72 on a 5.0 scale. To its credit, IRS leadership has set a goal for employee engagement scores that would place the IRS in the top five percent of large federal agencies.

To meet this aggressive goal, human capital strategic planning at the IRS must step up to the challenge. The IRS must do a better job of recruiting employees, streamlining the hiring process, offering training for managers and incentives to make it attractive to be a manager, and providing career development opportunities for all of its employees, including training and developmental assignments. Front line management is key to improving employee engagement, and more emphasis on timely training of front line managers is essential.

One promising effort in this regard is the formation of a Workforce of Tomorrow task force that has been actively identifying how to best attract and retain talented employees.

The Board recommends the IRS incorporate the following actions into its human capital approach:

- **The IRS should place more emphasis on employee career development and succession planning.** Employees will excel in their positions and be more productive when they have a sense of ownership of their careers. In the private sector, employees vote with their feet, going from one opportunity or company to another to advance their careers. Government service has traditionally been characterized by high tenure and low attrition, but current economic conditions make government service more attractive. By improving job mobility within the IRS, new hires will be more likely to remain with the IRS long after the economic downturn is over.

- **The IRS should expand the availability of high-quality training and mentoring so that its employees can match the best talent in the private sector.** The availability of such training will make the IRS one of the best places to work in the federal government, and provide the catalyst for more employee ownership of their career development. Quality training and work experiences will go far in attracting the best talent to public service and retaining employees in the long run. Training programs should also incorporate measurement programs so that the effectiveness of training can be quantified.

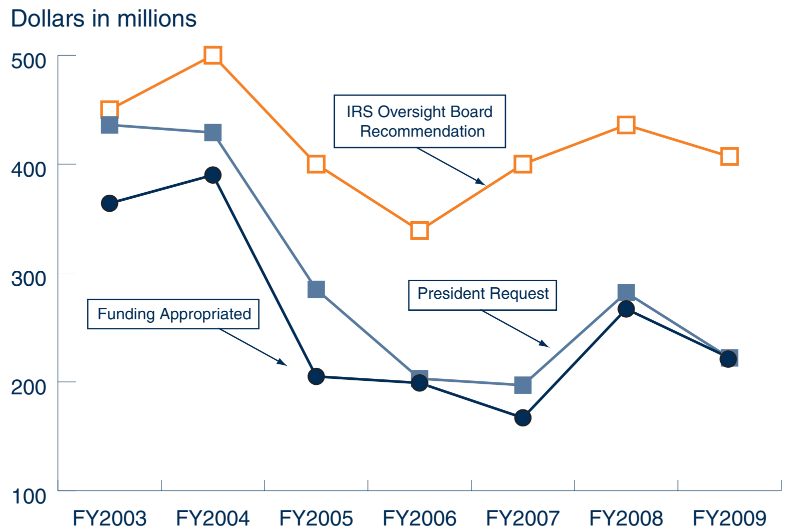
- **The IRS should build its knowledge management capability and create centers of knowledge around key enforcement functions.** The IRS is losing many experienced enforcement personnel as the overall workforce ages, and more attention must be placed on identifying, retaining, and sharing key knowledge from retiring employees so it can be more effectively applied on an enterprise-wide basis. Using retired employees to mentor current employees could augment formal training programs. Creating new positions that become reservoirs of expertise available to other employees can create new job opportunities for high performers and raise the level of performance across the organization.

- **The IRS needs to expand its workplace flexibilities so that it can compete with the private sector in attracting and retaining the best talent.** Workers of the 21st century want more flexibility in the workplace so that family and professional needs can be balanced. This is especially true for families with two working parents.

Investing in Technology

Modernizing IRS technology has unfortunately been scaled back to the lowest possible levels. Since its inception, the Board has advocated that the IRS' BSM program be funded at a higher level so progress could be made more quickly. However, as shown in Figure 16, funding for BSM has flowed in fits and starts. As a result, the BSM program has made modest progress, but an end to reliance on the existing 1960s era master file system is still years into the future.

Figure 16. Business Systems Modernization Funding



Source: IRS Oversight Board

A modernized system will save taxpayers billions of dollars in burden reduction and make the IRS far more efficient. One vital business capability the BSM program needs to develop is the ability to update the tax accounts of individual taxpayers on a daily basis, instead of its current weekly process.

The IRS successfully implemented its Customer Account Data Engine (CADE) Release 3 in January 2008, and used CADE to process approximately 30 million individual tax returns. TIGTA also noted how the IRS successfully implemented the Economic Stimulus Program (ESP) processing into CADE. In February 2008, when the ESP was enacted, CADE did not have the capability to process stimulus payments. However, the IRS proactively included the processing of stimulus payments into Release 4. TIGTA reported that because the IRS took these steps, more than 17 million taxpayers received the benefit of expedited payments by remaining in the CADE database. The implementation of ESP, however, did not come without some risk. According to TIGTA, the economic stimulus effort eliminated all reserve time built into the Release 4 project schedule and increased the overall project schedule by five weeks.[26]

However, TIGTA further reported that the approach taken to implement the CADE architectural design would not support long-term goals and objectives, and that alternative design approaches might be needed to meet the CADE computer processing demands. In addition, with the expectation of significant increases in the CADE taxpayer population, processing capacity and data storage require consideration to meet future operational needs. The IRS has begun to address these issues and is defining its detailed approach to completing the CADE project.

In spite of this progress, IRS technology continues to be seriously behind that used by virtually every financial institution in the country. The IRS' inability to access and update records on a daily basis is even more serious when considering the scope of IRS records, which include every taxpayer in the U.S.

During the last several years the IRS has focused on improving its management capability and has achieved success in delivering information technology projects, but it is still handicapped by a limited budget. The IRS developed a plan, the *Modernization Vision and Strategy* (MV&S), which describes how the IRS will manage the development of BSM.[27]

A recent TIGTA review of the MV&S program provided a favorable assessment, noting that it provided IRS executives with effective tools and information to make informed technology decisions.[28] However, the funding level for the BSM program dictates an exceedingly slow pace.

The IRS must speed up the pace of technology modernization; failure to do so will deprive taxpayers of billions of dollars worth of benefits. Taxpayers should be able to conduct transactions with the IRS as simply as they do with their local banks, including electronic access to their own records. Today and for the foreseeable future, they will not be able to do so. That is unacceptable.

In addition to developing new programs to modernize its business systems, the IRS must also invest in information security to stay ahead of the growing threat to computer systems. Protection of taxpayer records from disclosure is paramount. Great economic harm would result from a broad disclosure of these records, either accidently or as a result of cyber-attacks from hostile parties. The IRS infrastructure must be sufficiently robust so it is capable of withstanding outside attacks and have built-in safeguards to prevent disclosures by employees, either through neglect, ignorance or intentional malfeasance.

One application of information technology that has shown notable progress is electronic filing. The IRS has introduced a number of new products and services in 2008. It has expanded the Free File program in 2009 to include the availability of a fill-able forms capability for all taxpayers, including those who do not qualify for free tax preparation and electronic filing services using Free File because their adjusted gross income exceeds the $56,000 limit.

These taxpayers can now choose to use fill-able PDF forms that can be filed electronically. Although taxpayers using this option will not have the advantages of tax preparation software, it is useful for taxpayers with reasonably simple returns. Moreover, the Oversight Board believes it will provide a good indication of the demand for a product of this type and help steer future electronic filing development efforts.

IV. Measuring Strategic Goals

The IRS Oversight Board has approved quantitative goals to measure IRS' progress in achieving its strategic objectives and has identified other important measures it will use to monitor progress. Such goals and measures are the primary tools the Board and other oversight groups and stakeholders use to gauge the success of the IRS over the long term.

In conjunction with the development of the *IRS Strategic Plan 2009-2013*, the Board updated goals it approved for the *IRS Strategic Plan 2005-2009*. In regard to strategic goals and measures, the Board remains engaged with IRS on several fronts. For example, the IRS and the Board have established a set of long-term measures with numeric target levels of performance to be used to evaluate the agency's progress in achieving the three goals established by the *IRS Strategic Plan 2005-2009*. These goals are:

Goal	Target Value
e-File participation rate for major tax returns	80 percent by 2012
Individual tax filer satisfaction	ACSI* score of 69 by 2009
Voluntary compliance rate	86 percent by tax year 2009
Employee engagement	4.0 by 2009**
Non-revenue enforcement activities	Index of 137.6*** by 2009

* *American Customer Satisfaction Index*

** *The target value for the "employee engagement," measure was approved based on the prior IRS employee survey process, but is being recalibrated to the new survey instrument used in 2007*

*** *Index measures success of diverse set of IRS operations focused on the tax exempt community and Bank Secrecy Act provisions*

For the *IRS Strategic Plan 2009-2013*, the Board approved a revised set of the following long-term performance goals:

Goal	Target Value
e-File participation rate for major tax returns	80 percent by 2012
Individual tax filer satisfaction	ACSI score of 72 by 2013
Voluntary compliance rate	86 percent by tax year 2012
Employee engagement	Be in the 95th percentile for all large federal agencies

The Board will continue to work with the IRS to establish additional measures that will be used to evaluate IRS performance, although the exact measurement methodologies and specific targets will not be set until baseline values can be established and expectations refined. These additional measures are:

- **Taxpayer satisfaction with IRS services:** The IRS will administer a survey question across all major service areas asking whether the taxpayer's issue was resolved in a reasonable period of time.
- **Taxpayer perception of fairness of IRS enforcement activities:** The IRS would administer a survey question across all types of enforcement activities asking whether taxpayers perceive IRS enforcement as "fair," regardless of outcome.
- **Progress on the IRS' information technology modernization**

The Board has also identified other measures for the IRS, such as recruiting effectiveness. The Board intends to work with the IRS during the upcoming year to further develop these measures.

V. Conclusion

The IRS has performed well during 2008 to respond to emergency needs in addition to its normal tax administration responsibilities. Undoubtedly, some of these needs will extend to 2009.

However, despite this improved performance, the IRS Oversight Board believes the tax administration system has two long-standing and serious systemic weaknesses that need to be addressed: the tax gap and the archaic nature of the IRS information technology systems. With tax administration so critical to the nation's economic health, strengthening the country's tax administration system must be a national priority.

To deal with these issues, the Board has worked with the IRS over the last 18 months to develop an updated strategic plan that will set a course for the IRS from 2009 to 2013. The Board has approved the plan and it will be released by the IRS in early 2009. The plan establishes two strategic goals and identifies two strategic foundations that will strengthen tax administration. To deliver the performance that taxpayers expect and deserve from their tax administration agency, the Oversight Board believes the IRS must accomplish the following four tasks:

- Build more robust taxpayer services that make it easier for taxpayers to voluntarily understand and meet their tax obligations
- Increase the IRS' enforcement presence to more effectively encourage compliance by those taxpayers who need more than service and their personal integrity to voluntarily comply
- Modernize IRS technology to place it on a par with private sector business practices
- Strengthen the IRS workforce infrastructure to meet the challenges of the 21st century

Accomplishing these tasks will require the IRS to effectively pursue its strategic plan and successfully manage the supporting strategies. Now is not the time to skimp on the investments needed to strengthen tax administration. Now more than ever, healthy tax administration is critical to the nation's economic health.

Endnotes

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[6] IRS Oversight Board, *Electronic Filing 2008 Annual Report to Congress*, January 2009.
[7] Internal Revenue Service, *MeF Executive Report*, December 2008.
[8] Internal Revenue Service, *Fiscal Year 2008 Enforcement Results*, December 2008.
[9] The net tax gap is the total amount of taxes that should be collected in a given year from legal economic activities, but is not, after accounting for the effects of IRS enforcement action.
[10] Office of National Taxpayer Advocate, Written Statement of Nina E. Olson National Taxpayer Advocate Before the Committee on the Budget, U.S. House of Representatives, *Hearing on the IRS and the Tax Gap*, February 16, 2007.
[11] United States Government Accountability Office, *High-Risk Series: An Update*, GAO-09-271, January 2009.
[12] Treasury Inspector General for Tax Administration, *TIGTA Semiannual Report to Congress April 1, 2008 – September 30, 2008*.
[13] The other two critical challenges are modernization of its aging computer systems and protecting the secured personal and financial information of taxpayers.
[14] Includes the underreporting of business income by individuals on Form 1040 returns from sole proprietorships ($68 billion), farming ($6 billion), rents and royalties ($13 billion), and flow-through entities ($22 billion); plus associated underreporting of Self-Employment Tax ($39 billion).
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Appendices

1: IRS FY2008 Performance Report

2: Summary of Stakeholder Comments

3 Biographies of Private Life Members

4: FY2008 IRS Oversight Board Operations

Appendix 1: IRS FY2008 Performance Report

Introduction

The following scorecards illustrate IRS' performance through FY2008. The first set of scorecards (Tables A-1 through A-3) includes measures the IRS generally submits with its fiscal year budget submission. The second set of scorecards (Tables B-1 through B-3) include IRS measures the IRS Oversight Board monitors and reports in its annual budget report—referred to as "IRS Standards of Performance." Each scorecard is organized by IRS' strategic goals, strategic foundations, and then further categorized by the type of measure. In general, the scorecards contain both outcome measures (including taxpayer behavioral measures and measures of customer satisfaction) and operational measures. Therefore, those interested in understanding how well IRS is conducting its internal operations should direct their attention to the timeliness, workload, quality, and cost effectiveness measures. Those seeking to understand how IRS activities impact taxpayers will want to begin looking at the outcome measures identified in the scorecards. In an effort to establish a personal connection to the taxpayer experience, each scorecard has also been enhanced with additional explanations about the importance of each measure from the taxpayer perspective.

Tables A1 - A3: IRS Performance Measures Included in the FY2009 Budget

The measures contained in this set of scorecards were included in the IRS FY2010 performance budget submission and are part of the President's FY2009 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. Targets for FY2010 are not yet available.

Tables B1 - B3: IRS Standards of Performance Monitored by the Oversight Board

Throughout the fiscal year, the IRS Oversight Board reviews IRS performance and implements the use of performance measures to monitor certain areas over time. The Board uses IRS performance data to assist in capturing a general sense of how well IRS is operating and the impact IRS operations have on both its internal customers (i.e., employees) and external customers (individual or business taxpayers, governments, tax-exempt entities, and the tax preparer community). In order to illustrate a more robust picture of IRS performance, the IRS Oversight Board supplements the IRS Budget Level Performance Measures with a set of measures known as "Standards of Performance" (identified in Tables B-1 through B-3). Therefore, these Standards of Performance, in conjunction with the IRS Budget Level Performance Measures, create a more balanced view of the IRS' performance that incorporates tangible indications of IRS progress toward desired outcomes.

The outcome measures identified under the Standards of Performance primarily explore the satisfaction taxpayers have with IRS' service and enforcement activities. They also provide insight into the actions taxpayers and IRS' internal customers take as a result of various customer service initiatives and human capital strategies, respectively. In addition, this scorecard incorporates operational measures that focus on the attributes of quality, timeliness, and workload across several critical functions within the IRS.

Detailed definitions of each measure can be found at the Oversight Board's web site at www.irsoversightboard.treas.gov.

Table A-1

Performance Measures for Strategic Goal 1: Improve Service to Make Voluntary Compliance Easier

FY2008 IRS Budget Level Performance Measures

Performance Measure	Desired Change	Status	FY06	FY07	FY08	FY08 Plan	FY09 Plan	Why is this important to taxpayers?
Goal 1: Improve Service to Make Voluntary Compliance Easier								
Behavioral Outcome Measures: Behavioral outcome measures evaluate taxpayer transactions with the IRS to determine how effectively the IRS is influencing taxpayer behaviors, such as using the IRS web site, filing electronically, or voluntarily fulfilling their tax obligations.								
Percent of eligible taxes who file for Earned Income Tax Credit (EITC)	↑	TBD	*	*	*	75%-80%	75%-80%	Many taxpayers who are eligible for EITC do not file for it.
Taxpayer self assistance rate	↑	●	46.8%	49.5%	66.8%	51.5%	64.2%	Taxpayers can get their questions answered faster by using IRS' self-assisted services on the IRS web site.
Quality Measures: Quality measures evaluate key characteristics of taxpayer products and services, such as completeness, timeliness, consistency, and accuracy. Quality improvements can decrease the burden associated with erroneous information, and increase the public's trust and confidence in the IRS.								
Customer accuracy: tax law phones	↑	●	90.9%	91.2%	91.2%	91.0%	91.0%	Taxpayers should receive accurate information when asking questions about tax law.
Customer accuracy: accounts (phones)	↑	●	93.2%	93.4%	93.7%	93.5%	93.5%	Taxpayers should receive accurate responses when asking questions about their account.
Timeliness Measures: Timeliness measures evaluate how quickly an IRS product or service can be delivered. The timely execution of activities by the IRS can help taxpayers avoid potential burdens resulting from long wait times (such as fees, penalties, and opportunity costs due to delayed actions). Surveys indicate that timeliness is highly correlated with taxpayer satisfaction.								
Timeliness of providing critical filing season tax products to the public	↑	●	83.0%	83.5%	92.4%	86.0%	92.0%	Taxpayers should be able to get the forms and publications needed to file taxes in a timely manner.
Timeliness of providing critical Tax Exempt/Government Entities and Business tax products to the public	↑	●	61.2%	84.0%	89.5%	86.0%	89.0%	Businesses and other organizations should be able to get the forms and publications needed to file taxes in a timely manner.
Sign-up time (days) - Customer engagement (HCTC)	↓	●	N/A	93.3	94.0	97.0	97.0	Taxpayers should expect their benefits to be delivered in a timely manner without excessive delay.
Refund timeliness: individual (paper)	↑	●	99.3%	98.9%	99.1%	98.4%	98.4%	Taxpayers who expect a refund from the IRS expect to receive it as quickly as possible. Refunds made available in a matter of days versus weeks are important to many.
Workload Measures: Workload measures (a.k.a. productivity measures) illustrate the volume of products or services produced by a resource (such as an FTE, project team, or organization) over a period of time. Higher workloads generally indicate increased levels of productivity, therefore saving both taxpayers and the IRS valuable time and money.								
Percent individual returns e-filed	↑	▲	54.1%	57.1%	57.6%	61.8%	64.0%	Filing electronically provides taxpayers with faster refunds and fewer errors.
Percent of business returns e-filed	↑	▲	16.6%	19.1%	19.4%	20.8%	21.6%	Filing electronically provides businesses with faster refunds and fewer errors.
Customer service representative level of service	↑	⬣	82.0%	82.1%	52.8%	82.0%	77.0%	Higher levels of service mean that more taxpayers who call for assistance are getting the help they need.
Customer contacts resolved per staff year	↑	●	7,414	7,648	12,634	8,000	9,686	The higher the number of customer issues resolved per staff year, the more taxpayers can be assisted.
Cost-Effectiveness Measures: Cost effectiveness measures evaluate the resources (expressed in dollars) necessary to achieve an outcome. Higher cost effectiveness is beneficial for both taxpayers and the IRS.								
Cost per taxpayer served (HCTC)	↓	⬣	N/A	$14.90	$16.94	$14.25	$17.00	Effectiveness at a lower cost benefits taxpayers.

Status key: Green: Meets or exceeds plan Yellow: Results are within 10% of plan Red: Results fail to meet plan by a difference of more than 10%
TBD: To be determined.

Table A-2: FY2008 IRS Budget Level Performance Measures

Performance Measures for Strategic Goal 2:
Enforce the Law to Ensure Everyone Meets Their Obligations to Pay Taxes

Performance Measure	Desired Change	Status	FY06	FY07	FY08	FY08 Plan	FY09 Plan	Why is this important to taxpayers?
Goal 2: Enforce the Law the Ensure Everyone Meets Their Obligations to Pay Taxes								
Quality Measures: Quality measures evaluate key characteristics of taxpayer products and services, such as completeness, timeliness, consistency, and accuracy. Quality improvements can decrease the burden associated with erroneous information, and increase the public's trust and confidence in the IRS.								
Field exam national quality review system	↑	▲	85.9%	87.0%	86.0%	87.0%	87.0%	Taxpayers should expect a high quality exam.
Office exam national quality review system	↑	●	88.2%	89.4%	90.0%	90.0%	90.0%	Taxpayers should expect a high quality exam.
Examination quality - industry	↑	●	85.0%	87.0%	88.0%	88.0%	88.0%	Business taxpayers should expect a high quality exam.
Examination quality - coordinated industry	↑	●	96.0%	96.0%	97.0%	96.0%	96.0%	Business taxpayers should expect a high quality exam.
Field collection national quality review system	↑	▲	84.2%	84.0%	79.0%	86.0%	80.0%	Taxpayers benefit when the IRS meets certain quality standards, such as fairness and consistency, when collecting taxes.
Automated collection system (ACS) accuracy	↑	●	91.0%	92.9%	95.3%	92.0%	92.0%	Taxpayers benefit when the IRS meets certain quality standards, such as fairness and consistency, when collecting taxes.
Conviction rate	↑	●	91.5%	90.2%	92.3%	92.0%	92.0%	High conviction rates for taxpayers who are fraudulently non-compliant increases the fairness of the tax administration system.
Workload Measures: Workload measures (a.k.a. productivity measures) illustrate the volume of products or services produced by a resource (such as an FTE, project team, or organization) over a period of time. Higher workloads generally indicate increased levels of productivity, therefore saving both taxpayers and the IRS valuable time and money.								
Examination coverage - individual	↑	●	1.0%	1.0%	1.01%	1.0%	1.0%	Higher levels of productivity save both taxpayers and the IRS valuable time and money.
Examination coverage - business	↑	▲	7.3%	6.8%	6.1%	6.6%	5.8%	“ ”
Examination efficiency - individual	↑	●	128	133	138	133	140	“ ”
Automated Underreporter (AUR) efficiency	↑	●	1,832	1,956	1,982	1,961	2,022	“ ”
Automated Underreporter (AUR) coverage	↑	●	2.4%	2.5%	2.55%	2.5%	2.5%	“ ”
Collection coverage - units	↑	●	54.0%	54.0%	55.2%	53.0%	54.0%	“ ”
Collection efficiency - units	↑	●	1,617	1,828	1,926	1,835	1,935	“ ”
Criminal investigations completed	↑	●	4,157	4,269	4,044	4,000	3,900	“ ”
Number of convictions	↑	●	2,019	2,155	2,144	2,135	2,135	“ ”
Tax Exempt/Government Entities determination case closures	↑	●	108,462	109,408	100,050	100,600	94,000	The higher the number of closures the IRS performs shows that more tax exempt and gov't entities are getting their requested information.
Cost Effectiveness Measures: Cost effectiveness measures evaluate the resources (expressed in dollars) necessary to achieve an outcome. Higher cost effectiveness is beneficial for both taxpayers and the IRS.								
Conviction efficiency rate ($)	↓	●	$328,750	$301,788	$315,751	$317,625	$317,100	This represents the average costs associated with criminal IRS convictions.

Status key: Green: Meets or exceeds plan Yellow: Results are within 10% of plan Red: Results fail to meet plan by a difference of more than 10%
TBD: To be determined.

Table A-3: FY2008 IRS Budget Level Performance Measures

Performance Measures for Strategic Goal 3: Investing in our People and Our Technology

Performance Measure	Desired Change	Status	FY06	FY07	FY08	FY08 Plan	FY09 Plan	Why is this important to taxpayers?
Goal 3: Investing in Our People and Our Technology								
Earned Value Measures: Evaluate the actual cost and schedule results compared to planned cost and schedule targets during project development.								
Percent of Business Systems Modernization (BSM) projects within +/- 10% schedule variance		TBD	**	**	92.0%	Baseline	90.0%	Business Systems Modernization (BSM) projects provide IRS employees with modernized business support to perform their jobs more efficiently. Significant project delays result in decreased productivity.
Percent of BSM projects within +/- 10% cost variance		TBD	**	**	92.0%	Baseline	90.0%	Business Systems Modernization (BSM) projects provide IRS employees with modernized business support to perform their jobs more efficiently. Significant cost overruns can indicate wasteful government spending.

Status key: Green: Meets or exceeds plan Yellow: Results are within 10% of plan Red: Results fail to meet plan by a difference of more than 10%

** The methodology for estimating the eligibility rate is being revised. The Earned Income Office continues to work with the U.S. Census to deliver an EITC participation rate estimate for FY2008.*

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

TBD: To be determined.

Table B-1: FY2008 IRS Budget Level Performance Measures
Standards of Performance for Strategic Goal 1: Improve Taxpayer Service

Performance Measure	Desired Change	Status	FY06	FY07	FY08	FY08 Plan	FY09 Plan	Why is this important to taxpayers?
Goal 1: Improve Service to Make Voluntary Compliance Easier								
Taxpayer Satisfaction Outcome Measures: Taxpayer satisfaction measures evaluate approval levels reported by taxpayers during various IRS transactions and identify potential areas for service improvement.								
Exempt Organization (EO) determination customer satisfaction	↑	●	70.0%	69.0%	76.0%	71.0%	72.0%	Organizations applying for tax exempt status should experience high levels of satisfaction with the process.
Accounts management customer satisfaction (adjustments)	↑	▲	66.0%	67.0%	65.0%	67.7%	65.1%	Taxpayers should experience high levels of satisfaction in their transactions with the IRS.
Practitioner toll-free customer satisfaction	↑	●	87.0%	93.0%	92.0%	91.0%	92.0%	Practitioners should experience high levels of satisfaction in seeking assistance from the IRS.
Behavioral Outcome Measures: Behavioral measures evaluate taxpayer transactions with the IRS to determine how effectively the IRS is influencing taxpayer behaviors, such as using the IRS web site, filing electronically, or voluntarily fulfilling their tax obligations.								
Wage & Investment average wait time on hold (in seconds)	↓	⬢	242	266	626	270	432	Taxpayers should not have to wait long periods of time when seeking assistance by phone.
Primary abandoned call rate	↓	⬢	14.8%	15.3%	17.5%	No target	No target	A low incidence of abandoned calls indicates that taxpayers' expectations for service are being met.
Secondary abandoned call rate	↓	⬢	6.1%	12.6%	24.7%	No target	No target	A low incidence of abandoned calls indicates that taxpayers' expectations for service are being met.
Quality Measures: Quality measures evaluate key characteristics of taxpayer products and services, such as completeness, timeliness, consistency, and accuracy. Quality improvements can decrease the burden associated with erroneous information, and increase the public's trust and confidence in the IRS.								
Notice Error Rate - individual	↓		5.4%	Discontinued				Discontinued
Notice Error Rate - business	↓		4.9%	Discontinued				Discontinued
Notice Error Rate - w/ systemic errors - combined	↓		Measure combined in FY2007	4.3%	Combined into new correspondence error rate in 2008			Discontinued
Deposit error rate - individual	↓		1.6%	Combined in FY2007				Discontinued
Deposit error rate - business	↓		1.3%	Combined in FY2007				Discontinued
Correspondence Error Rate with systemic errors (new measure for FY08)*	↓	●	New measure for FY2008		3.9%	4.3%	3.8%	IRS errors add to taxpayers' burdens.
Deposit Error Rate - combined	↓	●	Error rate for individuals and business combined in FY2007	1.3%	1.0%	1.3%	1.0%	IRS errors add to taxpayers' burdens.
Timeliness Measures: Timeliness measures evaluate how quickly an IRS product or service can be delivered. The timely execution of activities by the IRS can help taxpayers avoid potential burdens resulting from long wait times (such as fees, penalties, and opportunity costs due to delayed actions). Surveys indicate that timeliness is highly correlated with taxpayer satisfaction.								
EO determination letters timeliness (days)	↓	●	134	122	112	120	106	Taxpayers' expectations for timely action are a primary driver of taxpayer satisfaction.
EP determination letters timeliness (days)	↓	▲	242	401	368	336	369	Taxpayers' expectations for timely action are a primary driver of taxpayer satisfaction.
Workload Measures: Workload measures (a.k.a. productivity measures) illustrate the volume of products or services produced by a resources (such as an FTE, project team, or organization) over a period of time. Higher workloads generally indicate increased levels of productivity, therefore saving both taxpayers and IRS valuable time and money.								
AUR telephone level of service	↑	●	64.7%	73.8%	74.0%	74.0%	80.0%	A high level of service means that more taxpayers are being served.

Table B-2: FY2008 IRS Budget Level Performance Measures

Performance Measures for Strategic Goal 2:
Enhance the law to ensure everyone meets their obligations to pay taxes.

Performance Measure	Desired Change	Status	FY06	FY07	FY08	FY08 Plan	FY09 Plan	Why is this important to taxpayers?
Goal 2: Enforce the law to ensure everyone meets their obligations to pay taxes								
Taxpayer Satisfaction Outcome Measures: Taxpayer satisfaction measures evaluate the approval levels reported by taxpayers during various IRS transactions and identifies potential areas for service improvement.								
Correspondence exam CS (SB/SE)	↑	●	53%	50%	52%	52%	53%	Regardless of outcome, taxpayers should have high levels of satisfaction during enforcement actions as an indication they received fair treatment.
Correspondence exam CS (W&I)	↑	●	41%	43%	44%	44%	45%	“ ”
AUR CS (SB/SE)	↑	●	58%	60%	60%	60%	61%	“ ”
AUR CS (W&I)	↑	▲	62%	64%	62%	65%	63%	“ ”
Compliance Services Collection Operations (CSCO) CS (SB/SE)	↑	●	54%	55%	58%	55%	56%	“ ”
CSCO CS (W&I)[2]	↑	●	62.5%	59.9%	69.8%	Baseline	72%	“ ”
Field Collection CS	↑	●	62%	60%	62%	61%	62%	“ ”
Field Exam CS	↑	▲	59%	65%	64%	66%	65%	“ ”
Quality Measures: Quality measures evaluate key characteristics of taxpayer products and services, such as completeness, timeliness, consistency, and accuracy. Quality improvements can decrease the burden associated with erroneous information, and increase the public's trust and confidence in the IRS.								
Automated Collection System (ACS) accuracy	↑	●	91.0%	92.89%	95.3%	92.0%	92.0%	Taxpayers benefit from certain quality standards, such as fairness and consistency, during the collection process.
Timeliness Measures: Timeliness measures evaluate how quickly an IRS product or service can be delivered. The timely execution of activities by the IRS can help taxpayers avoid potential burdens resulting from long wait times (such as fees, penalties, and opportunity costs due to delayed actions). Surveys indicate that timeliness is highly correlated with taxpayer satisfaction.								
W&I SC Correspondence Exam Timeliness (discretionary (days)	↓	●	139	149	147	148	156	Taxpayers undergoing a correspondence exam can avoid unnecessary burden by completing this process as soon as possible.
W&I SC Correspondence Exam Timeliness (EITC) (days)	↓	●	190	185	190	190	203	“ ”
SB/SE Correspondence Exam cycle time (EITC)(days)	↓	▲	181	177	181	177	177	“ ”
SB/SE Correspondence Exam Cycle Time (non-EITC)(days)	↓	●	199	177	170	177	177	“ ”
CSCO days to close - business	↓	▲	31.2	20.4	20.1	23.0	21.0	The collection process is less burdensome for taxpayers if it can be resolved expeditiously.
CSCO days to close - individual[1]	↓	⬢	15.2	13.9	17.5	Baseline	17.0	“ ”
Exam timeliness (CIC and industry combined)(months)	↓	▲	34.3	32.7	32.3	30	30	Large- and mid-sized businesses undergoing an examination can avoid unnecessary burden by completing this process as soon as possible.
% OIC field cases closed in less than 9 months	↑	●	70%	68%	74%	73%	74%	Waiting for a response on an Offer in Compromise is an unnecessary burden on taxpayers.

Status key: Green: Meets or exceeds plan Yellow: Results are within 10% of plan Red: Results fail to meet plan by a difference of more than 10%
TBD: To be determined.

Table B-3: FY2008 IRS Budget Level Performance Measures

Performance Measures for Strategic Goal 3: Invest in Our People and Our Technology

Performance Measure	Desired Change	Status	FY06	FY07	FY08	FY08 Plan	FY09 Plan	Why is this important to the IRS?
Goal 3: Invest in Our People and Our Technology								
Customer Satisfaction Outcome Measures: Customer satisfaction measures evaluate the value of the services provided to internal IRS customers.								
Internal customer satisfaction (MITS)	Up	Yellow	86.1%	87.3%	87.5%	90.0%	90.0%	When IRS employees are satisfied with their information technology tools they are better equipped to perform their mission.
Behavioral Outcome Measures: Behavioral measures evaluate outcomes associated with internal interactions.								
Percentage of mission critical positions hires achieved (HCO)	Up	Green	99%	100%	102%	99%	100%	Ability to staff mission critical functions directly relates to the IRS' ability to fulfill its mission.
% managers receiving leadership training timely[3] (HCO)	Up	Green	69.5%	N/A	70%	Baseline	72%	Timely leadership training is directly related to quality of supervision.
Quality Measures: Quality measures evaluate the value of a program's implementation or of taxpayer products and services resulting from program activities. They include aspects such as completeness, timeliness, consistency, and accuracy. Issues of access and communication are also important when considering the quality of products or services. Quality improvements can decrease the burden associated with erroneous information, and increase the public's trust and confidence in the IRS.								
Percent of compliant systems - FISMA	Up	Green	96%	98%	100%	100%	100%	FISMA qualified systems are compliant with government security regulations and protect taxpayer data.
Timeliness Measures: Timeliness measures evaluate how quickly a product or service can be delivered for internal customers.								
Timeliness of completed service calls (MITS)	Up	Yellow	85.0%	80.5%	80.0%	88.0%	88.0%	Computer outages that last longer than standard affect the quality of service and enforcement functions.
Cost Effectiveness: Cost effectiveness measures evaluate the resources expressed in dollars necessary to achieve an outcome. Higher cost effectiveness is beneficial for both taxpayers and the IRS.								
Real estate portfolio cost (AWSS)[4]	Down	Green	-2.15%	1.99%	-1.28%	2.4%	2.4%	Lower IRS real estate costs save taxpayers' money.

Status key: Green: Meets or exceeds plan Yellow: Results are within 10% of plan Red: Results fail to meet plan by a difference of more than 10%
TBD: To be determined.

* Beginning in FY2008, Notice Error rate and Letter Error rate were combined to create this measure.
[1] During FY2007, changed the methodology from a sampling approach to reviewing 100% of cases.
[2] Changing from mail survey to telephone survey; re-baselined in FY2008.
[3] Establishing database to track measure - results not available - measure will be redefined for FY2009.
[4] The target is to limit the increases in rent expense to the rate of non-pay inflation in the President's Budget. The FY2008 and FY2009 targets are the rate of non-pay inflation, currently set at 2.4% and 2.0%, respectively.

Summary Of Stakeholder Comments And Recommendations – 2008

The IRS Oversight Board reaches out to a wide variety of external stakeholders each year to listen to their views on tax administration and its impact on taxpayers. The Board consults regularly with external groups that include tax professionals, representatives of state tax departments, taxpayer advocacy groups, business associations, IRS advisory councils and committees, IRS employees, the National Treasury Employees Union (NTEU), and other groups that have an interest in tax administration.

During 2008, Board members and staff met with tax professionals and IRS employees at the six IRS Nationwide Tax Forums in Atlanta, Chicago, Orlando, Las Vegas, New York, and San Diego. In February, the Board also conducted a public forum in Washington, DC, with discussions focusing primarily on outreach to taxpayers, proposed regulation of tax practitioners, and attracting, developing and retaining employees. The following is a summary of the central themes from stakeholder meetings this year:

Underlying Themes from the IRS Oversight Board Public Meeting

The meeting featured three panels, addressing areas of interest to external groups as well as Board members. The first panel discussed innovative outreach to customers and how the IRS could do proactive, educational outreach to stakeholders more efficiently and effectively.

- *The IRS should be proactive in providing effective, timely and easily understood information to taxpayers.*
  Stakeholders agreed that late tax law changes complicate the tax system, and suggested that simple and timely explanations to taxpayers about late changes are where the IRS should be especially proactive. Panelists suggested the IRS could do more to reach out to the smallest of small businesses with easy to read and understand tax information materials, and that the IRS should use the tax professional community to leverage its distribution of information.

- *Improved technology is a driving force for IRS' productivity*
  Panelists acknowledged that technology could play a role in reducing the lack of compliance and could make information delivery and filing processes easier. Panelists discussed electronic filing, and said it is harder for the smallest of small businesses if they are not computer-literate, and noted that some taxpayers have privacy and security issues with electronic submissions.

- *IRS needs to be more innovative in its collaboration with stakeholders to reach out to taxpayers*
  Stakeholders called on the IRS to be more innovative in its outreach to partners. They stressed the need for better education, including more education of practitioners on problem areas and better education about taxes at the high school level.

- *IRS should look at research as an investment*
  Stakeholders suggested it is critical for the IRS to know what taxpayers' needs are, and also provide services that ensure taxpayers comply accurately with the law.

The second panel discussed proposed legislation that would regulate the tax preparation industry, including registration, ethics and competency testing, continuing professional education requirements, public awareness campaign, and an enforcement component.

- *Most agree that tax return preparers have access to confidential taxpayer financial information and should be licensed and regulated*
  The panelists agreed that in the interest of creating a credible tax administration system, those who prepare taxes should be qualified and licensed. The representative from the state of Oregon described his state's program for licensing paid return preparers and suggested it was time that the industry was regulated by individual states as are attorneys and CPAs. The panelists said they

consider tax preparation to be a profession, and want to protect their profession by favoring entry-level requirements, enforcement and penalties for those who do not comply with regulations.

- *Stakeholders have varied views about how a regulatory program could be structured and how it would be implemented*

  A panelist from the financial planning industry described a set of disciplinary rules and ethics standards managed by its Board of Directors. The public responds by notifying the Board of violations. The Board is funded by renewal fees, certification fees, and examination fees. This model might work for preparer regulation, but it would need to be on a very large scale.

  Other representatives said that the IRS has the foundations for a regulatory system already in place, with the volunteer program testing (VITA and TCE) and the Electronic Return Originator (ERO) registration system that has accumulated a database of preparers. The IRS also has an examination system for Enrolled Agents.

  Most panelists agreed that taxpayers need assurance that any proposed regulation of preparers will be a system that the IRS oversees. A joint public-private partnership could be a good model. Most panelists agreed to five components: examination for certification, continuing professional education, an ethics requirement, an enforcement component, and user fees.

The third panel discussed how organizations attract talent, develop and retain key employees, and best practices for building future leaders.

- *Workplace flexibility is a way of life, accepted by all generations*

  The panelists agreed that innovative strategies that attract, develop and retain talent, include: flexible work schedules, global assignments, diverse work experiences, mentoring, coaching, and leadership/professional development programs. They also said that technology solutions play an important role in workplace flexibility, giving employees opportunities to telework, have flexible schedules, remote management, global teaming, and diverse work assignments.

- *Recruiting doesn't stop with the hiring process; retaining employees involves career development and training*

  The panelists agreed that given the IRS' pending retirements and attrition, workforce knowledge and planning are critical to ensure the IRS has sufficient and appropriate staff to face tax administration challenges over the next several years. Panelists suggested that there is a new focus on the lifecycle development of employees: retain and develop employees at all levels from junior, mid-level to senior, through continual training, mentoring, motivating and offering challenging opportunities.

  Participants identified one challenging area for the IRS - driving decision-making to lower levels. The IRS needs to grow a new class of decision-makers to replenish its leadership over the next few years. The consultative, collaborative decision-making process is very "enlightening and empowering" for employees.

  Panelists also discussed employee skill development. The private sector is beginning to focus more on skill-sets rather than positions, creating databases of the skills their employees have developed, and creating professional development plans for their employees. Employees are encouraged to grow professionally within the organization rather than having to leave in order to further their development. Internal networking, internships, collaborative assignments, and case studies all play a role in employee skill development.

- *Mentoring and goal-setting are important factors in developing future leaders*

  The panelists discussed giving employees the tools they need to become successful managers. They said mentoring is extremely important to the employee development process; senior employees need to teach “soft” skills to the next generation - negotiation, collaboration, decision-making. They agreed that leadership grows from diverse work experience, consistent mentoring, and early exposure to decision-making. Developing individuals at all levels is key to successful executives and a successful organization.

Underlying Themes from the Meetings with Employees and Practitioners at the IRS Nationwide Tax Forums

IRS Employees

Strategic Direction - When asked what advice they would give the new IRS Commissioner, recurring themes the employees recommended included:

- Value the work and ideas of IRS employees
- Understand that partnerships between labor and management work
- Address weaknesses in the Pay for Performance System for managers
- Increase the speed of systems modernization
- Develop a more formalized process that would capture the knowledge base of experienced employees before they retire
- Bring back recent IRS retirees, e.g., as consultants, to help retain expertise and train employees

Opportunity for Employee Development – There was general agreement that the operating division structure within IRS limits the cross-functional career path alternatives that were available in prior years, and that IRS should make an effort to increase opportunities for rotational assignments within and across divisional lines and occupations.

Moving up to management – Some employees said existing IRS personnel practices create a disincentive for workers to move into management positions, such as pay disincentives and a too-large span of control. The salary is not much greater and managers have competing priorities given to them by upper management and fewer employees to get the job done. New managers also must have management skills in addition to technical knowledge, and often feel the IRS does not timely offer advance training to help them cope with a new management position.

Some employees said the IRS places too much emphasis on “management” being the developmental goal of all employees—and ignoring the need for highly skilled specialists who, for example, can effectively represent the interest of the government when examining the returns of large corporations that spare no expenses on their side when it comes to hiring the best talent available

Training – Most managers and revenue agents would like more face-to-face instruction. They feel that face-to-face training commits time, money, and demonstrates the importance of training to the agency. Employees described a lack of training opportunities in some organizations, and said there should be “crossover” training between divisions, developmental assignments and trial periods for employees to work in different divisions

Employee Recruitment – Employees spoke about the effectiveness of IRS recruitment for entry-level positions and success in keeping new recruits. Several employees indicated that a primary recruitment problem is the very long period of time it takes the IRS to bring new employees on board. The IRS needs to speed up the hiring process to get the new recruits on board as quickly as possible.

Employees also commented on increased IRS efforts to recruit both recent graduates as well as experienced workers with extensive careers in accounting. In general, employees spoke highly of recent IRS hires recruited from both of these major sources of new workers. Hiring top notch experienced people shortens the learning curve necessary for them to become productive and avoids performance problems down the road. Employees also noted that once new hires are working at the IRS there are two key factors that impact whether they stay with the IRS - the manager and whether the employee was the right fit for the position.

Retention of IRS Employees – Employees have concerns about the IRS capturing the knowledge of experienced employees who are leaving the agency. They do not believe the IRS is effectively using retention bonuses to retain senior level employees. Employees described a very competitive accounting field outside government. Employees emphasized that it is necessary to prepare those who will take over when experienced personnel retire, but a compounding problem is that employees with the most experience are needed both for training and for doing the most effective work of the organization.

Most employees thought the IRS had quality of life advantages over the private sector. They indicated that private sector employees have concerns about downsizing, mergers, and job elimination that IRS employees do not have. Although the salary may be better in the private sector, the IRS has better working hours and excellent benefit programs.

Practitioners

Strategic Direction - When asked what advice they would give the new IRS Commissioner, practitioners recommended that he:

- Consistently enforce the tax laws across the country. The tax gap should be addressed, especially with non-filers and under-reporters
- Focus on fixing taxpayer problems and encouraging IRS employees to take action and fix taxpayer problems at initial contact
- Pursue both offshore and retail credit card reporting, and publicize the results
- Increase the number of IRS employees, particularly examiners
- Reduce the amount of administrative procedures to close cases
- Promote better communication between the IRS and the practitioner community
- Integrate the computer systems at the IRS
- Increase outreach and education to small business
- Begin a positive public relations campaign about paying taxes

Economic Stimulus Payments - Practitioners were asked what could be improved regarding the economic stimulus program if legislation were passed to create a second round of payments. They responded that the IRS did a very good job considering the magnitude of the effort and the time constraints. They also said the original letter mailed to taxpayers could have been clearer. There was taxpayer confusion over whether they would get the full amount, how dependents would be treated, and some adverse effects on older taxpayers who no longer file returns each year. Some taxpayers who received reduced payments had trouble finding out why.

Practitioners discussed how the media played a vital role in the release of information to taxpayers regarding the stimulus payments. Some practitioners said that had they received detailed information about the process of the economic stimulus payments prior to the major media releases, it would have allowed them to prepare to answer their client's questions about the stimulus payments. Instead many of their clients ended up calling the IRS directly causing a logjam on the phone lines.

Identity Theft - Practitioners agreed that identity theft was a concern that came up in their tax practices. Several stated they had clients who were victims of ID theft, while others noted that they had attended training seminars focused on state-level requirements for protecting personally identifiable information and the associated penalties for failure to do so. Others commented that they have had clients who asked them what steps they take to protect taxpayer personal information. Practitioners said they could use help from the IRS, preparer and professional organizations and others to ensure they are using best practices and doing all they can to protect taxpayer information.

Regulation of Tax Return Preparers - Practitioners suggested there is a need for a standard for practitioners engaging in tax preparation assistance, and that the IRS needs to do more to make taxpayers aware of licensed practitioners (CPAs, EAs and attorneys, who represent taxpayers before the IRS). They strongly support IRS efforts to improve services to practitioners, and efforts to share information about services and compliance through local stakeholder liaison groups. They also believe the IRS should encourage more practitioner education about ethics, and should focus on non-filers and bringing them back into compliance.

Practitioners agreed that the Commissioner would be well-served by a general publicity campaign to make taxpayers aware that when they pay a professional to prepare their return, it should be signed by the preparer and they should also receive a signed copy.

Practitioners suggested that the IRS identify tax return mistakes and potential fraudulent preparers by zip code, and then target outreach and education efforts, as well as enhanced enforcement efforts, to these zip codes. The IRS could then measure improvements in subsequent years. They also suggested the IRS become more aggressive with problem preparers and not just the taxpayers who are their clients. They said the IRS is not rigorous enough in its penalties, follow-through, and timeliness of actions against problem preparers.

Correspondence Audits – Practitioners said they are seeing many more correspondence audits this year, and they are taking an extraordinary amount of time to reach final resolution. They believe the audits are good for utilizing matching programs to clean up non-compliance issues, but suggested a help line for taxpayers to call when they have questions.

Practitioners discussed two other issues with audits: correspondence audits are assigned by computer, and there is no one to contact to further define the issue or ask questions. Practitioners say that when they call the phone number on the notice, they do not get a person but a voice mail, and say their calls are not returned. In today’s environment of electronic systems, it is not acceptable for it to take so long to resolve an issue. Additionally, some practitioners are seeing taxpayers get audit notices repeatedly over several years for the same issue, even after a first no-change audit. They consider it a waste of resources all around, the taxpayer’s, theirs, and the IRS’s.

Biographies of Private-Life Members

The Board, by statute, consists of nine members, including the Secretary of the Treasury and the Commissioner of the Internal Revenue. Following are profiles of the private-life members, who are appointed by the President and confirmed by the U.S. Senate without regard to political affiliation and solely on the basis of their professional experience and expertise:

Paul Cherecwich, Jr., Chairman

Retired Corporate Tax Counsel

Paul Cherecwich, Jr. is presently retired, having had a successful career as a tax attorney employed both in the business world and practitioner world. Employed by three Fortune 500 corporations, he retired in 2000 from Cordant Technologies, Inc. as Vice President of Tax and Tax Counsel. He subsequently joined the law firm of Miller & Chevalier, Chartered as “Of Counsel”, from where he retired at the end of 2004. During his career he participated in several professional groups. As a result of his contributions, he was asked to serve leadership roles on several trade association tax committees. In addition, he was selected by his peers to be the 1997-1998 International President of The Tax Executives Institute (TEI), the preeminent association of corporate tax executives in North America. Mr. Cherecwich has served on the boards of several charitable organizations. He has also served on several government advisory groups, including the Massachusetts Governor’s Management Task Force, the United States Trade Representative’s Industry Advisory Committee on Customs, and the IRS Advisory Council, where he was selected to be the 2002 Chair. Mr. Cherecwich earned a B.E.E. from Rensselaer Polytechnic Institute, an M.B.A. from Northeastern University, a J.D. (cum laude) from Suffolk University Law School, and an LL.M. (taxation) from Boston University School of Law.

E. Edwin Eck

Dean, University of Montana School of Law

Edwin Eck has served as dean of the University of Montana School of Law since 1995 and has been a member of its faculty since 1981. During his tenure as an administrator, the School has focused on practice skills as well as legal theory. The School’s required clinical program expanded to 17 clinics, certificate programs in alternative dispute resolution and natural resources were added, and a joint JD/MBA program was undertaken. Additionally, the School substantially increased its continuing legal education programs with sessions held at rural Montana venues. Prior to serving as dean, Mr. Eck taught estate and gift taxation. He also practiced law and served the estate planning and estate administration needs of owners of small businesses, including farmers and ranchers. Mr. Eck has served as a law clerk to U.S. District Court Judge James F. Battin and was an Assistant U.S. Attorney for the District of Montana. Mr. Eck earned a B.A. from Carleton College (magna cum laude), a J.D. from the University of Montana School of Law, and an LL.M. (in taxation) from Georgetown University Law Center. He is a member of Phi Beta Kappa.

Robert M. Tobias

Director of Public Sector Executive Education, American University

Robert M. Tobias is a professor, Director of Public Sector Executive Education, and Director of the Institute for the Study of Public Policy Implementation at American University in Washington, D.C. Mr. Tobias left the National Treasury Employees Union (NTEU) in 1999 after 31 years. He served as General Counsel from 1970 to 1983, and as National President from 1983 to 1999. At NTEU, and as a member of the President’s National Partnership Council, Mr. Tobias focused on establishing cooperative/collaborative labor-management relationships in the federal government. In 1996, President Clinton appointed him to the National Commission on Restructuring the IRS. Mr. Tobias also was a member of the IRS Executive Committee. He is a graduate of the University of Michigan, where he received a Master’s degree in Business Administration, and from The George Washington University, where he received his law degree. He chairs the Oversight Board’s Operations Committee.

Raymond T. Wagner, Jr.

Legal & Legislative Vice-President, Enterprise Rent-A-Car

Raymond T. Wagner, Jr. is Legal & Legislative Vice-President for Enterprise Rent-A-Car, headquartered in St. Louis, Missouri. Previously, he served in the cabinet of Illinois Governor Jim Edgar as the Illinois Director of Revenue until 1995. Prior to that, he was Director of the Missouri Department of Revenue under then-Governor John Ashcroft. Since 1993, he has been an Adjunct Professor of Law at Washington University School of Law. He served as Law Clerk for then-Chief Justice Andrew Jackson Higgins of the Missouri Supreme Court. He received his Master of Business Administration and undergraduate degrees from St. Louis University, and his law degree from University of Missouri-Kansas City School of Law. He also holds a Master of Laws-Taxation degree from Washington University School of Law. He chairs the Oversight Board's Operations Support Committee.

Deborah L. Wince-Smith

President, Council on Competitiveness

Deborah L. Wince-Smith is president of the Council on Competitiveness–a premiere group of CEOs, university presidents and labor leaders committed to driving U.S. competitiveness. She is an internationally known expert, author, and speaker on global competitiveness, economic policy, science and technology, and economic development. She has more than 20 years of experience as a senior government official, including as Assistant Secretary for Technology Policy in the Department of Commerce during the first Bush administration. She serves on or chairs four Cabinet-level advisory groups, including a task force on nuclear energy for the Secretary of Energy. Ms. Wince-Smith is active in the governance of various national scientific labs, including the Argonne National Laboratory, Los Alamos and Lawrence Livermore National Laboratories. Ms. Wince-Smith earned a degree in classical archaeology and graduated magna cum laude and Phi Beta Kappa from Vassar College. She earned her Master's degree from King's College, Cambridge University. In December 2006, she received an honorary Doctor of Humanities degree from Michigan State University.

FY2008 IRS Oversight Board Operations

The IRS Oversight Board has completed its seventh year of operation. During FY2008 the Board has engaged in a variety of activities, meeting five times as a full Board, and more at the committee level. The Board met on the following dates in FY2008:

- November 13-14, 2007
- February 19-20, 2008
- April 23-24, 2008
- July 30, 2008
- September 9-10, 2008

On February 19, 2008 the Board held a public meeting at which it received public presentations from sixteen stakeholder organizations on the following topics:

- Innovative Outreach to Customers: How would you recommend the IRS do proactive, educational outreach to stakeholders more efficiently and effectively, and how would you measure the results?

- The Congress is considering new legislation that would regulate the tax preparation industry, including registration, ethics, and competency testing, continuing professional education requirements, public awareness campaign, and an enforcement component. If the legislation passes, how would you recommend that a program be created that is effective, yet revenue neutral, and what impact would increased regulatory fees have upon your clients and taxpayers in general?

- From your experience, discuss how your members' organizations attract talent, and develop and retain key employees. What are their best practices for building future leaders?

During 2008, the Oversight Board developed four reports: the Board's *2007 Annual Report to Congress*, its *2007 Electronic Filing Report to Congress*, a budget report that presented the Board's recommendations on the FY2009 IRS budget, and the Board's annual *Taxpayer Attitude Survey*. The first two reports are statutorily required; the other two were discretionary on the part of the Oversight Board. All reports are available on the Board's web site, www.irsoversightboard.treas.gov.

The Board continued its program of conducting stakeholder outreach to hear independent perspectives of IRS progress from various external stakeholders. In addition to the February public meeting, the Oversight Board had representation at all six Nationwide Tax Forums the IRS conducted during the summer months. At these meetings, each attended by approximately 2,000 or more tax professionals, the Oversight Board sought out the opinions of attendees on IRS operations, and conducted small group meetings with both tax professionals and employees to discuss IRS issues. The Board visited the IRS' Kansas City Campus in April 2008 and visited a VITA site and IRS walk-in assistance center the same trip. Board members also met with IRS partners in Chicago and New York City while attending Nationwide Tax Forums in those cities.

The Oversight Board focused on a number of strategic issues during the year, including electronic tax administration, employee engagement, taxpayer privacy, development of the IRS updated strategic plan and corresponding long-term performance measures, the impact to the 2008 filing season caused by late consideration of legislative changes to the Alternative Minimum Tax (AMT), international tax administration, the Business Systems Modernization (BSM) program, the impact of the ESP program on the 2008 filing season, and the Workforce of Tomorrow task force.

There were three changes in Board membership during FY2008. In April, IRS Commissioner Douglas Shulman joined the Board and Ed Eck, Dean of the Law School at the University of Montana joined the Board in August. Paul Jones left the Board in September 2008 as his term expired. The Board currently has two vacancies and a third seat which is being filled by a member in holdover status.

The three committees of the Oversight Board also met periodically in person or by telephone. The Operations and Operations Support Committees each met several times during the year with IRS executives to review progress in meeting performance goals for major IRS operational divisions. Measures of interest included customer and employee satisfaction, quality, and selected productivity goals. In keeping with the Oversight Board's statutory responsibility to review the selection, evaluation, and compensation of senior IRS executives, the Executive Committee conducted a thorough review of the performance commitments of senior IRS executives in the beginning of the fiscal year, followed by a review of the performance evaluations and proposed bonuses for the same executives at the conclusion of the fiscal year.

In keeping with the RRA 98 requirement to report Oversight Board travel expenses to Congress, the Board incurred $70,386 in travel expenses for Board members and staff in FY2008, primarily for travel to and from Board and Board committee meetings, and to attend the Nationwide Tax Forums.

IRS Oversight Board

Contact Information

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