IRS Oversight Board

Annual Report to Congress

2010

April 2011

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Appendices

Message from the Internal Revenue Service Oversight Board

The Internal Revenue Service (IRS) Oversight Board is pleased to have the opportunity to report to the President, Congress, and taxpayers on the progress the IRS is making in achieving its mission: to provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

The IRS' strategic goals and strategic foundations are established in the *IRS Strategic Plan 2009-2013*, approved by the IRS Oversight Board in June 2008, and are as follows:

- **Goal 1:** Improve service to make voluntary compliance easier
- **Goal 2:** Enforce the law to ensure everyone meets their obligations to pay taxes
- **Strategic Foundations:** Invest for high performance in people and technology

Success in achieving these goals benefits every taxpayer. By making it easier for taxpayers to understand, calculate, and report their tax obligations, and to remit payment conveniently, the IRS can reduce the administrative burden borne by taxpayers. During the last several years new tax code provisions designed to provide economic assistance to taxpayers have been enacted, making the tax code even more complex. As a result, it is more important than ever for the IRS to help taxpayers understand their tax obligations and the economic assistance the tax code can provide.

In addition, taxpayers who do not meet their tax obligations cost the US government an estimated $290 billion every year, or an average of over $2,600 per household. To the extent that the IRS can reduce this uncollected tax revenue—or tax gap as it is known—economic benefit is provided to the vast majority of taxpayers who pay what they legally owe. In short, the IRS must put equal balance on its two strategic goals: it must make compliance easier and more understandable while enforcing the tax laws fairly and effectively.

This report has a dual focus. First, it reports on the IRS' performance during the past year. Secondly, it also reports on the agency's progress in meeting the goals and strategic foundations established in the *IRS Strategic Plan 2009-2013*.

The IRS was challenged in fiscal year (FY) 2010 by circumstances similar to those experienced during FY2008 and FY2009: the implementation and administration of new tax provisions intended to bring relief to taxpayers feeling the effects of troubled economic conditions. Nonetheless, for the most part, the agency delivered a successful tax filing season.

The level of service (LOS) on IRS toll-free telephones during FY2010 was 74 percent, an improvement over the 70 percent achieved in FY2009, and higher than its goal of 71 percent based on resources appropriated. However, this LOS was still below the 80 percent level the Board considers acceptable for good taxpayer service. To its credit, the IRS continued to achieve high accuracy rates for telephone inquiries.

Electronic tax administration operations, as measured by electronic filing rates, web services delivered to taxpayers, and taxpayer satisfaction, were generally good in FY2010. Service at IRS walk-in sites, or Taxpayer Assistance Centers, also met or exceeded expectations. Board survey results show that taxpayers consider IRS service functions to be valuable.

IRS enforcement contacts, either through written notices, correspondence examinations conducted via the mail, or field examinations, are generally higher in FY2010 than previous years. However, much of this increase has been driven by the need to vigorously enforce new tax credits, especially the First Time Homebuyers Credit. Because this credit was complex, widely-used, sizable, and refundable, it required a great deal of IRS resources to administer. Although this degree of attention was clearly warranted, it had the consequence of diverting IRS resources from other enforcement activities.

The overall exam coverage rate for individual taxpayers continues to rise gradually. However, the growth rate of examinations for taxpayers with income over $1 million has grown at a faster rate and is eight times higher than the examination rate for lower income taxpayers. Corporate examination rates continue to remain stable.

Turning our attention to the longer-term, strategic perspective, the IRS Oversight Board believes that the tax administration system has two serious systemic weaknesses that require attention: the tax gap and IRS' archaic information technology systems. Failure to mitigate these weaknesses will cause long-term performance issues for the tax administration system.

These two weaknesses are exacerbated by another concern: an under-appreciation of the importance of tax administration to the nation's economic well-being as evidenced by a willingness to expand the complexity of the tax code with little regard for the impact on taxpayers or the resources needed by the IRS to administer the code. In recent years, the tax administration system has been used to deliver quickly and efficiently a variety of financial benefits to taxpayers during a period of economic turmoil. The IRS has responded well to these challenges, but the result has been to stretch the IRS' resources thin. Every new tax provision added to the internal revenue code requires both service and enforcement resources for successful implementation.

The Board continues to be concerned about the tax gap. Not only does the size of the net tax gap impose burdens on compliant taxpayers, but neither the Oversight Board nor the IRS can determine with any degree of certainly whether the IRS is making progress in reducing the tax gap. This is because the IRS' estimates of the tax gap are still based on data from 2001 tax returns. The IRS plans to update its tax gap estimate before the end of 2011. The Board believes that tax administration would be well-served by more frequent updates of tax gap and voluntary compliance estimates, and encourages the IRS to plan for regular updates of the tax gap based on ongoing National Research Program (NRP) studies.

Although the IRS has a number of efforts underway that promise to have a positive influence on non-compliance, without updates to the tax gap estimates it is very difficult to evaluate the overall effect of those programs on voluntary compliance. Moreover, it is difficult to link changes in voluntary compliance levels to specific IRS enforcement and service programs.

To obtain better insight into how specific programs impact compliance, the Oversight Board plans to work with the IRS to develop performance measures to evaluate the effectiveness of IRS programs such as preparer regulation, use of information reports for merchant payment cards and stock basis, and the Compliance Assurance Process (CAP) program. Such measures would provide the Board, the IRS, and other decision-makers the data necessary to make informed management and funding decisions.

The IRS Oversight Board has long emphasized the importance of the IRS Business Systems Modernization (BSM) program because it believes a modern information technology (IT) system is the foundation for major increases in IRS efficiency and reduced taxpayer burden achieved through electronic tax administration (ETA). The Board's vision for ETA is a tax administration system that provides secure, convenient, timely, and accurate services to taxpayers, and to the tax professionals and IRS employees who serve them.

Key to the IRS' plan for modernizing its IT resources is the delivery in January 2012 of major milestones for the Customer Account Data Engine (CADE) 2 system, which the IRS has designated as Transition State 1. The successful delivery of Transition State 1 entails the implementation of a modern relational database for the tax accounts of individual taxpayers and the capability to update those accounts on a daily basis.

The Board has been assessing the IRS' progress in achieving its scheduled Transition State 1 delivery date on a quarterly basis, and also coordinates with the Government Accountability Office (GAO) and the Treasury Inspector General for Tax Administration (TIGTA) to obtain other independent assessments of IRS' progress. The IRS' progress reports to the Board on CADE 2 have become increasingly more confident of a successful delivery, and both GAO and TIGTA, while noting risks inherent in the program, have also reported mostly favorable developments in the CADE 2 program.

One major risk to the success of the IRS' BSM program that is outside of the IRS' control is program funding. The FY2011 funding levels for

BSM that were sought by the President and the Oversight Board were not realized in the FY2011 budget, and the low funding levels represent a risk to the timely and successful delivery of the program.

The Board has approved a long-term strategic goal for the IRS to be one of the best places to work in government, and will evaluate the IRS' success in achieving this goal by comparing its employee engagement score, as measured by the Office of Personnel Management (OPM) annual employee survey, to other federal agencies. Successful achievement of the goal requires the IRS to be in the top quartile among the 14 largest federal agencies by 2012, based on that employee engagement index score. The Board believes that it is imperative that the IRS workforce be among the most highly engaged of all large federal agencies.

As part of its statutory responsibility the Board maintains a steady interest in the discipline of Enterprise Risk Management (ERM), which is widely recognized by private and public sector organizations as a necessary discipline for coping with the vicissitudes of an increasingly uncertain world. In addition to the two weaknesses of the tax administration system already discussed, the Board sees other challenges that need attention, including the following:

- Becoming more effective with less resources
- Implementing tax provisions of the Patient Protection and Affordable Care Act (ACA)
- Simplifying an expanding tax code

Many members of the tax administration community, including the Oversight Board, stakeholders, and the IRS, have observed an increasing trend to use the tax code to deliver economic and social benefits to taxpayers. These include efforts to deliver economic relief, to stimulate the automotive or housing market, and to provide health insurance assistance to unemployed taxpayers.

With the enactment of the ACA on March 23, 2010, the IRS has been tasked with a wide range of new responsibilities, which are being phased in over the next several years.

The Board believes that implementing the requirements of the ACA represents a significant expansion of the IRS' responsibilities. The IRS has demonstrated in the last decade that it can take on new responsibilities and perform them well, but the risks associated with implementing the requirements of the ACA increase if the IRS does not receive the resources it needs. With IRS resources already stretched thin to administer an increasingly complex tax code, the Board believes proper funding of the IRS is essential for responsible tax administration.

The Board also notes that three major tax reform reports from Presidentially-commissioned study groups have been delivered since 2005. All three panels issued reports that reached the same inescapable conclusion—there is a compelling case for simplifying the tax code. The trend toward growing complexity needs to be reversed.

Preface

In June 1997, the National Commission on Restructuring the Internal Revenue Service (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; review the selection, evaluation, and

[1] Public Law 105-206, Title 1, Section 1101.

compensation of IRS senior executives; review and approve the budget request of the IRS prepared by the Commissioner; and to review and approve plans for major reorganizations.

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 IRS' performance in fiscal year (FY) 2010, a discussion of the strategic challenges facing the IRS, and discussion of the measures the Board uses to assess the IRS' performance and its progress in achieving the strategic plan.

I. Introduction

The IRS Oversight Board is pleased to report on the IRS' performance during the past year.

This report has a dual focus. First, it reports on the IRS' performance during the past year. Secondly, it also reports on the agency's progress in meeting the goals and strategic foundations established in the *IRS Strategic Plan 2009-2013:*

- **Goal 1:** Improve service to make voluntary compliance easier
- **Goal 2:** Enforce the law to ensure everyone meets their obligations to pay taxes
- **Strategic Foundations:** Invest for high performance in people and technology

Section II provides an overview of IRS performance during FY2010 using productivity, output, and outcome measures.

Section III provides the Oversight Board's assessment of the strategic challenges facing the IRS and actions the IRS is taking to meet its long term goals.

Section IV identifies the measures the Oversight Board and the IRS will use to evaluate its success in achieving the goals identified above and Section V provides a conclusion.

II. Fiscal Year 2010 IRS Performance

The IRS was challenged in FY2010 by circumstances similar to those experienced during FY2008 and FY2009: the implementation and administration of new tax provisions intended to bring relief to taxpayers feeling the effects of troubled economic conditions. The American Recovery and Reinvestment Act of 2009 provided a Making Work Pay (MWP) credit that introduced new complexities to both the IRS and taxpayers through changes in withholding rates. Also, the Worker, Homeownership, and Business Assistance Act of 2009 extended and modified the First Time Homebuyers (FTHB) credit, the third version of the FTHB credit in three years.

Appendix 1 provides a summary of major legislative and administrative tax provisions enacted during the last four years and the challenges that each presented to tax administration during the 2007 through 2010 filing seasons. In addition to describing the impacts associated with implementing these provisions, the appendix provides a short assessment of IRS' performance in implementing many of them made by either the Government Accountability Office (GAO) or the Treasury Inspector General for Tax Administration (TIGTA).

These provisions affected the full range of IRS systems and processes and the IRS was required to quickly incorporate them into its taxpayer service and enforcement functions. Taxpayer service includes education and outreach designed to help all taxpayers understand and meet their tax obligations, development of printed forms and publications, operation and maintenance of a web site that offers both assistance and electronic transactions, tax return processing, and issuance of refunds.

IRS enforcement activities were also affected by the new provisions as the IRS had to update its systems and procedures to ensure that all taxpayers who claimed the new credits were legally entitled to them. As can readily be seen from Appendix 1, these provisions are generally complex, and taxpayer non-compliance is not necessarily intentional. Conversely, some eligible taxpayers failed to claim tax credits to which they were entitled. On the other hand, some non-compliance is intentional. IRS enforcement programs, from notices to criminal prosecution, are focused on both types of non-compliance, with the most severe actions being reserved for the most egregious cases.

The following paragraphs present measures to evaluate the IRS' performance during FY2010 for both its service and enforcement activities. In addition, Appendix 2 provides a full array of performance measures the Oversight Board uses to evaluate IRS' annual performance.

Taxpayer Service Trends in 2010

The IRS serves taxpayers by providing three major operations during the filing season: answering taxpayer inquiries over its toll-free telephone system, providing information and services to taxpayers through its Internet site (www.irs.gov), and processing tax returns and refunds. Table 1 shows the number of transactions associated with each of these three service operations.

Table 1. IRS Major Service Transactions During the 2007-2010 Filing Season

Major IRS Service Transactions	Filing Season (FS)			
	2007	2008	2009	2010
Toll-free Telephone Volume (in millions)				
Assistor calls answered	22	27	26	24
Abandoned calls	13	34	21	21
Busies and IRS disconnects	1	14	5	1
Automated calls answered	21	43	25	32
Total calls	57	118	78	77
www.irs.gov activity (in millions)				
Total visits	178	304	246	239
Downloads	128	145	150	157
Searches	146	175	184	277
"Where's My Refund?" inquiries	32	39	53	64
Individual Returns and Refunds Processed (in millions unless otherwise indicated)				
Electronic returns	79	88	94	97
Paper returns	56	54	45	40
Total returns	135	142	139	137
Refunds	104	105	109	107
Dollars refunded	$234 billion	$247 billion	$298 billion	$312 billion
Average refund	$2,259	$2,347	$2,737	$2,915
Refund timeliness (percent delivered within 45 days)	99.3	99.1	99.2	96.1

Source: GAO and IRS

Overall, transaction volumes during the 2010 filing season were approximately the same as those during the 2009 filing season, less than the 2008 filing season, but higher than the 2007 filing season. An unusual amount of activity occurred during the 2008 filing season because the IRS issued economic stimulus checks to taxpayers, including approximately 15 million individuals who did not normally have a filing requirement. Both the 2009 and 2010 filing seasons experienced higher than normal volume, but not to the levels seen in 2008. The Board believes the IRS needs to plan for the volumes experienced in 2009 and 2010 as the new norm.

Despite these challenges, the IRS delivered a generally successful 2010 filing season, as shown in Table 2, which displays key performance measures for taxpayer service. A more complete set of performance measures and target values related to taxpayer service is shown in Appendix 2.

The level of service (LOS) on the IRS toll-free telephone line improved over 2009 levels, although it was still below the 80 percent level the Board considers acceptable. The IRS' goal for LOS, based on resources appropriated for taxpayer service, was 71 percent, so the IRS was able to perform better than its goal. However, the Board takes little solace in this outcome because taxpayers are not being served as they should. Customer service is an area that requires additional resources appropriated by Congress, as reported last year by the Board.[2]

Table 2. IRS Major Service Performance Measures During the 2007-2010 Filing Seasons

	2007	2008	2009	2010
Assistor LOS (*in percent for entire fiscal year*)	82	53	70	74
Assistor LOS (in percent during filing season)	81	57	68	76
Average wait time in minutes (*during filing season*)	4.6	8.6	8.4	9.5
Tax law accuracy rate (*Note 1*)	90.7%±0.9	90.3%±0.9	92.5%±0.8	92.4%±0.8
Accounts accuracy rate (*Note 1*)	93.2%±0.5	95.1%±0.4	93.5%±0.4	95.6%±0.4
Refund timeliness (*percent delivered within 45 days*)	99.3	99.1	99.2	96.1

Source: IRS and GAO

Note 1: Based on representative samples from January through June. The percentage of calls in which telephone assistors provided accurate answers for the call type and took the appropriate action, with a 90 percent confidence interval.

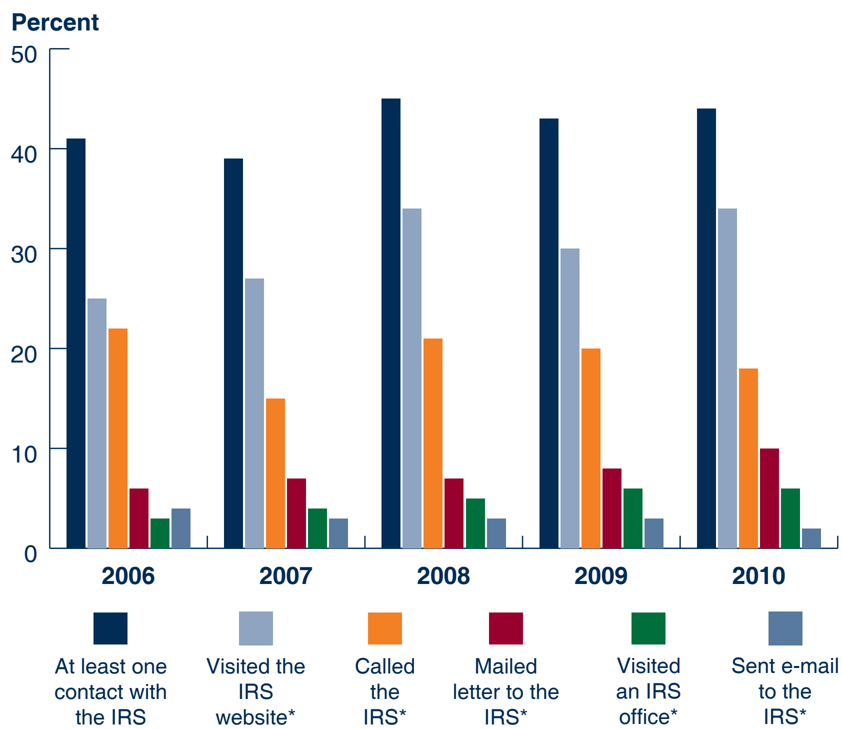
[2] *IRS Oversight Board FY2011 IRS Budget Recommendation to Congress,* March 2010.

Refund timeliness was a second measure that was below goal. This outcome can be attributed to the additional work the IRS was required to perform in regard to the Making Work Pay (MWP) credit. As noted in Appendix 1, the GAO reported that millions of taxpayer refunds were delayed primarily because of the time needed to correct taxpayer errors associated with this credit. As reported by TIGTA, the IRS initiated a significant outreach program to inform taxpayers about the change in withholding associated with the MWP credit and its potential to leave taxpayers under-withheld. Despite these actions, over 13 million taxpayers were negatively affected by the MWP credit withholding rate changes.

Appendix 1 summarizes the GAO and TIGTA findings of the IRS implementation of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Worker, Homeownership, and Business Assistance Act of 2009. It shows in greater detail the challenges created by the complexity of the Making Work Pay credit and the extended FTHB credit.

To present a more complete picture of taxpayers' use of the various service channels offered by the IRS, additional data is presented in Figure 1 on the extent to which taxpayers used various methods of contacting the IRS to obtain information or resolve a tax matter from 2006 through 2010. Notwithstanding the demands of the 2008 rebate program, taxpayer contacts with the IRS are generally on an upward trend. The data indicate that about 44 percent of taxpayers contacted the IRS for assistance at least once during 2010.

Figure 1. Percent of Public Contacting the IRS, 2006-2010

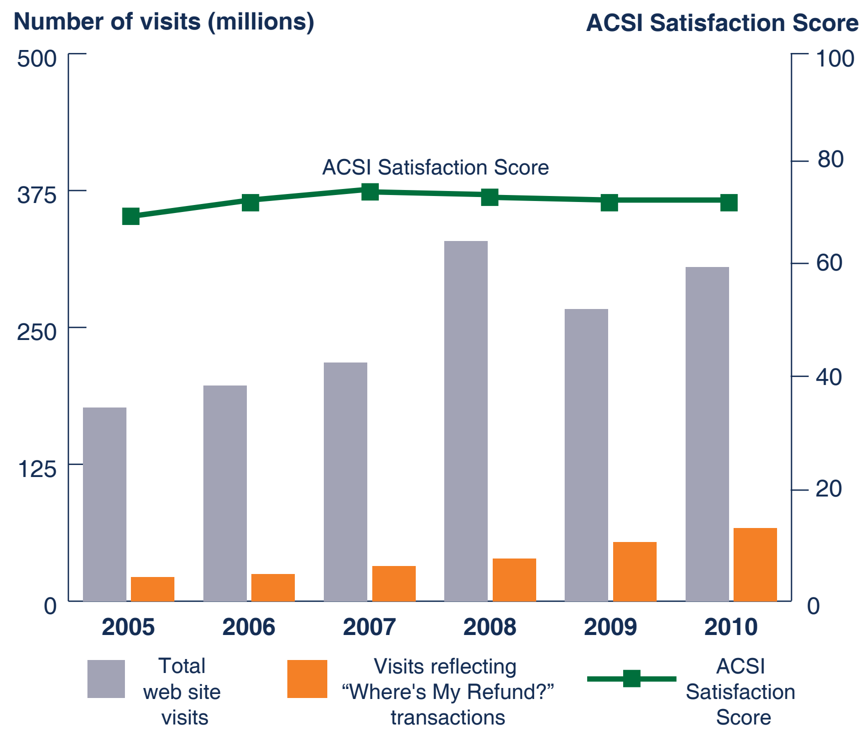


Source: IRS Oversight Board and IRS
** Percentages are not mutually exclusive*

IRS Web Site Service

As shown in Figure 1, the IRS web site is the most popular channel for taxpayers to use to obtain information or resolve a tax matter. Figure 2 provides more detail on taxpayer use of this web site, which has grown since 2005, along with customer satisfaction ratings for www.irs.gov from the American Customer Satisfaction Index (ACSI) provided by the University of Michigan.

Figure 2. IRS Web Site Usage and Customer Satisfaction Ratings, 2005-2010

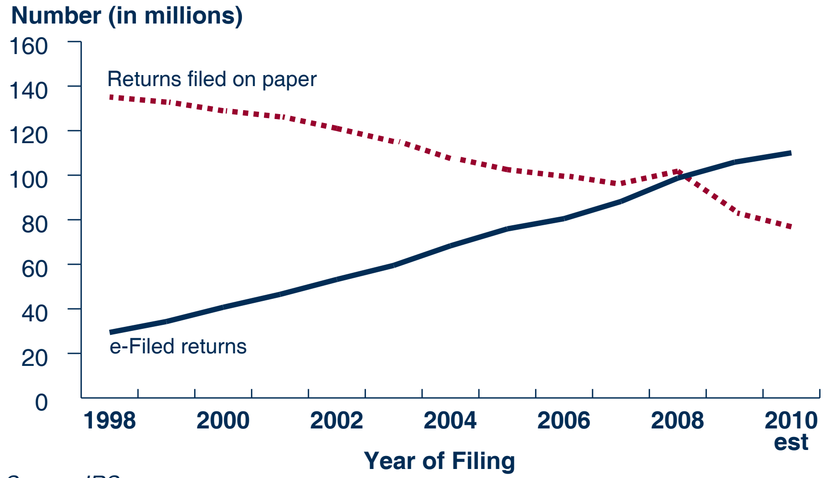


Source: IRS and www.theacsi.org

IRS Return Processing

The IRS offers taxpayers two methods to file their tax returns: 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 method of choice for all types of major tax returns, whether the returns come from individuals, businesses, or non-profit organizations. Figure 3 presents the number of returns processed by both methods from 1998 through 2010. The number of individual returns filed electronically is expected to grow even more than usual in 2011 as new mandates for electronic filing by professional tax preparers take effect.

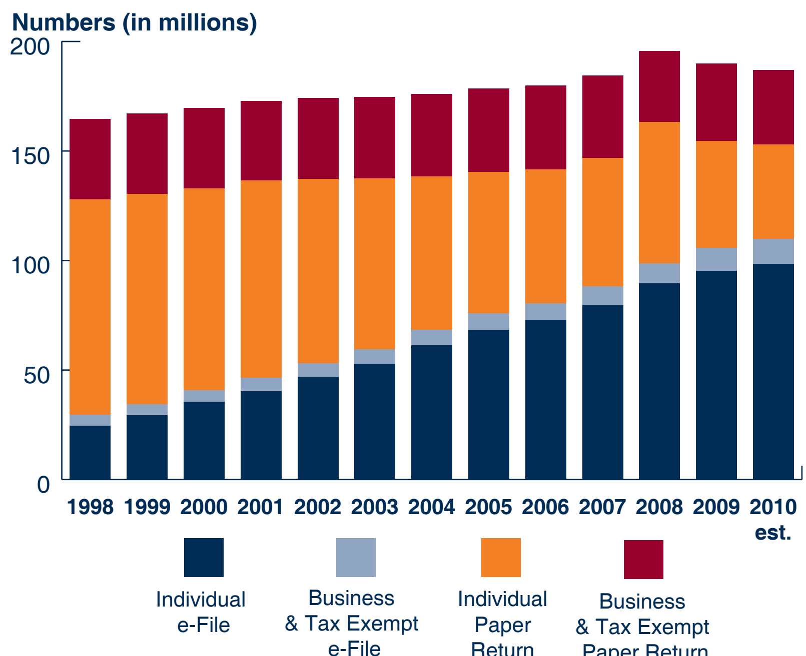
Figure 3. Number of Major Tax Returns Filed: e-Filed vs. Paper



Source: IRS

Although electronic filing of individual tax returns has shown a steady growth for over ten years, electronic filing of business and tax exempt tax returns has grown at a slower pace, as illustrated in Figure 4. As reported earlier this year by the Oversight Board, reducing the number of business employment tax returns filed on paper, especially Form 941 returns, is a particularly significant challenge to the IRS to meet its strategic goal of having 80 percent of major tax returns filed electronically by 2012.[3]

Figure 4. Major Tax Return Types Filed by Taxpayer Type and Filing Method



Source: IRS

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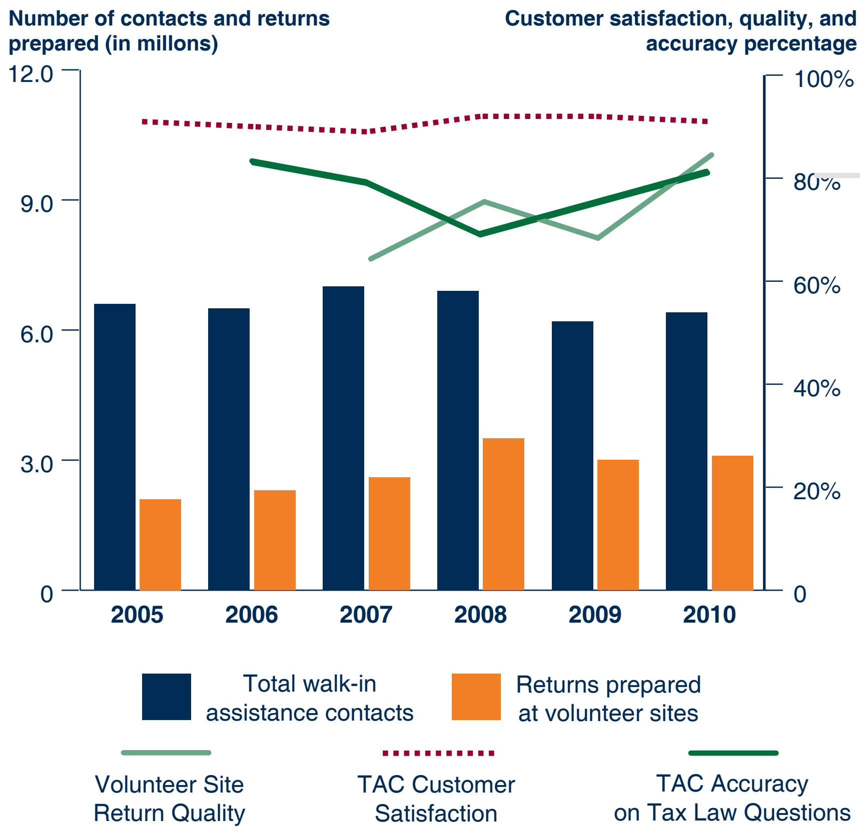
[3] IRS Oversight Board, *IRS Oversight Board Electronic Filing 2010 Annual Report to Congress*, January 2011.

IRS In-Person Assistance

The IRS serves taxpayers in person at walk-in offices, also known as Taxpayer Assistance Centers (TACs), which serve over 6 million taxpayers a year. The Oversight Board's *Taxpayer Attitude Survey* indicates that 65 percent of respondents say it is very important that the IRS provide office locations for walk-in assistance, with another 21 percent indicating this service is somewhat important.

The IRS also enables free tax return preparation assistance using trained volunteers through the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs. During the last several years the IRS has increased its oversight of volunteer sites so that the quality of tax returns prepared at these sites has improved significantly. Measures for the IRS walk-in offices and volunteer tax preparation programs are shown in Figure 5.

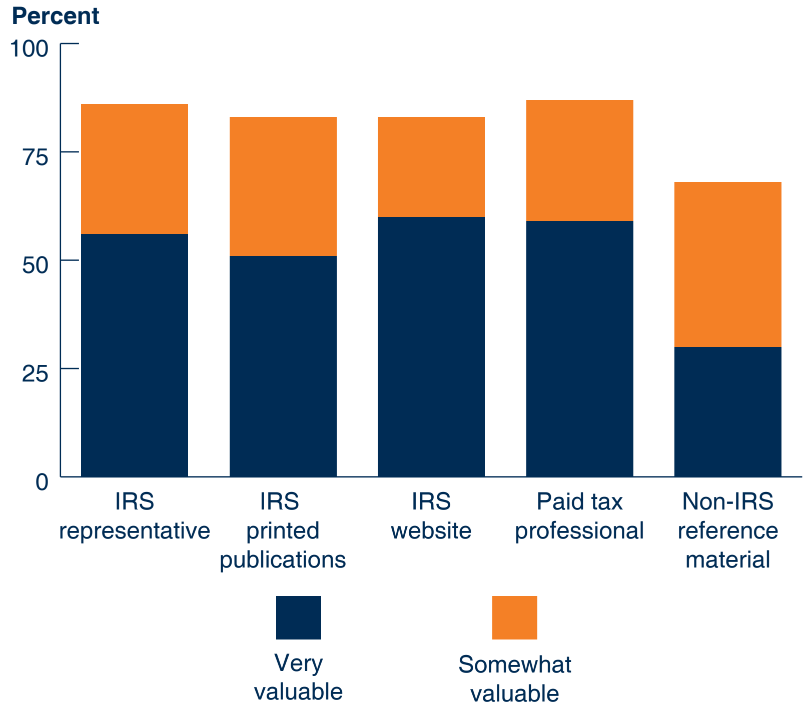
Figure 5. IRS In-Person Assistance Measures during FY2005-FY2010



Source: IRS

With the growing complexity of the tax code, the public's reliance on the IRS to provide information to taxpayers about their tax obligations needs to be recognized. This reliance is illustrated in Figure 6, which shows the extent to which the public values the IRS as a source of information about taxes, and demonstrates why the Board places such high emphasis on the IRS' ability to deliver timely and accurate service to taxpayers.

Figure 6. Percent of Public Who Say Certain Sources are Very or Somewhat Valuable for Tax Advice or Information



Source: IRS Oversight Board

Enforcement Trends in 2010

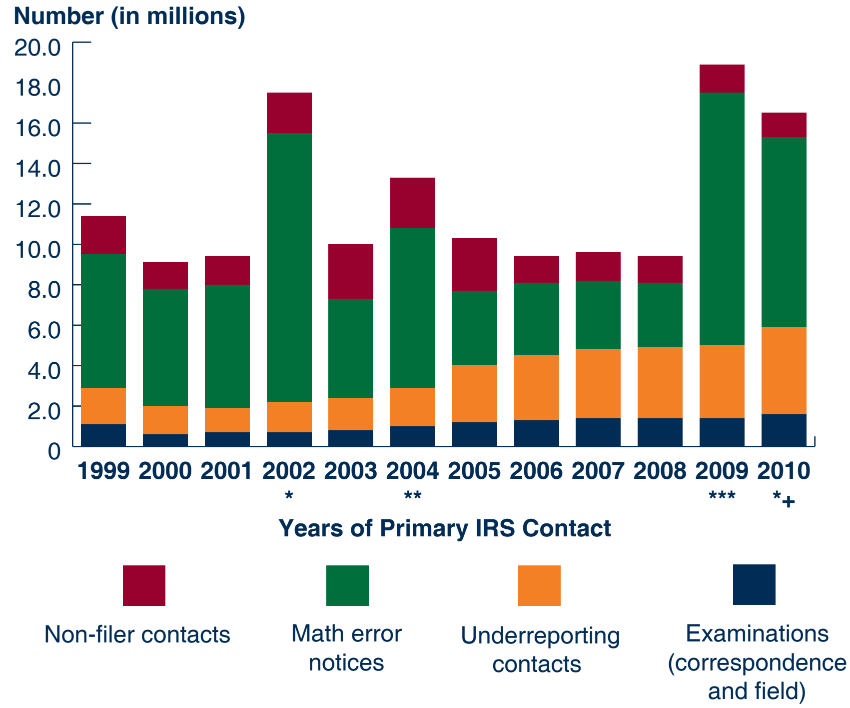
Enforcement actions generally have a dual purpose: to bring the taxpayer into current compliance and to influence the taxpayer to be compliant in the future. In contrast with taxpayer service programs, which are preventative and broadly based, enforcement is generally case-specific and corrective in nature.

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

- sending a notice to a taxpayer that proposes changes to tax liability because the IRS has an information return that indicates a taxpayer has unreported income, and calculates additional taxes the IRS believes are owed;
- correcting a mistake made by the taxpayer, using its authority to correct math errors and related problems on a return as filed;
- conducting an examination by mail, known as a correspondence exam; and
- notifying a taxpayer that he or she is being subject to a face-to-face (field) audit.

Figure 7 shows the approximate number of these common enforcement "touches" for individual taxpayers for the period 1999 through 2010.

Figure 7. Number of IRS Enforcement Contacts with Individuals by Method



Source: IRS

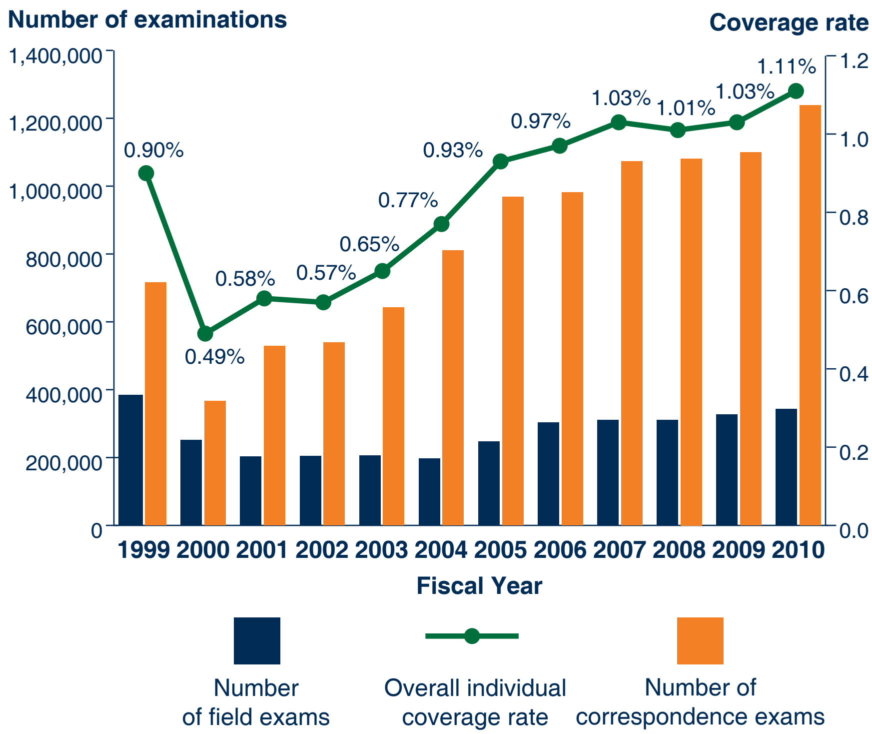
** Counts in 2002 include large number of math error notices associated with Rate Reduction Credit*
*** Counts in 2004 include large number of math error notices associated with advance Child Tax Credit payment*
**** Counts in 2009 include large number of math error notices associated with Recovery Rebate Credit*
**+ Counts for 2010 include large number of math error notices associated with new Making Work Pay Credit.*

Notes: Some math error notices reflect changes made by the IRS that were in the taxpayer's financial favor. Counts for 2002 and earlier years do not include math error notices on prior tax year returns.

Although the number of total annual IRS enforcement contacts has been relatively steady during the last ten years at around nine million, with a few exceptions associated with years involving unique or special short-term credits, the last two years have seen higher than normal IRS contacts with taxpayers due to increased use of Math Error Authority associated with the FTHB and MWP credits. Examinations, either in-person or correspondence, have also been generally increasing but make up a relatively small percentage of total contacts.

Of the four methods of "touching" taxpayers shown in Figure 7, examinations are generally the most comprehensive. Field examinations typically are more comprehensive than correspondence audits, which usually focus only on a single issue. Figure 8 shows the number of examinations of individual tax returns conducted by the IRS from FY1999 to FY2010. The examination rate 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, and hit a twelve-year high point in FY2010 at 1.11 percent.

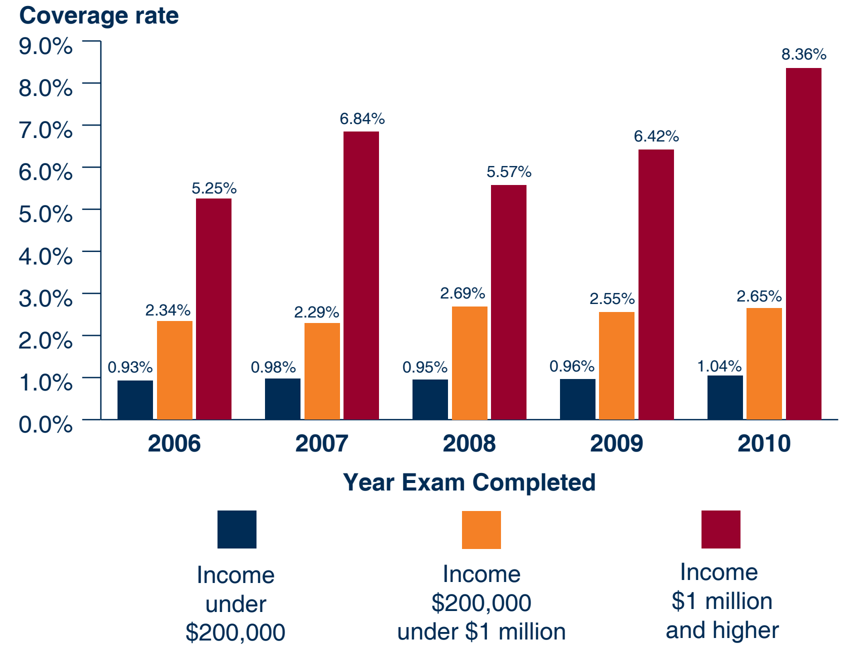
Figure 8. Individual Examination Trends FY1999 to FY2010



Source: IRS

The overall exam coverage rate for individual taxpayers has risen gradually during the last ten years. However, Figure 9 illustrates that the examination coverage rate for taxpayers with income over $1 million is eight times higher than lower income taxpayers, and is considerably higher than the rate achieved during the past three years.

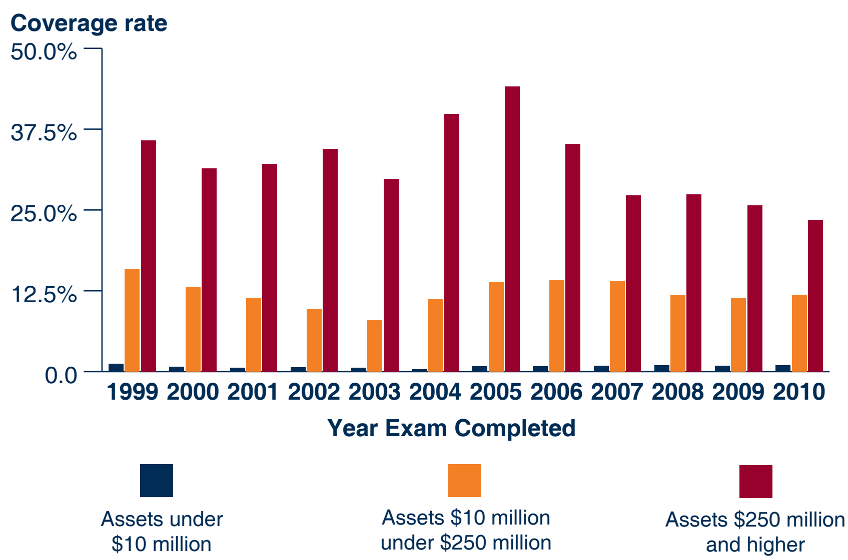
Figure 9. Examination Coverage Rates for Individual Filers by Income Range For FY2006 to FY2010



Source: IRS

The IRS' approach to examining taxable corporate tax returns (Form 1120) follows a similar pattern, as shown in Figure 10, with corporations with larger assets having a higher examination rate. The examination rates for the largest corporations have decreased in recent years from a high point in 2005. Nevertheless, the coverage rates for these large corporations remain substantially higher than corporations in smaller asset categories.

Figure 10. Examination Coverage Rates for Taxable Corporation Returns by Asset Size



Source: IRS

Future large corporate audit activity will likely change in the next several years with the change in the Compliance Assurance Process (CAP) program discussed in the next section, as the IRS shifts some of its large business examination resources to place more emphasis on the prevention of non-compliance.

III. Strategic Challenges to Tax Administration

As previously reported,[4] the IRS Oversight Board believes that the tax administration system has two serious systemic weaknesses that require attention: the tax gap and the IRS' archaic information technology systems. Failure to mitigate these weaknesses will cause long-term performance issues for the tax administration system.

In the view of the Board, the weaknesses of the tax administration system are exacerbated by another concern: an under-appreciation of the importance of tax administration to the nation's economic well-being, as evidenced by a willingness to expand the complexity of the tax code with little regard for the impact on taxpayers or the resources needed by the IRS to administer the code. As illustrated by Appendix 1, the tax administration system has been used to quickly and efficiently deliver a variety of financial benefits to taxpayers during a period of economic turmoil. The IRS has responded well to these challenges, but the result has been to stretch the IRS' resources thin. Every new tax provision added to the internal revenue code requires both service and enforcement resources for successful implementation.

The First Time Homebuyers (FTHB) credit provides an illustrative example of the growing complexity of the tax code. With three variations of the FTHB credit in three successive years, the IRS expended significant effort in 2008, 2009, and 2010 to educate taxpayers to ensure that they understood all the complexities of the credit. Moreover, as a sizable and refundable credit, it was also subject to misunderstanding and fraudulent claims. As can be seen in Appendix 1, a number of enforcement issues had to be identified and resolved by the IRS, including some that required congressional action, such as providing the IRS with Math Error Authority to resolve FTHB credit issues during return processing instead of through the examination process. The IRS reports that at least 179,000 examinations of the FTHB credit were conducted during FY2010 alone.[5] Each of those exams, while appropriate, diverted resources away from the IRS' regular examination program.

On a larger scale, with the enactment of the Patient Protection and Affordable Care Act (ACA), the IRS has been assigned additional responsibility for administration of health care provisions being implemented through the tax code, including the administration of new

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[4] IRS Oversight Board, *IRS Oversight Board FY2012 IRS Budget Recommendations Special Report,* March 2011.
[5] *IRS Data Book 2010*.

tax credits for individuals and businesses. As reported elsewhere,[6] these new responsibilities must be afforded budget priority to enable the IRS to properly implement the law. The Board's primary concern is that the IRS receives the resources it needs to implement the new provisions effectively and efficiently.

These two examples are cited to illustrate the general direction of tax code complexity, which can also be seen by the number of new provisions identified in Appendix 1. Since 2005, three Presidentially-appointed study groups have made similar findings relative to tax code complexity.

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' most recent estimate of the net tax gap is $290 billion.[7] As a result of the tax gap, the federal government has $290 billion less each year than it should if all taxpayers complied with the law, an average of over $2,600 per household.[8]

The tax gap is widely acknowledged by key organizations and individuals in both the executive and legislative branches of government as a serious and long-standing problem that unfairly burdens honest taxpayers:

> *(A)n unacceptably large amount of the tax that should be paid every year is not, requiring compliant taxpayers to make up for the shortfall and giving rise to the "tax gap."*
>
> *Department of the Treasury, A Comprehensive Strategy for Reducing the Tax Gap, September 26, 2006*

> *Every year, hundreds of billions of dollars in legally owed taxes go uncollected in the U.S. Closing that "tax gap" will significantly strengthen America's economy.*
>
> *Press Release, Senator Max Baucus, August 1, 2007*

> *The tax gap ... has been a long-standing problem in spite of many efforts to reduce it. .... When some taxpayers fail to comply, the burden of funding the nation's commitments falls more heavily on compliant taxpayers. Reducing the tax gap would help improve the nation's fiscal stability.*
>
> *GAO, report GAO-07-391T, January 23, 2007*

> *Despite an estimated voluntary compliance rate of 84 percent and IRS enforcement efforts, a significant amount of income remains*

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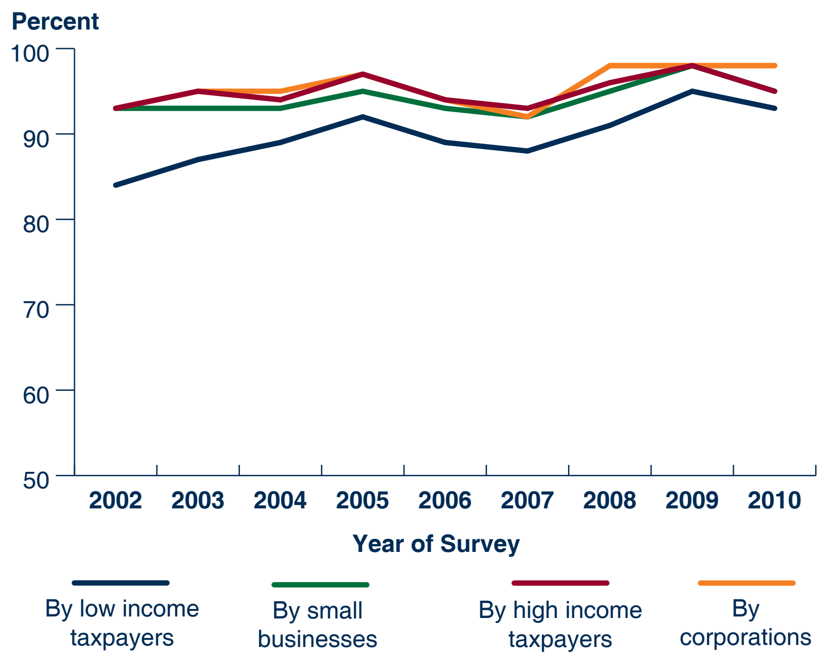
[6] IRS Oversight Board, *IRS Oversight Board FY2012 IRS Budget Recommendations Special Report,* March 2011.
[7] Department of the Treasury, *Update on Reducing the Federal Tax Gap and Improving Voluntary Compliance*, July 8, 2009.
[8] Office of the National Taxpayer Advocate, Written Statement of Nina E. Olson before the Committee on the Budget, U.S. House of Representatives, Hearing on the IRS and the Tax Gap, February 16, 2007.

unreported and unpaid. ... Increasing voluntary taxpayer compliance and reducing the Tax Gap continue to be the focus of many IRS initiatives.

TIGTA memorandum, Management and Performance Challenges Facing the IRS for FY2012, October 15, 2010

Not only does the tax gap deprive the federal government of legally-owed revenue, it can also undermine confidence in the tax system. Taxpayers expect that the IRS is fulfilling its mission and ensuring fairness to all by collecting from everyone who owes taxes. Board survey results, shown in Figure 11, demonstrate that the public has high expectations for the IRS to collect the proper amount of tax from all types of taxpayers, from large corporations to low income taxpayers.

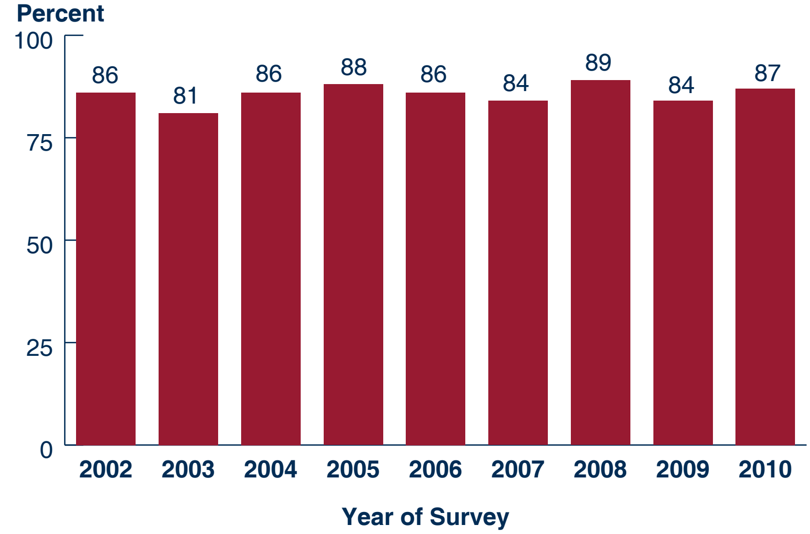
Figure 11. Percent of Public Who Say It is Somewhat or Very Important IRS Ensures Taxes are Paid Honestly



Source: IRS Oversight Board

The Board believes it is imperative to tax administration that taxpayers recognize the importance of compliance. One way to gauge taxpayers' attitudes relative to compliance is by asking their views towards tax cheating. One of the signature questions of the Board's annual taxpayer surveys is, "How much is an acceptable amount to cheat on your income taxes?" Figure 12 shows the public's response to this question from 2002 to 2010. Clearly, the vast majority of taxpayers believe that it is not acceptable at all to cheat on taxes.

Figure 12. Percent of Public Who Say It Is Not At All Acceptable to Cheat on Income Taxes



Source: IRS Oversight Board

Measuring Progress in Reducing the Tax Gap

It is impossible for the Oversight Board, the IRS, or any other member of the tax administration community to determine with any degree of certainly whether the IRS is making progress in reducing the tax gap because the IRS' estimates of the tax gap are still based on data from 2001 tax returns.

The IRS continues to conduct research of taxpayer compliance under the auspices of the National Research Program (NRP). In particular, it is conducting annual compliance studies of individual Form 1040 returns with the intent to develop a three-year moving average estimate of compliance. The NRP program also completed a review of returns from S-corporations and began a multi-year study of payroll taxes, from which the IRS intends to obtain information in four categories: worker classification, fringe benefits, nonfilers, and officers' compensation.

Although the IRS has a number of efforts underway that promise to have a positive influence on non-compliance, without updates to the tax gap estimates it is very difficult to evaluate the overall effect of those programs on voluntary compliance. The Board acknowledges that the NRP studies yield valuable results that go beyond simply updating of the tax gap estimates, such as improving the IRS' case selection processes. However, the time lag in obtaining updated gap estimates based on NRP studies makes it difficult to obtain timely estimates of the tax gap. Moreover, it is difficult to link changes in voluntary compliance levels to specific IRS enforcement and service programs.

The IRS plans to update its tax gap estimate before the end of 2011. The Board believes that tax administration would be well-served with frequent updates of tax gap estimates and encourages the IRS to plan for regular updates of the tax gap based on ongoing NRP studies.

However, even with more regular updates, the voluntary compliance information provided through the NRP program, while very valuable in assessing the effectiveness of the overall tax administration system, also has its limitations. On one hand, the voluntary compliance rate and associated tax gap captures in a single, easy-to-understand fashion, the most important outcomes of any tax administration system. On the other hand, because of the methodology used to develop the estimate, it will always be several years behind the current tax year. Moreover, it is also difficult to attribute changes in voluntary compliance to a unique cause, such as a specific IRS program.

To overcome these two problems, the Oversight Board plans to work with the IRS to develop measures to evaluate the effectiveness of specific IRS programs, such as preparer regulation, use of information reports for merchant payment cards and stock basis, and the Compliance Assurance Process (CAP) program. Such measures would provide the Board, the IRS, and other decision-makers the data necessary to make informed management and funding decisions.

The Board has seen two significant and somewhat inter-related trends in tax administration in the last several years that have the potential to reduce the tax gap:

1. Increased emphasis on the prevention of non-compliance prior to the filing of tax returns.
2. More emphasis on the acquisition and use of additional information reporting or taxpayer self-disclosure to enhance transparency.

The first trend is perhaps most apparent in the implementation of regulations for paid tax preparers, but is also evidenced by the IRS' expansion of the CAP program, which will transition from a pilot into a permanent program available to all interested and qualified taxpayers. In addition, the reporting of uncertain tax positions (UTPs) discussed below also contains elements that are geared toward prevention of non-compliance by corporate taxpayers through early identification of issues.

Developments that are characteristic of the second trend include the additional information reporting requirements for payment card processors and stock basis reporting contained in Public Laws 110-289 and 110-343, respectively; new IRS regulations for the reporting of uncertain tax provisions; the IRS' Voluntary Disclosure Program (VDP) for taxpayers to self-disclose any previously unreported foreign assets; and the implementation of new reporting and withholding requirements proposed in the Foreign Account Tax Compliance Act (FATCA) and enacted into law in P.L. 111-147.

Despite the current lack of quantitative evidence to evaluate the effect of these programs on the tax gap, the Board believes that these trends, and the programs cited above as evidence of these trends, have the potential to reduce the tax gap in the long term, as discussed below.

Paid Preparer Regulation

Beginning in FY2009, in recognition of the fact that tax preparation is essentially an unregulated industry, the IRS conducted a thorough review of the benefits and issues associated with the establishment of standards for the professional tax preparation industry. The IRS announced plans to implement a multi-year initiative to register, test, impose continuing education requirements, establish ethical standards, and enforce these regulations on paid tax preparers.

The IRS issued regulations and began preparer registration in late September 2010. All paid preparers will receive a mandatory preparer tax identification number (PTIN), which the IRS will use in a comprehensive database. The IRS has registered over 650,000 paid preparers to date.

During the regulation development process, the IRS received a number of comments from both professional associations and individual tax preparers. Common topics received involved the definition of employees required to register as tax preparers, the applicability of requirements for continuing professional education for signing and non-signing preparers, the schedule for the beginning of testing, and the IRS' plan for compliance checks and sanctions.

With registration almost complete, future efforts will focus on the development of requirements for testing and continuing education. During this process, the Board expects that tax preparers will be provided further opportunities to comment. The IRS must also develop its approach for enforcing the regulations and performing suitability checks for paid tax preparers. The IRS has created the Return Preparer Office to manage the implementation of the preparer regulation program, which will be responsible for managing all IRS activities related to continuing education and testing of all professions under the IRS' jurisdiction.

Many tax professionals, and the IRS Oversight Board, see the program to regulate paid tax preparers as an effort to enhance the profession of tax preparation, and praise the IRS for deciding to implement regulations on paid tax preparers. There is a broad belief within the tax administration community that preparer regulation will lead to increased taxpayer compliance.

However, because the program is only in its beginning year, there is no evidence as yet that these results will be achieved. Many tax professionals support the program, but want to see evidence that it is effective. A particular area of interest for many tax professionals is the ability of the IRS to enforce the regulations and put those preparers who do not meet ethical and behavior standards out of business. The IRS and the entire tax administration community know that it will take years before the program will be completely implemented, and only then will it be possible to evaluate the program's effectiveness. A recent TIGTA report found that it will take at least another three years for the program to become fully functional.[9]

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[9] Treasury Inspector General for Tax Adminstration Report 2010-40-127*, It Wil Take Years to Implement the Return Preparer Program and Realize its Impact,* September 30, 2010.

For preparer regulation to successfully improve taxpayer compliance, several elements are required. First, there needs to be a widespread understanding of the program by the public. To achieve this objective, the IRS needs to conduct an education and outreach campaign to inform taxpayers of the importance of using only registered tax preparers. Taxpayers, for their part, need to ensure that the individuals who prepare their returns are properly registered.

Secondly, the IRS will need to develop measures to evaluate how effectively the program is influencing key outcomes, such as improved quality of tax returns from professional preparers. Such a measure may be possible by using a sample of NRP returns done by preparers.

Finally, the IRS must carefully and systematically enforce the preparer regulation provisions. The new regulations have the potential to have a significant impact on tax administration, but without a significant enforcement effort, the impact will be greatly reduced.

Compliance Assurance Process

The Compliance Assurance Process (CAP) program was established by the IRS as a pilot program in 2005 to provide a process for the IRS to work with large business taxpayers in the pre-filing environment in order to identify and resolve issues prior to the filing of a corporate tax return. During the pilot phase of the program, the IRS invited large business taxpayers to participate. By expanding and making CAP permanent, the program will be open to all interested taxpayers who qualify.

The CAP program is intended to reduce taxpayer burden through the contemporaneous exchange of information about completed events and transactions that affect tax liability, rather than through the traditional examination process. The CAP program is also intended to foster compliance by helping the Service achieve its goal of shortening examination cycles and increasing currency for taxpayers while enhancing the accurate, efficient, and timely resolution of increasingly complex corporate tax issues. In addition, the program will assist in increasing audit coverage by providing a more efficient use of audit resources. Finally, the program will allow taxpayers to better manage tax reserves and ensure more precise reporting of earnings on financial statements.

By resolving tax issues prior to return filing, the CAP represents a paradigm shift in the relationship between the IRS and the participating business taxpayer. The new relationship emphasizes transparency and cooperation and offers the benefits of timeliness and certainty. Although the CAP program will be open to all large business taxpayers, they must be willing to abide by the conditions established by the IRS to participate. Taxpayers must make their accounting records and systems available to the IRS and share major events that could impact their financial reporting.

By working to prevent taxpayer non-compliance, a successful CAP program should have the effect of reducing the number of large corporate audits and decreasing the amount of enforcement revenue assessed as a result of those audits. Thus, as the IRS becomes more successful in preventing non-compliance, and assigns more resources to the CAP program, the performance measures traditionally used to evaluate the IRS enforcement program for large business will show declining results. Such a shift shows the challenge facing the IRS to develop new balanced measures to effectively measure the performance of the CAP program.

Uncertain Tax Positions

In January 2010, the IRS Commissioner announced the creation of a new tax return schedule on which large companies would be required to disclose uncertain tax positions (UTPs) to the IRS. The new requirement was identified by the IRS as a way of improving tax administration by making the uncertainties in corporate tax positions more transparent. The announcement proved to be contentious, with professional tax practitioners expressing serious concerns with the proposal, and the IRS receiving numerous comments on the proposal. However, by working with practitioners throughout the year and making some modifications to its proposal, the IRS was able to adopt a principled and balanced approach, with a phased-in transition period, that received practitioner support. The Board considers the final result a positive situation for the IRS and industry, with benefits for tax administration.

As with the other programs described in this section, the challenge for the IRS is to develop an effective strategy for evaluating the effectiveness of the UTP reporting.

Additional Information Reporting

New tax provisions have added requirements for information reporting in two areas:

1. Beginning in 2012, the Emergency Economic Stabilization Act of 2008, Public Law 110-343, requires securities brokers, beginning in 2011, to report stock basis to both the IRS and taxpayers.
2. Beginning in 2012, the Housing and Economic Recovery Act of 2008, Public Law 110-289, requires credit card processors to report US merchants' annual payment card receipts and third party network transactions to the IRS and merchants.

The Board believes that additional information reporting can be a highly effective way to reduce the tax gap. As shown in Figure 13, IRS tax gap data indicate that information reporting has a profound effect on voluntary compliance. Where substantial information reporting exists, voluntary compliance is considerably higher.

The Board acknowledges that critics of additional information reporting have claimed that the costs of compliance can be high, but the GAO has reported that in nine case studies, filers of information returns told GAO that existing information return costs were relatively low.[10]

Especially in an era where all agencies of the federal government are looking to reduce costs and become more efficient in their operations,

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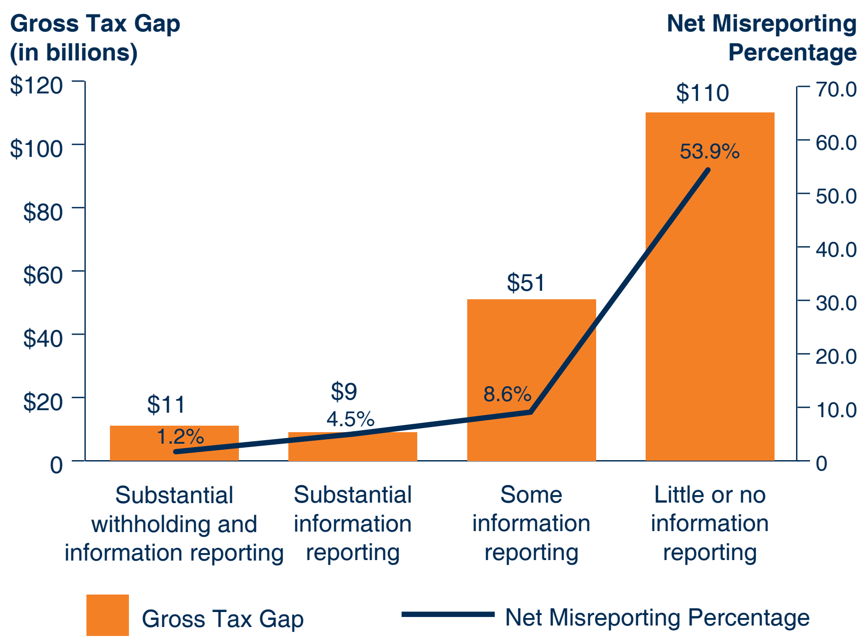
[10] Government Accountability Office Report 08-266, *Costs and Uses of Third-Party Infomation Returns,* November 2007.

the Board believes that additional information reporting represents a reasonable approach to increasing tax revenues at minimum expense. Document matching of Forms W-2 and 1099 has proven to be highly cost-effective. However, these new information reports involve more complex situations and one challenge for the IRS is to make the most effective use of additional information reports. Of paramount importance to the Board is the development by the IRS of measures that would allow the IRS, the Oversight Board, and other oversight agencies to understand the effectiveness of the new information reports in increasing taxpayer compliance. A full understanding of both the benefits and costs of the program is essential to making future informed decisions about the value of merchant payment card and stock basis reporting.

Figure 13 . Individual Income Tax Underreporting Tax Gap and the Impact of Withholding and Information Reporting (Tax Year 2001 Estimates)



Source: IRS

Voluntary Disclosure Program

In 2009, as the IRS was negotiating an agreement with the Swiss government that would result in the IRS receiving an unprecedented amount of information on United States holders of accounts at the Swiss bank UBS, it established an offshore voluntary disclosure program that was designed to encourage taxpayers who had unreported offshore assets to disclose that information to the IRS. The program was designed so that taxpayers would receive more favorable treatment from the IRS if they self-disclosed, as opposed to those taxpayers who had undisclosed accounts and were identified by the IRS.

By the time the program ended in October 2010, over 14,700 taxpayers took advantage of the voluntary disclosure program and identified themselves to the IRS, thereby reducing the possibilities of certain civil tax penalties and criminal prosecution.

The program has been characterized as what may have been the most extraordinarily successful feat in American tax history, according to outside tax practitioners.[11] In addition to the 14,700 taxpayers who came forward, the IRS learned about the bankers and tax advisers who may have encouraged them not to report the foreign accounts. However, at the same time, the IRS' capacity to handle the large number of cases it received was called into question.[12]

The IRS has now announced a second special voluntary disclosure initiative — called the 2011 Offshore Voluntary Disclosure Initiative (OVDI) — to encourage more individuals to report undisclosed offshore accounts. The initiative is also designed to bring offshore money back into the U.S. tax system.

The challenge facing the IRS is to effectively apply the information it has received from the voluntary disclosure programs to future enforcement efforts. Notwithstanding any capacity issues the IRS may have experienced in working through the unexpectedly large number of self-disclosures it received from taxpayers, it is essential for the IRS to apply the "lessons learned" from the disclosure programs to bring more taxpayers with undisclosed foreign accounts into compliance in a cost-effective manner.

Foreign Account Tax Compliance Act

New reporting and withholding requirements proposed in 2009 in the Foreign Account Tax Compliance Act (FATCA) were enacted as P.L. 111-147 in March 2010. These requirements call for foreign financial institutions (FFIs) to comply with disclosure requirements for U.S. accounts. The objective of these new reporting requirements is to detect and deter tax evasion.

These new information reporting requirements provide an additional tool for the IRS to detect non-compliance, in this case focused on non-compliance through the use of offshore assets. The success of the VDP program described above indicates that the amount of offshore assets could be sizable, and FATCA requirements have the potential to reduce such non-compliance. Much like the merchant payment card and stock basis reports discussed above, the challenge facing the IRS will be to use meaningful measures to evaluate its use of the additional information, and assess whether the benefits received from the program outweigh the costs.

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[11] Mark E. Matthews and Scott D. Michel, BNA Daily Tax Report, *Tax Evasion: IRS's Voluntary Disclosure Program for Offshore Accounts: A Critical Assessment After One Year,* September 21, 2010.
[12] *Ibid.*

Strategic Foundations: Modernizing the IRS' Information Technology

The IRS Oversight Board has long emphasized the importance of the IRS Business Systems Modernization (BSM) program because it believes a modern information technology (IT) system is the foundation for major increases in IRS efficiency and reduced taxpayer burden achieved through electronic tax administration (ETA). The Board's vision for ETA is a tax administration system that provides secure, convenient, timely, and accurate services to taxpayers, and to the tax professionals and IRS employees who serve them.

The Oversight Board has approved two long-term goals that it uses to measure the IRS' progress in modernizing itself: 1) the rate at which taxpayers electronically file their tax returns, and 2) the successful and timely delivery of the CADE 2 and Form 1040 modernized e-file (MeF) systems.

Each goal will be discussed in subsequent paragraphs.

Although there is more to ETA than the electronic filing of tax returns, e-filing is a foundational part of the tax-related technology applications embedded in the concept of ETA and is an easily understood and quantifiable measure to evaluate progress. With the Board's approval, in early 2007 the IRS recommitted itself to the 80 percent e-file goal first promulgated in IRS Restructuring and Reform Act of 1998 (RRA 98). That reframed goal calls for an overall 80 percent e-file participation rate for all major individual, business, and exempt organization tax returns by 2012.

Figure 3 (on page 16) shows the IRS' progress in moving toward the 80 percent e-file goal for all major tax returns, which stands at approximately 59 percent as of the end of 2010. Although the IRS has made solid progress in promoting the attractiveness and convenience of electronic filing, the Board is now doubtful the IRS can achieve the 80 percent e-file goal by 2012. The Board's analysis of the underlying historical trend in e-file growth, plus its estimates of the impact of the new federal e-file mandate for return preparers, indicate that while the mandate may push the e-file rate for individual income tax returns over 80 percent by 2012, the corresponding rate for all major tax returns combined will likely be no higher than the low 70 percent range. Nevertheless, even if attaining the 80 percent e-file rate for all major tax returns by 2012 proves to be impossible, the Board is confident that tax administration will eventually cross that important threshold given the historical e-file growth trend.

As a second long-range IT modernization goal, the Board is evaluating the IRS' progress in delivering two new systems by January 2012, the Customer Account Data Engine (CADE) 2 and the Form 1040 Modernized e-File (MeF) systems. Both of these efforts strive to replace antiquated IRS tax processing systems with modern technology applications that can greatly improve service to taxpayers and IRS efficiency. Of the two systems, CADE 2 is particularly important and challenging as discussed further below.

The IRS is working to achieve by January 2012 key milestones in the CADE 2 program, which it has designated as Transition State 1. The successful delivery of Transition State 1 entails the implementation of a modern relational database for the tax accounts of individual taxpayers and the capability to update those accounts on a daily basis.

The Board has been assessing the IRS' progress in achieving its scheduled Transition State 1 delivery date of January 2012 on a quarterly basis, and also coordinates with the GAO and TIGTA to obtain other independent assessments of the IRS' progress. The IRS' reports to the Board on CADE 2 have become increasingly more confident of a successful delivery, and both GAO and TIGTA, while noting risks inherent in the program, have also reported mostly favorable developments in the CADE 2 program. For example, the GAO recently reported:

> *IRS's process for managing the risks associated with CADE 2 is generally consistent with best practices. Through its process, IRS identified significant risks facing CADE 2, including that filing season and other top information technology investment priorities may result in contention for key resources, the delivery of the first phase of CADE 2 may be delayed if deficiencies identified in requirements are not corrected in a timely manner, and the risk that technical challenges and other risks to implementing the database identified as a result of prototyping efforts may not be addressed.*
>
> *To its credit, IRS has developed mitigation strategies for each identified risk. While IRS is working to ensure CADE 2 is successfully managed, the schedule for delivering the initial phase is nevertheless ambitious. IRS officials have acknowledged this and are taking actions to increase their chances of meeting it, including moving certain activities up, performing others concurrently, and adding checkpoints to monitor the program's status. While these actions may increase the likelihood of meeting the schedule, some of them, such as performing activities concurrently, could potentially introduce more risk to CADE 2's successful development and implementation. GAO's recommendations include (1) identifying all of the second phase benefits, setting the related targets, and identifying how systems and business processes might be affected; and (2) improving the credibility of revised cost estimates by including all costs or providing a rationale for excluded costs, and adjusting costs for inflation. In its comments on a draft of this report, IRS agreed with GAO's recommendations.*[13]

[13] Government Accountability Office Report GAO-11-168, *Taxpayer Account Strategy: IRS Should Finish Defining Benefits and Improve Cost Estimates,* March 2011.

In addition, TIGTA's annual assessment of the BSM Program reported the following:

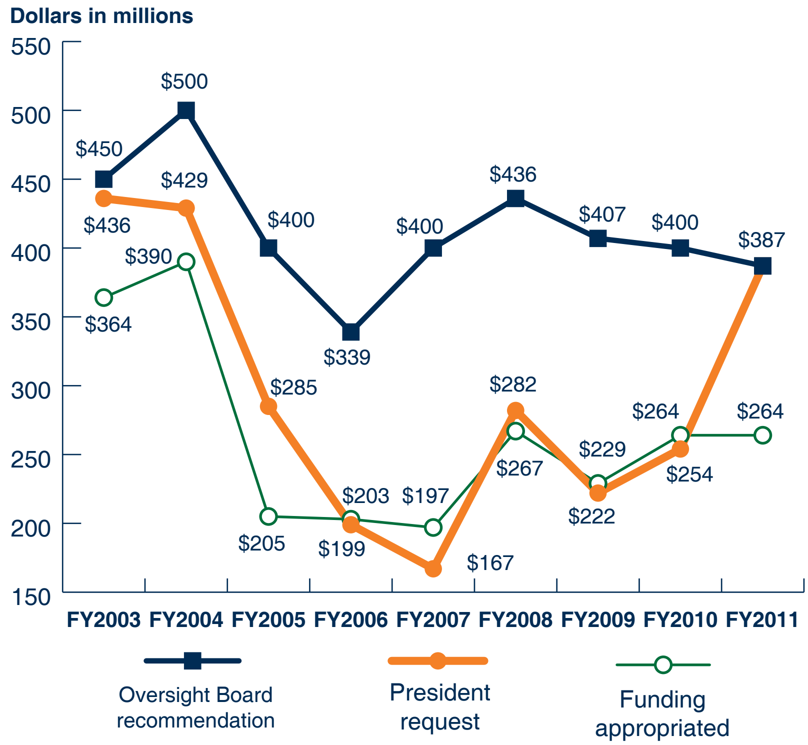
> *The BSM Program has continued to provide new information technology capabilities and the related benefits to both the IRS and taxpayers. Since July 2009, the IRS has implemented new releases of the CADE, Account Management Services, and Modernized e-File systems. Most significantly, the Modernized e-File for the first time included individual tax returns in addition to business tax returns.*
>
> *The IRS is at a key point in its BSM Program, with respect to the demands for achieving success, and has refocused the BSM Program to deliver the modernized systems sooner. TIGTA is encouraged by the actions planned and taken to refocus the BSM Program, especially related to the retooling of the CADE program, known as the CADE 2. When successful, the CADE 2 program will provide a significant boost to the IRS's ability to move away from its antiquated tax return processing systems and provide improved service to taxpayers. However, there are significant risks involved in retooling the entire BSM Program and with the use of techniques and processes new to the IRS.*[14]

Nevertheless, despite growing confidence in the IRS' ability to deliver the CADE 2 program and achieve Transition State 1 in January 2012, the Board agrees with the GAO and TIGTA that significant risks remain. As a result, the Board cautions that the most important milestone will occur in January 2012 and, ultimately, true program success can only be measured at that time.

One major risk to the success of the program that is outside of the IRS' control is program funding. The Board has consistently supported full funding of the BSM program, and was gratified when the President's recommended FY2011 budget for BSM recognized the importance of the BSM program and proposed an increase in BSM funding to $387 million, the same recommendation as the Oversight Board. This was a significant increase in BSM funding over prior years and more consistent with the Board's prior recommendations, as shown in Figure 14. The Board was also pleased when the Senate Appropriations Committee supported the full amount in its markup of the appropriations bill. However, because funding for FY2011 has been constrained to FY2010 spending levels, this action represents a significant underfunding of BSM, as can be seen in Figure 14. The Board has corresponded with both the congressional appropriations committees to urge them to fully fund BSM in FY2011 because of its importance in delivering benefits to taxpayers and improving tax administration, such as faster refund processing, more timely resolution of account issues, and more effective IRS compliance programs.

[14] TIGTA Report 2010-20-094*, Annual Assessment of the Business Systrems Modernization Program,* September 23, 2010.

Figure 14. BSM Funding FY2003-FY2011



The Board would also caution that the achievement of Transition State 1 is not the end of IRS modernization. As noted by GAO, CADE 2 functionality will be delivered in three stages, designated as Transition State 1, Transition State 2, and the Target State. Table 3 shows the key characteristics and target completion dates for all three stages. The Board considers it essential that future funding for BSM be provided through the completion of the Target State. Although the replacement of the IRS centralized database for tax accounts is the most significant part of the BSM program, the IRS has made some significant advancements in FY2010 relative to other important parts of the BSM program.

The second part of the long-range goal for modernization the Board approved for January 2012 was the full implementation of the Form 1040 MeF system. During the 2010 filing season, the IRS implemented the first phase of its MeF application for processing individual tax returns. While the IRS has had MeF platforms in place for years to process various types of business and exempt organization tax returns, this was its initial effort in tackling individual income tax returns. The MeF application implemented for the 2010 filing season was capable of handling the basic Form 1040 return, and over 20 of its more common forms and schedules, along with the Form 4868.

The IRS will continue this phased-in approach to Form 1040 MeF for 2011, continuing to accommodate only part of the individual return population. The IRS expects to have the complete Form 1040 MeF system in place to handle all individual tax returns by the 2012 filing

Table 3: Overview of CADE 2 Transition States

Transition states and target completion dates	Key characteristics of CADE 2 transition states
Transition State 1 January 2012	Dual Systems—Individual Master File (IMF) and CADE • daily batch processing of individual taxpayer returns provided by modifying the IMF to run on a daily, rather than weekly, basis • comprehensive database established for housing all individual taxpayer accounts and loaded with data from CADE and IMF • database provides timelier updates of taxpayer information for use by IRS employees for compliance and customer service
Transition State 2 January 2014	Single System—CADE • target technology developed and deployed (single processing system; IMF retired) • high-priority downstream service and compliance applications modified to take advantage of the new database • some key financial material weaknesses and applications addressed
Target State TBD	Single System—CADE • complete the transition of applications that use the target database so downstream systems fully leverage the database • address all financial and security material weaknesses identified at the inception of the program • eliminate transitional components that were required during the transition states

Source: GAO

season, at which point it can retire the old legacy e-file system. The MeF platforms for business, tax exempt, and individual returns are a key component of the ETA vision. The MeF applications are web-based systems that greatly facilitate e-file by using flexible, industry standard technology for identifying, storing and transmitting data.

The IRS also implemented more ETA applications in 2010 on its website, www.irs.gov, to better serve taxpayers. For example, the IRS successfully developed and deployed the Federal Student Aid Datashare application in January 2010. More than 260,000 taxpayers used this new Internet-based tool to automatically transfer their tax return information to their student aid application while completing the Free Application for Federal Student Aid (FAFSA) on the Department of Education web site.

In addition, the IRS implemented the Electronic Filing PIN Help application on its web site for the 2010 filing season. This application provides taxpayers with a personal identification number (PIN) to e-file in those instances when they cannot locate their prior year adjusted gross income or the prior year's PIN. Taxpayers need such a PIN to "sign" an individual tax return they intend to submit electronically.

Strategic Foundations: Developing a Highly Effective Workforce

In the past two years, the IRS has hired a number of new employees to replace the growing number of retirees and to increase its enforcement staff. It has successfully recruited highly qualified employees, aided in part by higher unemployment in the private sector. Retirement rates are expected to grow in the future, and the IRS will need to continue to recruit highly qualified new employees to replace retiring employees, as well as retain those employees it has hired and trained in the last several years. A number of external factors, including improving economic conditions and the federal two-year pay freeze, will make both of these objectives more difficult.

The FY2009 Workforce of Tomorrow task force redesigned the IRS hiring process to make it more efficient and responsive to both candidates and managers, and to improve the quality and fit of new hires for all positions. The IRS met all hiring reform initiative requirements during FY2010, and both the Office of Personnel Management (OPM) and the Office of Management and Budget (OMB) recognized the IRS Hiring Action Plan as a best practice for other federal agencies. The IRS continues to implement the remaining initiatives and recommendations from the task force.

The task force also benchmarked IRS employee engagement results against other federal agencies in the OPM Employee Viewpoint Survey (EVS). The Board has approved a long-term strategic goal for the IRS to be one of the best places to work in government, and will evaluate the IRS' success in achieving this goal by comparing its employee engagement score, as measured by the OPM EVS, to other federal agencies. Successful achievement of the goal requires the IRS to be in the top quartile among the 14 largest federal agencies by 2012, based on that employee engagement index score.

The Board believes that it is imperative that the IRS workforce be among the most highly engaged of all large federal agencies for several reasons:

1. The agency is vital to the nation's economic security.
2. More Americans interact with the IRS than virtually any other federal agency, and the performance of the IRS' employees will have a direct bearing on whether taxpayers' transactions with the IRS are satisfactory.
3. Studies have demonstrated that highly engaged employees are the most productive, and increased productivity will be asked of all federal agencies.
4. More productive employees will also lower taxpayer burden through improved timeliness, which studies have shown is a key factor in taxpayer satisfaction with IRS transactions.

Specific findings by a major IRS operating division indicate that there is a significant benefit associated with high employee engagement, all indicating a high degree of efficiency and productivity. Also, attrition by resignation for highly satisfied new employees is significantly lower than for the overall division population.

The Workforce of Tomorrow task force also recommended making the role of a manager more attractive and enhancing leadership development at all levels of the agency to ensure the best leaders are identified, developed and positioned to contribute to their own success and the success of the organization. Effective first line management is a critical factor in developing a highly engaged workforce.

The Board is concerned with two issues that relate to developing effective front line managers. First, some highly qualified technical employees are reluctant to move into management. Second, although qualified employees may be highly skilled in their chosen technical area, they often lack the skills needed to be effective managers and to develop and engage the employees they supervise.

In discussions with IRS employees, the Board heard that employees strongly believe a first-line manager can make the difference between a new employee leaving or staying for a career at the IRS. Employees recommended to Board members that because of the critical role of the first-line manager in selecting and mentoring new hires, the IRS should carefully select the managers and provide better training for managers on how to nurture and mentor new employees. First-line managers also face job challenges such as pay compression, administrative burden, lack of adequate training, and competing priorities.

At the request of the Board, a TIGTA report looked at the impact of the IRS' Frontline Leader Readiness Program (FLRP) on succession planning and found that the IRS was not able to determine whether the program produces a pool of qualified candidates ready for promotion to the manager ranks.[15] TIGTA made several recommendations to improve the program, and the IRS agreed with the findings. If the IRS assessed the promotion potential of FLRP graduates and measured the impact of the program, it could better determine bench strength at the frontline manger position and enable the IRS to make informed decisions to fill leadership vacancies in a timely manner with qualified leaders.

Increasing Risks in Tax Administration

As part of its statutory responsibility to oversee the IRS, the Board maintains an steady interest in the discipline of Enterprise Risk Management (ERM), which is widely recognized by private and public sector organizations as a necessary discipline for coping with the vicissitudes of an increasingly uncertain world. The scope of risks that organizations must deal with include man-made risks such as acts of terror, natural risks such as severe weather, health risks such as pandemics, changes in economic conditions, and information risks such as cyber crimes and identity theft.

[15] Treasury Inspector General for Tax Administraton Report 2011-10-015, *The Impact of the Frontline Leader Readiness Program in Succession Planning Should be Determined*, March 15, 2011.

Constant vigilance is required to identify and mitigate risks from a multitude of sources. The explosion of cyber attacks, the growth of identity theft, H1N1 flu and other pandemic threats, and violence against IRS workforce and facilities are only a few of the threats that could disrupt the people and tools that the IRS relies on to perform its tax administration responsibilities. Therefore, the Board has urged the IRS, and other members of the tax administration community, to continually assess the environment for all potential threats and take steps to mitigate risk to the fullest extent possible.

The Board notes that TIGTA, in identifying the top management and performance challenges facing the IRS for FY2011, elevated security to its top priority. This action was taken in light of both external threats to data and employees, as well as internal computer security issues. However, the Board views ERM as responding to other systemic risks that go beyond physical and information security, that might also adversely impact the performance of the tax administration system.

The tax administration system makes a critical contribution to the country's economic well-being, and the Board believes there is often an under-appreciation of the importance of that contribution. Any breakdown of the tax administration system, for whatever reason, could easily have adverse national repercussions.

Other Tax Administration Challenges

In addition to the two weaknesses of the tax administration system already discussed (the tax gap and IT modernization), the Board sees other challenges that need attention, including the following:

- Becoming more effective with less resources
- Implementing tax provisions of the Patient Protection and Affordable Care Act
- Simplifying an expanding tax code

Becoming More Effective With Less Resources

All federal agencies are under increasing pressure to do more with less resources, and the IRS is no exception. The Board believes that in addition to using modern IT tools and developing a highly-engaged workforce, the IRS must also develop improved business processes. All three elements, in the Board's view, must be in place to make major improvements in efficiency.

As part of its oversight responsibilities, the Board has taken for many years a strong interest in promoting the implementation of business improvement projects throughout the IRS, and the IRS has successfully implemented a number of such projects. As discussed previously, the IRS is evaluating several opportunities that focus on the analysis of new information the IRS is obtaining, such as information reports on merchant payment card receipts, the paid return preparer database, and the voluntary disclosures made by taxpayers with offshore assets.

However, the Board believes there are additional business process improvement opportunities to make the IRS both more efficient and ultimately reduce taxpayer burden. Two such opportunities may lie in the areas of Alternative Dispute Resolution (ADR) and Advanced Pricing Agreements (APA). The IRS has been offering a variety of ADR programs in recent years, such as Fast Track Settlement and Fast Track Mediation, but the take-up rate remains relatively low. Re-examining the various ADR programs with an eye to making them more attractive to taxpayers could result in savings in both IRS and taxpayer resources. Likewise, APA programs offer the promise of establishing agreements between the IRS and taxpayers during the pre-filing process, but business taxpayers frequently complain that the APA process could be more timely. A re-examination of the APA process to make it more responsive to taxpayers' needs offers possible savings in IRS and taxpayer resources.

Implementing Health Care

With the enactment of the Patient Protection and Affordable Care Act, P.L. 111-148 (also known as the ACA), on March 23, 2010, the IRS has been tasked with a wide range of new responsibilities, including:

- Administering new tax credits for individuals and businesses;
- Collecting a new excise tax on tanning services and a new fee on certain businesses engaged in the manufacturing and importing of prescription drugs;
- Implementing expanded exemption requirements on charitable hospitals; and
- Gathering, processing, and sharing additional information reports.

The IRS responsibilities are phased in over the next several years, and it has started to implement some of these new responsibilities, which include the following actions in FY2010:

- Issuing guidance to small business and tax-exempt organizations on how to qualify for a special tax credit for providing health insurance to their employees
- Issuing regulations on the administration of a 10 percent excise tax on indoor tanning services
- Accepting applications from small businesses for Therapeutic Discovery Projects

The IRS must also make plans to implement its future responsibilities under the new law. The Board estimates that implementation of the ACA will require funding of $473 million and a staff increase of 1,269 full-time equivalents (FTEs) in FY2012.[16] Of the total dollar funding recommended, nearly 83 percent is for IRS staff, contractors, hardware, and software needed to build new IT systems and to modify existing tax processing systems to accommodate the new ACA provisions. The

[16] IRS Oversight Board, *IRS FY2012 Budget Recommendation Special Report,* March 2011.

Board believes the IRS needs these resources in FY2012 to adequately administer the new mission requirements contained in ACA provisions and provide the necessary assistance, enforcement presence, and supporting systems infrastructure to carry out these legal requirements in an effective manner.

The Board believes that implementing the requirements of the ACA represents a significant expansion of the IRS' responsibilities. The IRS has demonstrated in the last decade that it can take on new responsibilities and perform them well, but the risks associated with implementing the requirements of the ACA increase if the IRS does not receive the resources it needs. With IRS resources already stretched thin to administer an increasingly complex tax code, the Board believes proper funding of the IRS is essential for responsible tax administration.

Simplifying an Expanding Tax Code

Many members of the tax administration community, including the Oversight Board, stakeholders, and the IRS, have observed a trend in the last several years to use the tax code to deliver economic benefits to taxpayers. These include efforts to deliver economic relief, to stimulate the automotive or housing market, to provide health insurance assistance to unemployed taxpayers, and to broadly stimulate the economy. With the recent passage of health care legislation, more responsibilities are being placed on the IRS.

Appendix 1 illustrates not only the number of changes that have occurred since 2007, but various implementation issues that have challenged the IRS and demanded the application of resources to ensure the smooth implementation of the new tax provisions. The Board has used the data in Appendix 1 to illustrate some of the specific issues the IRS has faced during the recent filing season.

Appendix 1, viewed in its entirety, also demonstrates the broad scope and complexity of changes in the tax code that have accumulated since 2007 alone. The overall trend has been to make the IRS much more of a program administrator than it was prior to 2007. The implementation of the tax provisions contained in the ACA will add additional program administration responsibilities to the IRS.

The Board's enabling legislation dictates that it has no role in establishing tax policy. However, public policy has gradually been evolving to use the IRS as a program administrator in addition to its tax administration responsibilities. The Board offers two observations on this trend:

- It is imperative that IRS resources keep pace with the growth of any new responsibilities for program management that the IRS is assigned. Failure to do so increases the risk that the IRS will not be able to perform its essential tax administration responsibilities.

- The need for the IRS to modernize its IT systems becomes even greater if it is to effectively manage additional administrative responsibilities.

The Board also notes that three major tax reform reports from Presidentially-appointed study groups have been delivered since 2005. Each panel had some searing comments on tax law complexity:

> *The complexity of our tax code breeds a perception of unfairness and creates opportunities for manipulation of the rules to reduce tax. The profound lack of transparency means that individuals and businesses cannot easily understand their own tax obligations or be confident that others are paying their fair share.*
>
> *Report of the President's Advisory Panel on Federal Tax Reform, November 2005*

> *The tax code is complex. This complexity imposes significant costs on affected taxpayers and is reflected in the amount of time and money that people spend each year to prepare and file their taxes. Taxpayers and businesses spend 7.6 billion hours and incur significant out-of-pocket expenses each year complying with federal income tax filing requirements. In monetary terms, these costs are roughly equivalent to at least one percent of GDP annually (or about $140 billion in 2008). These costs are more than 12 times the IRS budget and amount to about 10 cents per dollar of income tax receipts.*
>
> *Report of the President's Economic Recovery Advisory Board: Simplification, Compliance, and Corporate Taxation, August 27, 2010*

> *The tax code is rife with inefficiencies, loopholes, incentives, tax earmarks, and baffling complexity. We need to lower tax rates, broaden the base, simplify the tax code, and bring down the deficit. We need to reform the corporate tax system to make America the best place to start and grow a business and create jobs.*
>
> *The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform, December 2010*

These three reports all reached the same inescapable conclusion—there is a compelling case for simplifying the tax code. The trend toward growing complexity needs to be reversed.

IV. Measuring Strategic Goals

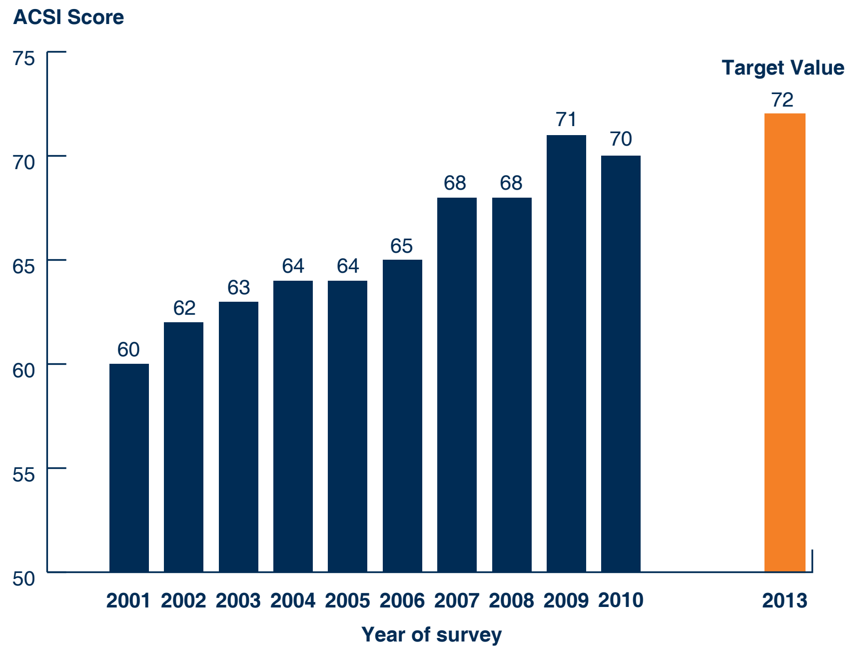
The IRS Oversight Board recognizes the importance of setting strategic goals for the IRS and establishing measures to monitor progress in attaining the goals. Strategic goals and measures are the primary methods that enable the Board and the public to gauge the success of the IRS over the long term.

At the Oversight Board's recommendation, the IRS identified, and the Board approved, long-term measures that can be used to evaluate progress in achieving the goals established by the *IRS Strategic Plan 2009-2013*:

- to improve service to make voluntary compliance easier;
- to enforce the law to ensure everyone meets their obligations to pay taxes; and
- to invest for high performance.

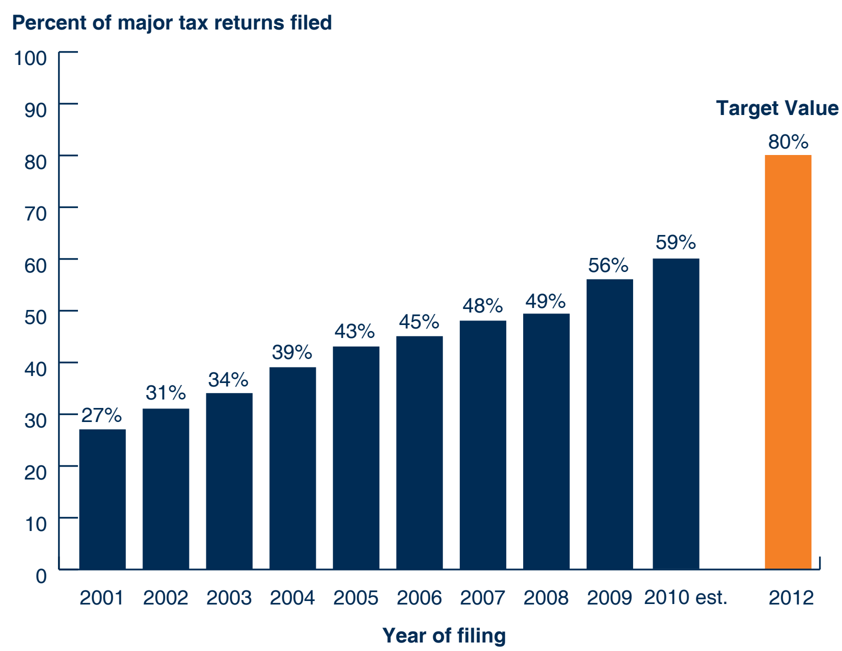
American Customer Satisfaction Index Score for Individual Tax Filers

The American Customer Satisfaction Index (ACSI) is a national indicator of customer satisfaction with the quality of products and services available to household consumers in the United States. Each December, the ACSI issues a report on satisfaction of recipients of services from the federal government. Agency participation is voluntary, linking customer expectations and perceptions of quality and value to satisfaction. In 1999, the federal government selected the ACSI to be a standard metric for measuring citizen satisfaction. The ACSI customer satisfaction score for individual income tax filers is measured on a 0 - 100 scale and assesses taxpayer satisfaction with the return filing processes. The target value is for the IRS ACSI score to reach 72 by the year 2013.



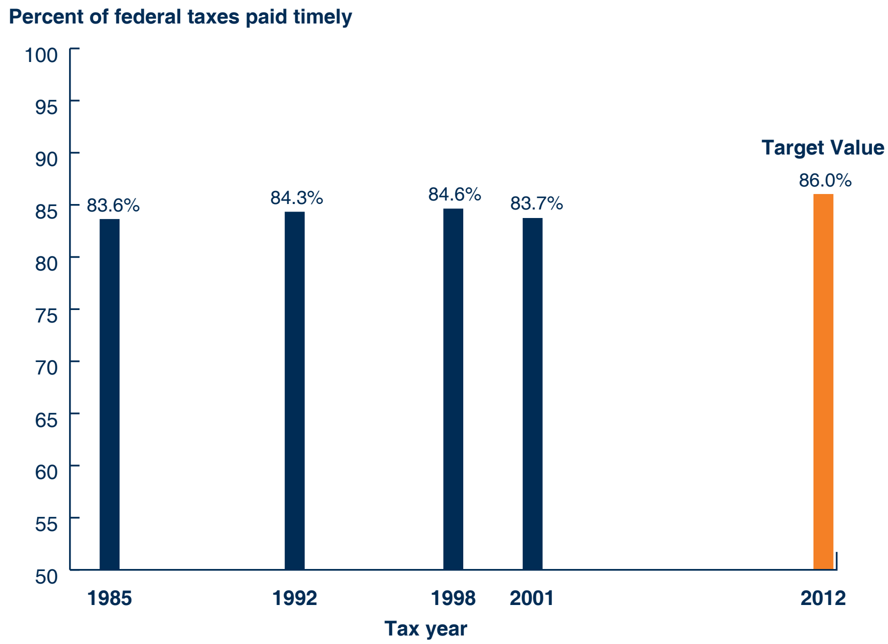
e-File Rate: All Major Tax Returns

Although the IRS has tracked the rate of electronic filing for individual tax returns since its inception in 1987, this long-term measure is somewhat broader and gauges the percentage of all major tax returns filed electronically by individuals, businesses, and tax exempt entities. Major tax returns are those in which filers account for income, expenses, and/or tax liabilities. The target value is for 80 percent of all major tax returns by individuals, businesses, and tax exempt entities be filed electronically by 2012.



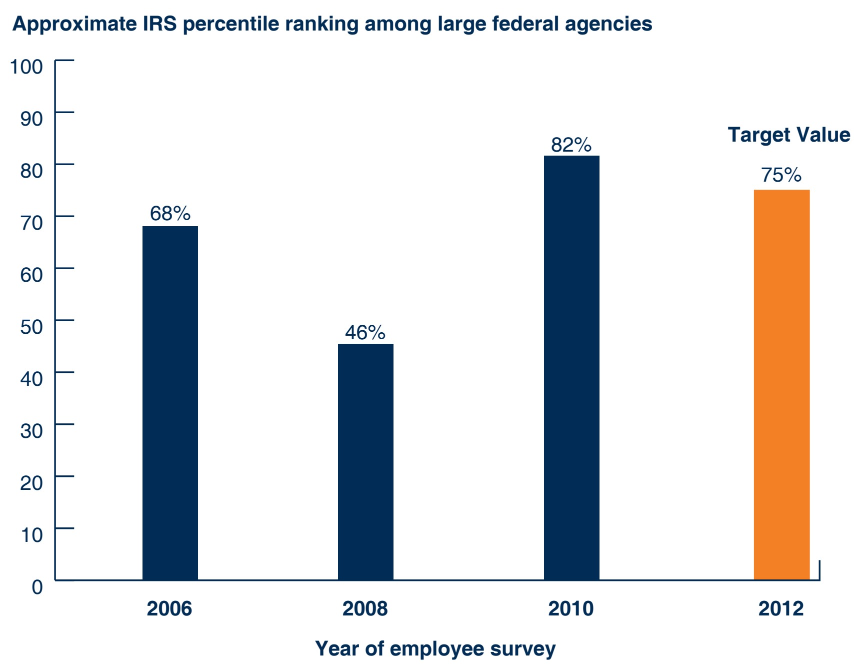
Voluntary Compliance Rate

The Voluntary Compliance Rate (VCR) is an estimate of the amount of tax for a given year that is paid voluntarily and timely. It is expressed as a percentage of the estimate of true tax liability for that year, reflecting the impact of non-filing, underreporting, and underpayment combined. The most recent VCR is based primarily on the IRS National Research Program evaluation of 2001 individual income tax returns and extrapolation of earlier estimates attributed to other taxpayer segments. The target value is to reach a VCR of 86 percent by tax year 2012.



Employee Engagement Index

The US Office of Personnel Management conducts an annual employee survey to obtain feedback on a wide range of workplace issues. Using 11 questions from that survey, the IRS has developed an index that measures employee engagement and is using the index to compare itself to other large Federal agencies with 20,000 or more civilian employees. The target value is for the IRS to remain in the top quartile among the 14 large federal agencies by 2012 based on that employee engagement index.



Service Interaction Score

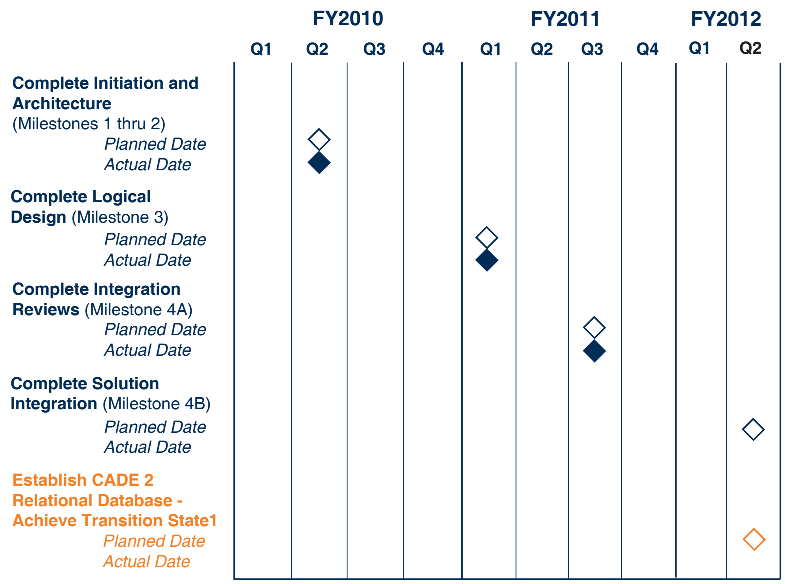
The service interaction score attempts to measure taxpayer satisfaction with the services that they received in-person at IRS offices as well as through toll-free telephone service. It captures more than 90 percent of service program interactions with taxpayers through these channels. The IRS target value is to retain a score of at least 90 percent through 2012.

Enforcement Interaction Score

The enforcement interaction score attempts to measure the extent to which taxpayers contacted as part of the IRS compliance efforts, such as its examination and collection programs, feel that the process was satisfactory. It attempts to measure taxpayer interactions independent of the ultimate outcome of the enforcement activity, although it is likely that the final outcome of an IRS compliance contact impacts the rating some taxpayers provide under this interaction score. The score captures more than 90 percent of enforcement program interactions with taxpayers. The IRS target value is to attain a score of at least 70 percent by 2012.

Modernization - Delivery of Customer Account Data Engine 2

The Customer Account Data Engine (CADE) program is a key component of the IRS' information technology Business Systems Modernization (BSM) efforts and is intended to eventually replace the antiquated Individual Master File processing system, which is the central tax accounting system for all individual taxpayers. In fiscal year (FY) 2009, the IRS restructured the CADE program, designating it CADE 2, and articulated as a target milestone establishing a modern relational database for its central tax accounting system by the 2012 filing season. This relational database would be part of a greatly enhanced computing environment, described by the IRS as "Transition State 1," that would also provide daily updating of taxpayer accounts, in contrast to current master file processing capabilities that only accommodate weekly updating.



V. Conclusion

The IRS was faced with a number of challenges during FY2010 and has generally met its performance goals with a few exceptions caused by the demands of administering new tax law provisions. Nonetheless, the Board does have concerns that IRS resources are stretched thin.

Despite good performance in response to its annual operational goals, the IRS Oversight Board believes the tax administration system continues to face two serious systemic weaknesses that need attention: the tax gap and the archaic nature of the IRS information technology systems. Although the IRS has been active in implementing programs to mitigate these weaknesses, more needs to be done.

The IRS expects to reach a major milestone in its modernization program in January 2012 that will establish a foundation for future productivity growth: implementation of a modern relational database and the capability to process individual tax accounts on a daily basis. Although achievement of this capability in January 2012 is not the end of the IRS' modernization needs, it will establish a necessary IT foundation for further improvements.

Efforts to reduce the tax gap will come more slowly and will be difficult to measure. Changes the IRS has implemented to regulate paid tax preparers, shift emphasis to prevention of non-compliance, promote additional transparency, and identify offshore assets previously hidden from the IRS' view, are all expected to make positive contributions to tax administration. However, measuring the effect of these changes on tax compliancy remains a substantial challenge. Failure to understand the benefits and costs associated with these programs make it more difficult to manage them effectively and make appropriate resource allocation decisions.

The IRS Oversight Board will continue to evaluate the IRS' performance to determine whether these actions lead to improved tax administration outcomes in the future. A key element of the Board's oversight will be to use measures to assess how changes in tax administration deliver measureable benefits to taxpayers.

Appendices

1: Selected Major Legislative and Administrative Provisions That Created Significant Challenges

2: IRS FY2010 Performance Review

3: Summary of Stakeholder Comments

4: Biographies of Private Life Members

5: FY2010 IRS Oversight Board Operations

2007 Filing Season	
Legislation/Provision & Impact(s) on Filing Season	*Some Related GAO/TIGTA Audit Findings*
Tax Relief and Health Care Act of 2006 • Legislation extended certain existing tax deductions such as those relating to deductions for state and local sales taxes. • This late-passed legislation forced approximately one million taxpayers to delay their return filing and any associated refund claim for about 3 weeks while IRS finalized its system programs and testing. • Required taxpayers to make, and IRS to process, unique annotations on paper tax returns to claim certain deductions.	• IRS improved most filing season services during 2007: electronic filing grew and several IRS web site measures improved such as customer satisfaction; meanwhile, access to IRS telephone assistance and the associated IRS response accuracy were comparable to the prior year (GAO-08-38). • Overall, IRS correctly implemented the key tax law and administrative changes with no significant delays in returns processing during the 2007 filing season (TIGTA Report: 2007-40-187). • IRS provided taxpayers with effective access to telephone service; however, the quality and level of service for Spanish applications were lower than those in English (TIGTA Report: 2007-40-160). • There were some areas in which taxpayers did not take full advantage of the benefits the tax law and administrative changes provided (TIGTA Report: 2007-40-187).
Telephone Excise Tax Refund (TETR) • Allowed for a one-time refund on income tax returns applicable to all who paid telephone excise tax, regardless of obligation to file a tax return.	• IRS received fewer TETR requests from individuals than expected; early data showed minimal impact on returns processing and taxpayer service (GAO-07-695). • With some exceptions, IRS successfully planned and implemented the TETR program for individuals and businesses; this includes revising forms, developing strategies to educate taxpayers, and developing methods for taxpayers to estimate their TETR claim without burden of obtaining years of telephone bills (TIGTA Reports: 2007-30-178 and 2008-30-091). • Despite IRS efforts, much of the over-collected tax went unclaimed and un-refunded (TIGTA Reports 2007-30-178 and 2008-30-091). • IRS did not scrutinize many questionable TETR claims by individuals because of competing priorities to examine other issues on returns (TIGTA Report: 2007-30-178). • IRS effort to identify overstated TETR claims by businesses were ambitious; however, minimum selection criteria for some businesses were inconsistently applied (TIGTA Report: 2008-30-091). • A TIGTA survey indicated that 27 percent of preparers who did not compute the TETR claim for their business clients due to cost involved were not aware that IRS had offered a simplified method to estimate the refund (TIGTA Report: 2008-30-175).

Selected Major Legislative and Administrative Provisions That Created Significant Challenges for the IRS During the 2007 through 2010 Filing

2008 Filing Season	
Legislation/Provision & Impact(s) on Filing Season	*Some Related GAO/TIGTA Audit Findings*
Tax Increase Prevention Act of 2007 • Legislation extended Alternative Minimum Tax (AMT) "patch" and certain AMT credit offsets. • This late-passed legislation forced approximately 3 to 4 million taxpayers to delay their return filing and any associated refund claim for about 4 weeks, while IRS finalized its system programs and testing.	• Overall, the IRS correctly implemented the tax law changes enacted late in the year with no significant delays in the processing of tax returns (TIGTA Report: 2008-40-183). • IRS did not achieve its toll-free assistance and level of service performance goals because of the high volume of calls regarding the economic stimulus payments (TIGTA Report: 2008-40-168).
Mortgage Forgiveness Debt Relief Act of 2007 • Allowed taxpayer to generally exclude from income forgiven mortgage debt used to buy or improve principal residence.	• The amount of forgiven mortgage debt excluded from income could be significant (GAO-10-997). • IRS faced several compliance challenges in administering this complicated tax provision, including limited information on current IRS forms, and return on investment considerations on whether to devote limited IRS enforcement resources to enforce this provision (GAO-10-997).
Economic Stimulus Act of 2008 • Mandated that IRS send stimulus payments to over 100 million households based on who filed a tax year 2007 during the 2008 filing season. • Congressional passage occurred approximate 3 weeks after the start of the 2008 filing season.	• As of June 13, 2008, IRS had generated 129 million economic stimulus payments, totaling more than $89 billion with an accuracy rate of 99.6 percent (TIGTA Report: 2008-40-174). • The first stimulus payments were issued via direct deposit on April 28, 2008 (TIGTA Report: 2009-40-069). • IRS made significant efforts to ensure eligible taxpayers received their stimulus payment such as sending advance information notices to more than 130 million taxpayers who filed a tax year 2006 return, initiating outreach efforts to retired individuals and veterans who normally have no need to file a tax return, and initiating outreach efforts to individuals whose stimulus payments were returned as undeliverable (TIGTA Reports: 2009-40-069 and 2008-40-100). • Demand for telephone assistance related to the economic stimulus legislation was unprecedented and led to a significant reduction in IRS telephone service (GAO-08-916T). • IRS decision to reallocate hundreds of IRS collections staff to help address large telephone call demand resulting from economic stimulus legislation resulted in up to $565 million in foregone enforcement revenue (GAO-08-916T). • TIGTA identified $1.2 million in false stimulus payments that were issued by the IRS in 2008 and another $138 million that could be potentially released erroneously in 2009 unless the IRS made improvements in its fraud referral process (TIGTA Report: 2009-10-049).

2009 Filing Season	
Legislation/Provision & Impact(s) on Filing Season	*Some Related GAO/TIGTA Audit Findings*
Economic Stimulus Act of 2008 • Allowed taxpayers who did not receive the full stimulus payment during the 2008 filing season to receive the unpaid portion on their tax year 2008 return as a Recovery Rebate Credit during the 2009 filing season.	• Overall, the IRS successfully planned the implementation of the Recovery Rebate Credit and issued approximately $8.5 billion in credits to approximately 21 million taxpayers (TIGTA Report: 2009-40-129). • Taxpayers had difficulty determining whether they qualified for this credit and early in the filing season the IRS had already identified over 5 million tax returns with Recovery Rebate Credit errors (TIGTA Report 2009-40-058). • TIGTA found the IRS calculation errors in less than one percent of the cases but also identified a programming error, which the IRS took immediate action to correct, that could have potentially allowed almost 6 million taxpayers to erroneously claim nearly $1.6 billion in credits (TIGTA Report: 2009-40-129). • Legislation did not provide the IRS with math error authority to prevent individuals without valid SSNs from receiving the credit at the time the returns were processed, and as a result the IRS provided more than $27 million in credits to taxpayers without a valid SSN (TIGTA Report: 2009-40-129).
Housing and Economic Recovery Act of 2008 • Provided taxpayers a First Time Homebuyer (FTHB) credit of up to $7,500 on purchase of home, but required them to repay the credit over 15 years starting in 2011 filing season. • While the FTHB credit was initially contained in the Housing and Economic Recovery Act of 2008, it was subsequently expanded, and the repayment provision eliminated in most instances, under the American Recovery and Reinvestment Act of 2009.	• The IRS met many of its processing goals during the 2009 filing season, but telephone access remained low, due in part to calls about tax law changes; despite the heavy call volume, IRS accuracy remained above 90 percent (GAO-10-225). • The IRS had a successful 2009 filing season despite the unique challenges it faced (TIGTA Report 2009-40-142). • The varied FTHB credit provisions within the Housing and Economic Recovery Act versus the American Recovery and Reinvestment Act may have confused taxpayers and also presented the IRS with significant challenges to ensure the credit was used correctly as authorized (TIGTA Report 2010-41-069). • Nearly one million taxpayers will be required to repay the FTHB credit because their homes were purchased in 2008; however, a TIGTA analysis found that IRS had incorrectly recorded the purchase date on 4 percent of FTHB claims (TIGTA Report 2010-41-086).
American Recovery and Reinvestment Act of 2009 (Recovery Act) • Congressional passage occurred approximately four weeks after start of the 2009 filing season. • Provided taxpayers a revised credit of up to $8,000 on purchase of home with need to repay only if home is resold or ceases to be primary residence within 3 years. • Allowed small businesses to apply certain 2008 net operating losses (NOLs) against tax liabilities from the previous 5 years. • Provided federal subsidies for state and local bonds, including Build America Bonds, through certain credit provisions.	• The 2009 filing season provided challenges for the IRS due to the two significant tax laws that provided a new FTHB credit, and a massive bailout and tax relief package, which entailed 116 different tax provisions (TIGTA Report: 2009-40-058). • The Recovery Act posed significant implementation challenges for the IRS because it had over 50 provisions, many of which were immediate or retroactive and had to be implemented during the 2009 filing season (GAO-10-349). • The IRS responded quickly to the implementation challenges of the Recovery Act; however, that quick response entailed tradeoffs, such as not making some computer changes to collect data (GAO-10-349). • Nearly 50,000 taxpayers may not have claimed the full amount of the FTHB credit to which they were entitled; IRS agreed to contact the applicable taxpayers to inform them (TIGTA Report: 2009-41-144). • Despite the fact that the Recovery Act was enacted during the filing season, the IRS issued timely and clear guidance that helped foster compliance with the new NOL provisions; by the end of 2009, IRS processed approximately 44,000 NOL claims totaling more than $3 billion (TIGTA Report: 2010-41-070). • The initial guidance on bonds published by the IRS was quick, complete, accurate, and consistent with the requirements of the Recovery Act (TIGTA Report: 2010-11-035). • Generally, all complete requests for payment of Build America Bonds (BAB) federal subsidies were processed accurately and timely by the IRS, and without indications of fraudulent or erroneous disbursements; as of September 2009, state and local governments received almost $26.4 billion in funding through 315 BAB issuances (TIGTA Report: 2010-11-083).

Selected Major Legislative and Administrative Provisions That Created Significant Challenges for the IRS During the 2007 through 2010 Filing

2010 Filing Season	
Legislation/Provision & Impact(s) on Filing Season	*Some Related GAO/TIGTA Audit Findings*
American Recovery and Reinvestment Act of 2009 (Recovery Act) • Provided a Making Work Pay (MWP) credit to working individuals. • Increased allowable credit amount for homeowners who make certain energy efficiency improvements.	• The IRS dealt with a number of challenges during the 2010 filing season, including significant tax law changes such as the MWP credit (GAO-11-111). • The IRS balanced its resources across filing season activities with improvements in some areas but fluctuations in others: electronic filing and IRS web site visits increased, level of service to callers seeking live IRS assistance improved compared to 2009, and the accuracy of answers remained high; however, average wait time for telephone service increased compared to 2009, and millions of taxpayer refunds were delayed primarily because of the time needed to correct taxpayer errors associated with the MWP credit (GAO-11-111). • The IRS implemented the MWP credit in accordance with the intent of Congress by advancing it to taxpayers through a decrease in federal income tax withholding rates (TIGTA Report: 2011-41-002). • The IRS initiated a significant outreach program to inform taxpayers about the change in withholding associated with the MWP credit and its potential to leave certain taxpayers under-withheld and owing taxes at the time they are due (TIGTA Report: 2011-41-002). • Despite IRS outreach actions, over 13 million taxpayers were or will be negatively affected by the MWP credit withholding rate changes, including over 1 million who may face an increase in their Estimated Tax Penalty amount (TIGTA Report: 2011-41-002). • A survey of taxpayers who appeared to be negatively impacted by the MWP credit withholding changes indicated that most were not aware of the credit or its effect on their taxes (TIGTA Report: 2011-41-002).
Worker, Homeownership, and Business Assistance Act of 2009 • Extended FTHB credit another five months (to April 30, 2010) and allowed a credit up to $6,500 for certain longtime homeowners purchasing new homes. • Provided IRS with "math error authority" to deny erroneous FTHB credit claims upfront during the IRS return processing phase. • Expanded and extended the net operating loss (NOL) carry back provisions for businesses.	• As of early 2010, the IRS still did not have the ability to identify individuals who received the FTHB credit but who would have some repayment requirements because the home ceased to be their main residence; the IRS was, however, developing a comprehensive strategy to address this issue (TIGTA Report: 2010-41-086). • In May 2009, the IRS implemented a number of controls to prevent inappropriate FTHB credits claims from being issued before the claims were processed; however, follow-up action by the IRS was still needed on fraudulent and questionable claims processed before the controls were implemented (TIGTA Report: 2010-41-069). • The IRS timely implementing procedures to identify and reject extended NOL claims inappropriately submitted by Troubled Asset Relief Program recipients, but was somewhat late in implementing controls to apply a limit on the amount of the loss carried back to the fifth year (TIGTA Report: 2010-41-070). • The IRS received millions of calls related to the MWP and the FTHB; approximately 9 percent of all calls received (GAO-11-111).

IRS Oversight Board Annual Report to Congress 2010 Appendix 2: IRS FY2010 Performance Report

Explanation

The following scorecards illustrate the IRS' FY2010 performance. Performance results for FY2008 and FY2009 and plans for FY2011 are included for comparison purposes.

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) includes IRS measures the IRS Oversight Board also monitors and historically includes in its *Annual Report to Congress*. These additional set of measures are also known as "IRS Standards of Performance." The IRS Oversight Board uses the "IRS Standards of Performance" to supplement the measures IRS tracks in its fiscal year budget. When combined, the complete set of scorecards are designed to create a more balanced view of the IRS' performance by providing a robust set of measures better suited to evaluate IRS' progress toward desired outcomes.

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 the IRS is conducting its internal operations should direct their attention to the operational measures of timeliness, workload, quality, and cost effectiveness measures. Those seeking to understand how IRS activities impact taxpayers should begin looking at the outcome measures identified in the scorecards. Each scorecard has also been enhanced with additional explanations about the importance of each measure from the taxpayer perspective.

These charts and definitions of each measure can be found at www.irsoversightboard.treas.gov.

Table A-1: FY2010 IRS Budget Level Performance Measures

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

Performance Measure	Desired Change	Status	FY08 Actual	FY09 Actual	FY10 Actual	FY10 Plan	FY11 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 taxpayers who file for Earned Income Tax Credit (EITC)	⇧	TBD	*	NA	NA	75%-80%	75%-80%	Many taxpayers who are eligible for EITC do not file for it.
Taxpayer self assistance rate	⇧	GREEN	66.8%	69.3%	64.4%	61.3%	68.7%	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)	⇧	GREEN	91.2%	92.9%	92.7%	91.2%	92.7%	Taxpayers should receive accurate information when asking questions about tax law.
Customer accuracy: accounts (phones)	⇧	GREEN	93.7%	94.9%	95.7%	93.7%	95.0%	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 individual filing season tax products to the public	⇧	GREEN	92.4%	96.8%	95.3%	94.0%	94.0%	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	⇧	GREEN	89.5%	95.2%	97.7%	90.0%	91.0%	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)	⇩	YELLOW	94.0	91.3	124	Baseline[1]	124	Taxpayers should expect their benefits to be delivered in a timely manner without excessive delay.
Refund timeliness: individual (paper)	⇧	YELLOW	99.1%	99.2%	96.1	98.4%	97.0%	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	⇧	YELLOW	57.6%	65.9%	69.3%	70.2%	74.0%	Filing electronically provides taxpayers with faster refunds and fewer errors.
Percent of business returns e-filed	⇧	GREEN	19.4%	22.8%	25.5%	24.3%	27.0%	Filing electronically provides businesses with faster refunds and fewer errors.
Customer service representative level of service	⇧	GREEN	52.8%	70.0%	74.0%	71.0%	71.0%	Higher levels of service mean that more taxpayers who call for assistance are getting the help they need.
Customer contacts resolved per staff year	⇧	GREEN	12,634	12,918	10,744	9,398	12,074	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)	⇩	GREEN	$16.94	$13.79	$9.52	Baseline[1]	$10.00	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 NA: Not applicable [1]: An increase in participation is expected due to the Recovery Act. The IRS will establish a new baseline by the end of FY2010.

Table A-2: FY2010 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	FY08 Actual	FY09 Actual	FY10 Actual	FY10 Plan	FY11 Plan	Why is this important to taxpayers?
Goal 2: Enforce the Law to 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 score	⇧	YELLOW	86.0%	85.1%	84.9%	86.3%	86.7%	Taxpayers should expect a high quality exam.
Office exam national quality review score	⇧	GREEN	90.0%	92.1%	91.6%	90.9%	90.4%	Taxpayers should expect a high quality exam.
Examination quality - industry	⇧	YELLOW	88.0%	88.0%	87.0%	89.0%	89.0%	Business taxpayers should expect a high quality exam.
Examination quality - coordinated industry	⇧	YELLOW	97.0%	95.0%	95.0%	96.0%	96.0%	Business taxpayers should expect a high quality exam.
Field collection national quality review score	⇧	YELLOW	79.0%	80.5%	80.6%	81.0%	81.0%	Taxpayers benefit when the IRS meets certain quality standards, such as fairness and consistency, when collecting taxes.
Automated collection system (ACS) accuracy	⇧	GREEN	95.3%	94.3%	95.9%	92.5%	94.0%	Taxpayers benefit when the IRS meets certain quality standards, such as fairness and consistency, when collecting taxes.
Conviction rate	⇧	YELLOW	92.3%	87.2%	90.2%	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	⇧	GREEN	1.0%	1.0%	1.1%	1.1%	1.1%	Higher levels of productivity save both taxpayers and the IRS valuable time and money.
Examination coverage - business	⇧	GREEN	6.1%	5.6%	5.7%	5.1%	5.3%	" "
Examination efficiency - individual	⇧	GREEN	138	138	140	132	134	" "
Automated Underreporter (AUR) efficiency	⇧	GREEN	1,982	1,905	1,924	1,868	1,980	" "
Automated Underreporter (AUR) coverage	⇧	GREEN	2.55%	2.6%	3.0%	3.0%	3.3%	" "
Collection coverage - units	⇧	YELLOW	55.2%	54.2%	50.1%	50.5%	49.1%	" "
Collection efficiency - units	⇧	YELLOW	1,926	1,845	1,822	1,898	1,824	" "
Criminal investigations completed	⇧	GREEN	4,044	3,848	4,325	3,900	3.900	" "
Number of convictions	⇧	GREEN	2,144	2,105	2,184	2,135	2,135	" "
Tax Exempt/Government Entities determination case closures	⇧	RED	100,050	96,246	105,247	140,465	97,151	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 ($)	⇩	GREEN	$315,751	$327,328	$324,776	$331,000	$350.000	This represents the average costs associated with criminal IRS convictions.

Table A-3: FY2010 IRS Budget Level Performance Measures

Performance Measures for Strategic Foundations: Invest for High Performance

Performance Measure	Desired Change	Status	FY08 Actual	FY09 Actual	FY10 Actual	FY10 Plan	FY11 Plan	Why is this important to taxpayers?
Strategic Foundations: Invest for High Performance								
Earned Value Measures: 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	⇧	GREEN	92.0%	90.0%	100.0%	90.0%	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	⇧	SEE NOTE	92.0%	60.0%	40.0%	90.0%	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%
TBD: To be determined NA: Not applicable

Note: Percent of BSM Projects within +/- 10% Cost Variance: 2 out of 5 releases met the cost variance threshold. The cost of AMS Release 2.1 (Milestone 5) deployment was less than planned due to the required realignment of AMS project funds to support R1.3 software and infrastructure design activities, and the cost of CADE Release 5.2 (Milestone 4b) was less than planned because legislative and Filing Season changes were reduced in scope and complexity. The MeF Release 6.1 (Milestone 4a-5) required additional funding to support unplanned, required needs including Disaster Recovery activities, an automated interface to support external users, the development of a transactional national account profile and expanded software/hardware needs.

Table B-1: FY2010 IRS Budget Level Performance Measures

Standards of Performance for Strategic Goal 1:
Improve Taxpayer Service

Performance Measure	Desired Change	Status	FY08 Actual	FY09 Actual	FY10 Actual	FY10 Plan	FY11 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	⇧	GREEN	76.0%	67.0%	72.0%	70.0%	70.0%	Organizations applying for tax exempt status should experience high levels of satisfaction with the process.
Accounts management customer satisfaction (adjustments)	⇧	GREEN	65.0%	64.0%	65.0%	65.0%	63.0%	Taxpayers should experience high levels of satisfaction in their transactions with the IRS.
Practitioner toll-free customer satisfaction	⇧	GREEN	92.0%	94.0%	91.0%	91.0%	91.0%	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)	⇩	GREEN	626	526	650	698	698	Taxpayers should not have to wait long periods of time when seeking assistance by phone.
Primary abandoned call rate	⇩	GREEN	17.4%	15.8%	15.8%	NA	NA	A low incidence of abandoned calls indicates that taxpayers' expectations for service are being met.
Secondary abandoned call rate	⇩	YELLOW	20.0%	19.4%	20.9%	NA	NA	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.								
Correspondence Error Rate with systemic errors	⇩	GREEN	3.9%	5.3%	4.9%	5.3%	5.2%	IRS errors add to taxpayers' burdens.
Deposit Error Rate - combined	⇩	GREEN	1.0%	0.7%	0.5%	1.0%	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)	⇩	GREEN	112	116	108	139	141	Taxpayers' expectations for timely action are a primary driver of taxpayer satisfaction.
EP determination letters timeliness (days)	⇩	GREEN	368	303	212	215	375	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 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 IRS valuable time and money.								
AUR telephone level of service	⇧	GREEN	74.0%	80.4%	80.7%	80.0%	80.0%	A high level of service means that more taxpayers are being served.

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 NA: Not applicable

Table B-2:FY2010 IRS Budget Level Performance Measures

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

Performance Measure	Desired Change	Status	FY08 Actual	FY09 Actual	FY10 Actual	FY10 Plan	FY11 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)	⇧	GREEN	52.0%	54.0%	47.0%	45.0%	47.0%	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)	⇧	YELLOW	44.0%	51.0%	50.0%	51.0%	51.0%	“ ”
AUR CS (SB/SE)	⇧	GREEN	60.0%	59.0%	62.0%	62.0%	62.0%	“ ”
AUR CS (W&I)	⇧	GREEN	62.0%	63.0%	69.2%	64.0%	Baseline[1]	“ ”
Compliance Services Collection Operations (CSCO) CS (SB/SE)	⇧	GREEN	58.0%	54.0%	57.0%	54.0%	57.0%	“ ”
CSCO CS (W&I)	⇧	GREEN	69.8%	69.0%	70.3%	69.0%	70.0%	“ ”
Field Collection CS	⇧	GREEN	62.0%	65.0%	68.0%	65.0%	65.0%	“ ”
Field Exam CS	⇧	GREEN	64.0%	60.0%	60.0%	Baseline	Baseline[1]	“ ”
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)	⇩	GREEN	147	154	135	170	170	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)	⇩	GREEN	190	196	201	203	203	“ ”
SB/SE Correspondence Exam cycle time (EITC) (days)	⇩	RED	181	180	199	177	193	“ ”
SB/SE Correspondence Exam Cycle Time (non-EITC) (days)	⇩	GREEN	170	172	170	177	177	“ ”
CSCO days to close - business	⇩	RED	20.1	24.1	24	21	25	The collection process is less burdensome for taxpayers if it can be resolved expeditiously.
CSCO days to close - individual	⇩	GREEN	17.5	17.5	16.3	17	15	“ ”
Exam timeliness (CIC and industry combined) (months)	⇩	GREEN	32.1	30	27.7	29	29	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	⇧	GREEN	74.0%	82.9%	79.9%	77.0%	79.0%	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 NA: Not applicable
[1]New survey and revised methodology for FY2011.

Table B-3: FY2010 IRS Budget Level Performance Measures
Standards of Performance for Strategic Foundations: Invest for High Performance

Performance Measure	Desired Change	Status	FY08 Actual	FY09 Actual	FY10 Actual	FY10 Plan	FY11 Plan	Why is this important to the IRS?
Strategic Foundations: Invest for High Performance								
Customer Satisfaction Outcome Measures: Customer satisfaction measures can evaluate the value of the services provided to the IRS' internal customers (listed below) as well as external customers (taxpayers and practitioners referenced in the IRS' strategic goals).								
Internal customer satisfaction (MITS)	⇧	YELLOW	87.5%	88.0%	87.0%	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: The following behavioral measures evaluate outcomes associated with IRS' internal customers.								
Percentage of mission critical positions hires achieved (HCO)	⇧	GREEN	102%	100%	100.0%	100.0%	100.0%	Ability to staff mission critical functions directly relates to the IRS' ability to fulfill its mission.
Percentage of managers receiving leadership training timely (HCO)	⇧	GREEN	70%	77.0%	90.0%	80.0%	90.0%	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.								
FISMA Systems with Valid Authority to Operate (ATO)	⇧	GREEN	100%	98.0%	98.0%	90.0%	90.0%	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)	⇧	RED	80.0%	77.0%	74.6%	88.0%	90.0%	Computer outages that last longer than the 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)*	⇩	GREEN	-1.28%	0.56%	2.3%	2.5%	1.4%	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 NA: Not applicable

* The target is to limit the increases in rent expense to the rate of non-pay inflation in the President's Budget. The FY2009 and FY2010 targets are the rate of non-pay inflation, currently set at 2.5%.

IRS Oversight Board Annual Report to Congress 2010
Appendix 3: Summary of Stakeholder Comments

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 Oversight 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 2010, Board members and staff met with tax professionals and IRS employees at the six IRS Nationwide Tax Forums in Atlanta, Chicago, Orlando, New York, Las Vegas, and San Diego. In February 2010, the Board also conducted a public forum in Washington, DC, with discussions focusing on development of a high-performing IRS workforce, the tax gap attributable to small business, and corporate board governance of tax risk. The following is a summary of the central themes from stakeholder meetings this year.

Underlying Themes from the 2010 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 hiring, on-boarding, and enculturation of a high performing workforce.

Recruiting, hiring, and enculturation are an inter-connected chain of events.
Panelists discussed the recruiting, hiring, and on-boarding process as a chain of connected events with many players. Business units must understand that successful employees contribute to better performance of the unit, and that hiring, recruiting, managing, developing, and motivating the workforce is a shared responsibility, with employees, managers, and executives all involved.

For continuing involvement of employees, there must be a system or vehicles that encourage involvement, enculturation, and the sharing of values.
The discussion focused on the importance of creating a work environment where employees feel comfortable enough to provide honest feedback to management, and the use of a structure or system to provide a mechanism for doing that.

The most complex part of on-boarding is developing an environment where the new hires learn the culture of the workforce and the existing culture is sufficiently flexible to learn from new employees.
Panelists emphasized the importance of employee development and training as an extension of the recruiting and hiring process, to assimilate new hires into the culture of the organization. Setting up a structure or vehicle encourage the involvement of employees and the sharing of values is the first step in the enculturation process. Next steps include gathering information through communication and surveys, designing needed changes, and implementing the designs. All of these efforts make employees feel they are valued contributors to the success of the organization.

Expanded personnel flexibilities have a positive impact on recruiting, hiring, and retention.
Panelists discussed whether the IRS should be using more workplace flexibilities that private firms use to attract and keep applicants. They also agreed that individuals come into government because they want good leadership, meaningful work, and believe they are doing worthwhile service to their communities.

The second panel discussed enhanced approaches to dealing with the tax gap attributable to small business. Panelists discussed non-compliance in the small business community, both accidental and intentional, and how each should be addressed.

Increase the perception that there are consequences for small business non-compliance.
Increased enforcement would address intentional non-compliance, while other methods could be employed to address accidental, or unintentional, non-compliance. Suggestions included improving the quality and quantity of data received by state governments, and collaboration between states and the IRS with regard to data collection and data analysis that would reveal more instances of non-compliance. Better data gathering, analysis, and utilization, as well as better decision-making, would improve enforcement.

The largest burden that small businesses face is unfair competition from competitors who are not compliant with tax laws; businesses should instead look to the advantages of being compliant.
One panelist, a venture capitalist, said that entrepreneurs seeking venture capital must be compliant with all of their taxes, because the ultimate goal is to grow the company. Panelists viewed the rewards of developing a successful company and being an integrated part of the business community as greater than any perceived rewards from not complying with the tax laws.

Simplification and education would have an impact on the small business tax gap.
Panelists said that simplification of tax forms and an effort by the IRS to better educate new small businesses would have an impact on compliance for those businesses that want to comply but may not know exactly what they need to do. Panelists also suggested that IRS' proposed program to regulate tax preparers might be another way to deliver education: educate the preparers, and they in turn will educate their clients.

The third panel discussed corporate board governance of tax risk. The panelists' main themes encompassed best practice considerations and next steps going forward.

*There are benefits and risks to having corporate boards discuss the governance of tax risk***.**
The panelists agreed that as a result of the recent economic climate, corporate boards have focused more on defining their responsibilities and assessing risk management, as well as a heightened sensitivity about ethical compliance in public companies. In the international arena, there are many competing systems of financial standards, ethical standards, and tax law principles. Boards must be able to handle a high degree of technical complexity while working within the existing tax system.

The panelists discussed benefits to both companies and tax authorities, primarily through the reduced cost of compliance activity and better allocation of resources. Corporations benefit from certainty related to costs, and taxing authorities benefit from positive revenue streams. An added benefit is that trusted relationships have a positive influence on tax administration. Risks to both companies and taxing authorities include increased compliance costs and system risk that tax laws are not applied fairly across all taxpayers.

Emerging best practices point the way to corporate board management of tax risk through appropriate controls and processes.
Panelists discussed potential models for corporate governance for tax emerging internationally, and that most countries want to provide the fewest barriers to get investment, jobs and high technology in their country. One way to do that is to have a tax system where there is a mutually beneficial dialog between companies and the tax authority.

An approach to further engagement would include partnership, trust, transparency, certainty, and enhanced productivity
Panelists agreed that progress in the US will require the effort to establish a road map of best practices, with the ultimate goal being to establish a platform for an effective, competitive system.

Underlying Themes from the Meetings with Employees and Practitioners at the 2010 IRS Nationwide Tax Forums

Meetings With IRS Employees

Enculturation of New Employees
Employees discussed enculturation in the context of the large number of IRS new hires in the past year, and the opportunities that are available for new employees and for the IRS as both learn from each other. They said the challenge for the IRS is to assimilate new talent that creates high performing individuals and contributes to a high-performing organization.

Some new hires considered “enculturation” to be how they were received at their workplaces by their peers. Their perception is that some IRS offices welcome new employees more readily and are more helpful than others. There was no consensus among new employees that the IRS uses a systemic approach for enculturating new employees.

Some employees, new to the IRS from the private sector, described a steep learning curve regarding understanding taxes from the IRS perspective, acronyms, procedures, and computer systems. They appreciated the help of on-the-job instructors, who explained complex procedures and assisted them with communication skills.

Recruitment, Retention, and Training
Some new hires said the hiring process is still too long and complex; they said they waited months to hear about their applications, only to be notified they were hired and expected to report in two weeks. Such short notice made out-of-town relocations very stressful for some. A few new hires said it seemed to be easier and quicker to obtain federal employment through a recruiter. Many new hires said they found their jobs with the IRS through contact with a current employee who guided them to a particular vacancy announcement.

Most new hires expressed overall satisfaction with their training, but suggested more training on key systems they use frequently would be valuable. They also would like more training on IRS' organizational structure and information resources. They thought some of the technical training was unnecessary, because they thought it covered basic knowledge and skills that a new hire should have demonstrated when qualifying for the position.

While newer employees recognized that some training topics can be effectively handled through an e-training vehicle and that e-training reduces costs while being more flexible for the trainee, they also recognized the advantages of face-to-face training, including introduction to real-life experiences and advice from seasoned employees. Employees suggested cross-occupational training be made available to those employees not interested in becoming managers, and urged the IRS to ensure that knowledge is transferred from those nearing retirement age through increased use of shadowing arrangements.

Employee Engagement and Career Development

Some new hires recommended improved technology to enhance productivity and reduce administrative burden. They are frustrated with their inability to use computer skills they learned in school or used in the private sector. Problems include limited access to programs because the networks are too busy, and computers that freeze up, creating bottlenecks and downtime.

Employees would like more opportunities for flexi-place and telework. Employees believe that the private sector is much more open to leveraging flexible work hours and locations for their employees. A few employees emphasized the need for the IRS to improve its processes and move closer to providing taxpayers with one-stop service by giving employees more authority to resolve issues quickly. They also emphasized that the IRS needs to provide adequate space and equipment for new hires. Overcrowding of employees has an impact on taxpayer access and privacy, and on employee attitudes.

Some senior employees said there are many resources available to employees to supplement their careers, but employees must be self-motivated to utilize the Career Management Resource Center. Some employees said they were not aware of the resources available. Some employees desired a more structured approach to their career development plans. Some managers commented that they wished they had more time to devote to counseling their employees about career paths; however, they said pressure to deliver case work and meet performance goals monopolized their time. Some employees said there were few incentives to enter front-line management in the face of minimal pay increases and high workloads.

Risk Management

Employees praised the IRS for its actions following the incident in Austin, Texas, and also praised the IRS for minimizing risks associated with improper use and disclosure of taxpayer information. Some employees felt uncomfortable about identifying risks to management because of a fear of negative response for highlighting weaknesses.

Other Comments

Employees expressed overwhelming support for the preparer regulation program, but emphasized the need for effective enforcement. They believe it will have an impact on reducing the tax gap.

Employees suggested the establishment of an on-line "knowledge center" to identify and present all procedural changes in one place. They also suggested renewed focus on the employee suggestion program to identify good ideas from employees who work directly with taxpayers.

Some employees said they are seeing conflicting priorities in the pressure to close cases quickly versus agency messages focusing on compliance. Time constraints and measures for case closings cause agents to focus on areas that can quickly be reviewed rather than other more complex areas of non-compliance.

Meetings With Tax Preparers

Regulation of Federal Tax Return Preparers

Preparers mostly support preparer regulation, with strong support for effective enforcement and a public awareness campaign to educate preparers and taxpayers on new regulations. Preparers believe the public awareness campaign should convey to taxpayers how the new regulations will increase the professionalism of the return preparer industry. They suggested that the IRS also emphasize the taxpayer's responsibility to ensure the preparer signs the return.

Preparers suggested the IRS utilize unconventional methods to get the word out to taxpayers about the new preparer regulations, including YouTube, other social media, Low Income Taxpayer Clinics, and even Volunteer Income Tax Assistance (VITA), assuming that greater distribution will also create word-of-mouth chatter. The preparers did suggest that any public awareness campaign provide clear definitions of the different levels of practice for which practitioners may be qualified.

Preparers suggested two slogans for the IRS to use to promote knowledge of the new preparer regulations: *If the person who prepared your return won't sign it, you shouldn't either; and If the preparer does not sign your return, you should not have to pay for it.*

Preparers said there was some confusion as to the regulations and exactly how a signing preparer is defined as well as the scope of returns covered (not just income tax returns) and how they apply to administrative personnel and other types of returns, such as excise tax and payroll tax. There were concerns about larger firms where a number of individuals work on one tax return, but only the principal signs it.

Preparers welcome standardization and accountability as tax preparation becomes a profession, but cautioned that enforcement will be the key to the success of the regulation program. They suggested the IRS use its new preparer database to track and deal with problem preparers.

Preparers encouraged development of a due process system and an objective, independent body to handle appeals from those preparers charged with violations within the new system. There was concern as to whether the Office of Professional Responsibility (OPR), as currently configured, is large enough to handle the workload.

Preparers supported the requirement for continuing professional education and an ethics requirement. There was some concern about the cost of registration and continuing education for smaller firms. It was generally agreed that the IRS and the tax professional community will all need to offer course opportunities that meet Continuing Professional Education (CPE) requirements under the new regulations; and that such courses should be provided using an array of delivery vehicles including classroom training and online options such as "webinars". Participants also said that the new IRS regulations will result in a tremendous increase in the number of preparers needing CPE courses, perhaps close to one million, and that no one delivery method works best, given that people learn differently.

Some of the participants also noted the importance of the IRS messages emphasizing that taxpayers have a responsibility to ensure they only use a registered preparer who is qualified to prepare the type of return required for their tax circumstances, and who signs their return, and to report any preparers who seek to ignore the requirements.

Electronic Filing Mandate
Most practitioners support electronic filing and the preparer regulation program, and praised the practitioner hotline and Taxpayer Advocate Service. Preparers supported the e-file mandate, and suggested it will likely improve the quality of returns submitted by preparers who currently do not use the e-file system and will benefit from the system's error-checking capabilities.

Customer Service / Client Service Issues
A number of preparers said they were pleased that the IRS has been able to promptly implement the many recent legislative changes intended as economic stimulus. However, they also were concerned that the IRS is becoming more involved in delivering social programs.

Some preparers said the IRS is not adjusting its enforcement and collection efforts in response to the recession; in fact, they reported higher penalties, a lack of consistency, and some toughness on behalf of the IRS. They believe there is an IRS initiative to "clean out inventory" and close as many cases as possible. Several preparers suggested the IRS is too focused on closing cases rather than issue resolution. They believe that when the IRS measures how long it takes to close a case, it gets the result that cases are closed quickly. Some cases are closed before the taxpayer issue is addressed; the process creates cost and burden for everyone because many of the cases are going on to audit reconsideration, TAS, or Appeals.

A few individuals said IRS' correspondence with taxpayers is an area of concern. Responses from preparers on a taxpayer's behalf were said to routinely go unanswered for long periods of time. They suggested that future IRS correspondence include longer expected time frames for responses that reflect the current reality.

Other preparers recommended that assistors take ownership of cases worked through Automated Collection System (ACS) call sites; the lack of case ownership causes cases to be passed along with no incentive for each succeeding employee to resolve the problem. The preparers recommend the IRS focus on resolution at the lowest level for more effective use of resources.

Some preparers expressed frustration with Offer in Compromise (OIC) cases, both the very complicated and laborious process to prepare and submit an offer on behalf of the taxpayer, and the long time it takes the IRS to respond to submitted OIC applications. Many preparers no longer provide OIC services. They did note that the alternative IRS installment agreement process seems to be reasonably flexible.

Participants said that newly hired IRS employees seem to be very talented and provide energy and innovation that greatly benefits the IRS overall. They praised the VITA basic training program, and noted that many practitioner volunteers would like the opportunity to take additional, higher-level training.

The Future IRS

Participants listed changes they would like to see in tax administration over the next ten years:

- Enough resources for the IRS so it can manage accounts in a timelier manner;
- An end to questions or problems being “out of scope” for service representatives to solve;
- Competent and empowered employees who are pleasant to work with;
- The ability to solve problems electronically within 24 hours; and
- A reduction in miscommunications: many complained about ongoing correspondence that relates to problems already solved.

IRS Oversight Board Annual Report to Congress 2010
Appendix 4: 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
Professor, University of Montana School of Law

Edwin Eck has been a member of the school's faculty since 1981. He teaches courses in Federal Tax Procedure and Practice, Estate and Gift Taxation, and Wills and Trusts. From 1995 to 2009, he served as dean of the school. During his tenure as an administrator, the School 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 established. Additionally, the School substantially increased its continuing legal education programs with sessions held at rural Montana venues. Prior to serving as dean, Mr. Eck 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. He chairs the Oversight Board's Operations Support Committee.

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.

Government & Public Affairs Vice-President, Enterprise Holdings

Raymond T. Wagner, Jr. is Government & Public Affairs Vice-President for Enterprise Holdings, 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.

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.

IRS Oversight Board Annual Report to Congress 2010
Appendix 5: FY2010 IRS Oversight Board Operations

September 2010 marked the tenth anniversary of the establishment of the IRS Oversight Board. The first meeting of the Oversight Board was held on September 29, 2000, following the swearing-in of its first members.

During FY2010, the Board engaged in a variety of activities, including convening four full Board meetings as well as meeting more frequently at the committee level. The full Board meetings occurred on the following dates:

- December 2, 2009
- February 4, 2010
- April 29, 2010
- October 4, 2010

On February 3, 2010, the Board held a public meeting where it discussed the following topics with private and public sector experts:

- Hiring, On-Boarding, and Enculturation of a High Performing Workforce
- Enhanced Approaches to Dealing with the Tax Gap Attributable to Small Business
- Corporate Board Governance of Tax Risk

A summary of the discussion and themes emerging from the meeting can be found on the Board's web site, www.irsoversightboard.treas.gov.

During 2010, the Oversight Board developed four reports: the Board's 2009 *Annual Report to Congress*, its *Electronic Filing 2009 Annual Report to Congress*, a budget report that presented the Board's recommendations on the FY2011 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.

The Board continued conducting outreach to various external stakeholders and IRS employees to hear independent perspectives of IRS progress. In addition to the February public meeting, the Oversight Board was represented at all six IRS Nationwide Tax Forums during the summer of 2010. 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 tax administration issues.

In addition, the Board visited the IRS' Martinsburg, WV Enterprise Computing Center in June 2010 and visited Volunteer Income Tax Assistance (VITA) sites during the year in Utah, Houston, San Antonio, and Pittsburgh. It also met with employees from the Small Business/Self-Employed Division and the Taxpayer Advocate Service in Brooklyn, NY.

FY2010 IRS Oversight Board Operations

The Oversight Board focused on a number of strategic issues during the year, including the CADE 2 program, preparer regulation, Enterprise Risk Management, ACA implementation, electronic tax administration, approval of the FY2012 budget submitted to the Department of the Treasury, employee engagement, IRS' Business System Modernization (BSM) progress, Disaster Recovery capabilities, and development of IRS long-term performance measures.

There were no changes in Board membership during FY2010. The Board currently has two vacancies and four seats that are being filled by members 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 and support 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 $58,296 in travel expenses for Board members and staff in FY2010, primarily for travel to and from Board and Board committee meetings, and to attend the Nationwide Tax Forums.

IRS Oversight Board

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