

**IRS Oversight Board
FY2012 IRS Budget Recommendation
Special Report**

March 2011

**IRS Oversight Board
FY2012 IRS Budget Recommendation
Special Report**

Table of Contents

Executive Summary	3
Introduction and Scope	7
FY2012 Strategic Assessment: Key Challenges and Funding Priorities	9
IRS Oversight Board Recommended FY2012 IRS Budget	13
<i>Resources Needed to Implement the Patient Protection and Affordable Care Act</i>	16
<i>Comparison of Oversight Board's and President's Budget Recommendations</i>	17
Meeting Strategic Goals	19
<i>Goal 1: Improve Service to Make Voluntary Compliance Easier</i>	19
<i>Goal 2: Enforce the Law to Ensure Everyone Meets Their Obligation to Pay Taxes</i>	23
<i>Strategic Foundations: Invest for High Performance in People and Technology</i>	25
<i>Business Systems Modernization</i>	25
<i>Operations Support</i>	27
 Appendix	

Executive Summary

The Internal Revenue Service (IRS) Oversight Board recommends a fiscal year (FY) 2012 IRS budget of \$13.342 billion, an increase of \$1.2 billion over the FY2010 enacted IRS budget, and an increase of \$709 million over the President's FY2011 IRS budget request.

A substantial portion of the differences relative to both the FY2010 and FY2011 budgets is the cost to implement provisions of the Patient Protection and Affordable Care Act (ACA), which totals \$473 million in the Board's FY2012 IRS budget recommendation. Funds to implement ACA were not contained in prior year IRS budgets.

The Board's budget recommendation for FY2012 is approximately \$59 million higher than the President's request of \$13.284 billion, a difference of 0.4 percent. The Board firmly believes that its FY2012 IRS budget recommendation is the minimum imperative for strong and responsible tax administration. The Board's recommendation calls for an overall IRS appropriation in FY2012 of \$2.35 billion for the Taxpayer Service account; \$5.97 billion for the Enforcement account; \$4.67 billion for the Operations Support account; \$333.6 million for the Business Systems Modernization (BSM) account; and \$18 million for the Health Insurance Tax Credit Administration account.

In the view of the Board, its budget recommendation reflects a proper balance between taxpayer service and tax law enforcement, funds strategic investments to reduce the tax gap and replace antiquated IRS tax processing systems, and furthers other strategic objectives of tax administration such as greater leveraging of Internet capabilities.

Moreover, the Board's foremost priority within its FY2012 budget recommendation is the \$333.6 million in total funding recommended for the BSM account, along with an associated \$52 million within the Operations Support account for information technology infrastructure to support the ongoing maintenance of BSM components that have been successfully implemented. This level of funding for BSM is imperative and requires a \$122.6 million increase in FY2011 in the base BSM account to achieve the President's policy level—a proposed adjustment contained in both the Board's recommendation and the President's budget request.

The Board assigns top budget priority to BSM funding primarily because of the critical role these resources will play in modernizing the core taxpayer account system for individual taxpayers under the Customer Account Data Engine 2 (CADE 2) program. With the recommended funding, the CADE 2 program is poised to deliver daily account processing by the 2012 filing season, a major milestone in the IRS BSM effort that will yield tangible benefits, such as quicker refunds, to tens of millions of taxpayers. The Board's recommended investments in BSM also lay the necessary technological foundation for other major advancements in IRS efficiency, taxpayer service, and enforcement for years to come—thereby helping to achieve the strategic goals of the agency. Both the Treasury Inspector General for Tax Administration (TIGTA) and the Government Accountability Office (GAO) agree that modernizing IRS' antiquated computer systems, for which CADE 2 is instrumental, is critical to providing improved and expanded service to taxpayers.

The Board's second highest priority is funding of taxpayer service that allows for the restoration of an 80 percent level of service (LOS) on IRS toll-free telephone lines during FY2012. Achieving this level of service requires both the \$23.3 million increase in FY2011 to reach the President's policy level and the \$81.3 million initiative in FY2012 to *Improve Taxpayer Service*. Recent experience shows that tens of millions of taxpayers still depend on the IRS toll-free telephone operations for assistance in understanding their tax obligations, their eligibility for various tax credits and other tax provisions, or to resolve their account balances. However, major changes to the tax laws in recent years have contributed to a substantial increase in the number of calls to the IRS and a corresponding drop in the LOS into the low 70 percent range. In addition, as more of the provisions of the ACA become effective in 2012, the Board believes that demand for IRS toll free assistance will grow. Thus, the Board sees it as imperative that the IRS provides taxpayers with an adequate level of telephone assistance in the coming fiscal year; a level the Board believes should be no less than 80 percent. Increased telephone demand, driven by a proliferation of new tax provisions, has prevented the IRS from reaching this level, last achieved in 2007, and the Board believes taxpayers deserve no less in such a complex tax environment.

The IRS has also been tasked with a wide range of new responsibilities under the ACA, such as the administration of new tax credits for individuals and businesses, and additional information reporting. These new responsibilities must be afforded budget priority as well to enable the IRS to properly implement the law. Both the Board's recommendation and the President's budget make transparent the resources in FY2012 needed to implement the ACA. These ACA funding requirements total \$473 million with a staffing level of 1,269 full-time equivalents (FTEs). Of the total dollar funding recommended, nearly 83 percent is in the Operations Support account—much of it 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.

FY2012 IRS Budget Recommendation

The Oversight Board reviewed the methodology the IRS used to build the FY2012 resource requirements to implement the ACA and the associated explanations for those resource needs, and based its budget recommendations on the level of funding the Board believes the IRS needs to responsibly implement the ACA as currently enacted. Such an approach is in keeping with the Board's statutory requirements in 26 USC §7802(c)(1)(B) to "ensure that the organization and operation of the Internal Revenue Service allows it to carry out its mission." Thus, the Board's budget recommendations identify the funds the IRS needs 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's budget recommendations are largely consistent with the President's budget request in many categories. In particular, inflation adjustments, savings, and reinvestments are identical in both budgets. To facilitate a direct comparison of the Board's recommendations to the President's budget, the Board's budget mirrors the upward adjustments to the FY2011 base funding to reach the President's policy level. However, it is important to note that these adjustments to achieve the President's policy levels essentially reflect proposed increases to the base IRS budget in FY2011; increases which had not been enacted at the time the Board and the President prepared their FY2012 IRS budget recommendations, and which may or may not be realized.

For its first and second funding priorities, BSM and taxpayer service, the Board recommended budget and the President's budget request are the same. The proposed enforcement budgets, as well as the ACA-related funding, are also the same in both budgets, as is the Health Insurance Tax Credit Administration.

The \$58.6 million difference between the Board's FY2012 IRS funding recommendation and the President's budget request occurs in three areas. The Board believes that more resources are needed in the area of IRS security and applauds the President's budget request for including two valuable initiatives in these areas: one to improve IRS system security and disaster recovery capabilities, and another to improve physical security at IRS facilities. The Board notes that TIGTA has identified security as the top management challenge facing the IRS. The Board recommends higher funding levels in both areas. The Board is also recommending an additional initiative not contained in the President's request, which accounts for the third area of difference.

Specifically, the Oversight Board recommends that:

- an additional \$23.0 million be added to the infrastructure initiative in the President's budget to *Enhance Security and Disaster Recovery Systems Capability*;
- an additional \$15.6 million be added to the infrastructure initiative in the President's budget to *Enhance Physical Security for Federal Employees*; and

IRS Oversight Board Special Report

- an additional infrastructure initiative be approved for \$20.0 million to *Attract, Retain and Develop a Highly Engaged Workforce*.

All the budget recommendations by the Oversight Board are driven by the need to support the *IRS Strategic Plan 2009-2013*. As the Oversight Board has emphasized in its 2009 annual report to Congress, the IRS has a strategic plan that addresses two serious weaknesses of the tax administration system: the tax gap and the IRS' archaic information technology systems. The need to overcome these weaknesses, as well as effectively implementing the new tax-related provisions of the ACA drives the budget recommendations in this report.

Introduction and Scope

The Internal Revenue Service (IRS) Oversight Board's responsibilities include overseeing the IRS in its administration, management, conduct, direction and supervision of the execution and application of the internal revenue laws. The Board is also responsible for ensuring that the IRS' organization and operations allow the agency to carry out its mission. To this end, the Board was given specific responsibilities for reviewing and approving IRS strategic plans and annual budgets.

Specifically, the Board is required by 26 USC §7802(d) to review and approve the IRS-prepared annual budget request submitted to the Department of the Treasury, and to ensure that the approved budget supports the annual and long-range strategic plans of the IRS. The President is required to submit the Board's budget recommendation, without revision, to Congress, along with the Administration's request. Additionally, the Government Performance and Results Act (GPRA) outlines the agency's responsibilities for linking agency strategic plans, budget plans, performance plans, and performance reporting to a comprehensive strategic process needed to measure agency performance.

In meeting its duty, the Board must ensure that the IRS' budget and related performance expectations contained in the performance budget: (1) support the IRS' annual and long-range plans; (2) support the IRS' mission; (3) are consistent with the IRS' goals, objectives and strategies; and (4) ensure the proper alignment of IRS' strategies and plans.

In this special report, the Oversight Board presents its recommended Fiscal Year (FY) 2012 budget of \$13.342 billion for the IRS. It also examines the President's FY2012 IRS budget request of \$13.284 billion and compares this request with the Board's recommendation.

In developing these recommendations, the Board has applied its own judgment as to the resources the IRS needs, but also has drawn on the collective wisdom of others in the tax administration community, including Congress, the IRS, the Government Accountability Office (GAO), the Treasury Inspector General for Tax Administration (TIGTA), the National Taxpayer Advocate (NTA), and tax professionals within the private sector. That said, the recommendations in this report reflect the views of the Board—not necessarily other members of the tax administration community.

FY2012 Strategic Assessment: Key Challenges and Funding Priorities

One of the IRS Oversight Board's most important statutory responsibilities is to ensure that the IRS' budget request supports the agency's annual and long-term strategic plans. A budget request is more than a mechanism for appropriating funding; it is also a plan, a commitment, and a performance management tool. Not only does a proposed budget request funding, it also describes the activities the IRS will perform, how those activities align with the long-range strategic plan, and identifies measures to evaluate the expected results.

The Board takes very seriously its charter under 26 USC §7802(d) to review and approve the IRS-prepared annual budget request submitted to the Department of the Treasury. It is this responsibility that requires the Board to provide Congress with its recommendations for the IRS FY2012 budget, a budget that will allow the IRS to achieve the strategic goals and strategic foundations identified 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

As the Board has emphasized in its recent annual reports to Congress, the IRS has a strategic plan that addresses two serious weaknesses in the tax administration system: the tax gap and IRS' archaic information technology systems. The need to overcome these weaknesses, as well as effectively implement the new tax-related provisions of the Patient Protection and Affordable Care Act (ACA), drives the budget recommended in this report. With tax administration so critical to the nation's economic health, the Board recommends that investments in the country's tax administration system be a national priority.

Budget priorities and recommended program increases must be consistent with the goals identified in the IRS strategic plan and the mission responsibilities required of the IRS by law. In FY2012, the IRS will be challenged to show an aggressive approach to meet its service and enforcement goals. In addition, the IRS must continue to take responsible steps to implement those provisions of the ACA assigned to it. At the same time, the IRS will be challenged to further transform itself into an agency that uses modern tools while maintaining a highly

engaged workforce to serve the public and meet its mission in an effective manner that increases voluntary compliance and minimizes taxpayer burden.

The Oversight Board recognizes the intense budgetary pressures confronting our political leaders today and the need to set priorities and ensure that the IRS is spending resources in a wise fashion. Still, the unique role the IRS plays in helping maintain the nation's economic health, and the IRS mission to provide America's taxpayers with top-quality service by helping them understand and meet their tax responsibilities and to enforce the law with integrity and fairness to all, means that the agency literally impacts every citizen in one fashion or another. Such a broad mission requires that the resource needs of the IRS be considered carefully. Failure to do so could result in citizens not receiving the tax assistance services they deserve for the taxes they pay and a greater loss of federal revenue.

The Board firmly believes that the IRS FY2012 budget of \$13.342 billion it is recommending is the minimum imperative for strong tax administration. Moreover, the Board believes that the foremost priority within this total budget recommendation is proper funding for the Business Systems Modernization (BSM) program to replace archaic IRS information technology (IT), followed by the funding needed to achieve an 80 percent level of service (LOS)¹ over IRS toll-free telephones. These priorities require the FY2011 adjustments (increases) of \$122.6 million for BSM and \$23.3 million for Taxpayer Service to reach the President's policy level; and the associated FY2012 \$81.3 million initiative to *Improve Taxpayer Service*.

The top priority the Board assigns to BSM funding derives primarily from the critical role these resources will play in completing the modernization of the core taxpayer account database for individual taxpayers under the Customer Account Data Engine 2 (CADE 2) program. Through CADE 2, the IRS intends to establish a modern relational database for its central tax accounting system, along with a daily updating capability, by the 2012 filing season. Such a database and daily processing capability will provide immediate benefits to taxpayers and are also the prerequisites to develop the next generation of IRS service and enforcement technology tools. These new tools, in turn, will be largely oriented toward Internet applications and hold the promise of delivering major improvements in IRS efficiency, taxpayer service, burden reduction, and enforcement—and thereby help to achieve the longer term strategic goals of the agency.

The Board identifies as its next highest priority funding for taxpayer service programs needed to achieve an 80 percent level of service on the IRS toll-free telephone lines during 2012. Recent experience shows that tens of millions of taxpayers still depend on the IRS toll-

¹Level of Service (LOS) refers to the number of toll-free callers that either speak to a Customer Service Representative or receive informational messages divided by the total number of attempted calls.

free telephone operations for assistance in understanding their tax obligations, their eligibility for various tax credits and other tax provisions, or to resolve their account balances.

However, frequent and complex changes to the tax laws in recent years and the financial pressures on taxpayers from the economic downturn have contributed to a substantial increase in the total number of calls the IRS has received on its toll-free telephone system. As reported by the GAO², the number of calls the IRS has received during the filing season period (January through June) has gone from just under 60 million per year during 2005-2007, to nearly 80 million in 2009 and 2010, following the sharp spike to 118 million in 2008 in the wake of the tremendous volume of calls generated by the unique economic stimulus payments the IRS was tasked to administer. As call volumes have risen in recent years, the IRS telephone assistance level of service has declined from the low 80 percent range, to the low 70 percent range.

In addition, as more of the provisions of the ACA become effective in 2012, the Board believes that demand for IRS toll free assistance will grow. Thus, the Board sees it as imperative that the IRS provides taxpayers with an adequate level of telephone assistance in the coming fiscal year so that taxpayers can avail themselves of applicable tax provisions and understand and meet their tax responsibilities; a level the Board believes should be no less than 80 percent. A level of service greater than 80 percent was last achieved in 2007, and the Board believes taxpayers deserve no less in such a complex tax environment.

The IRS also has been tasked with a wide range of new responsibilities under the ACA such as the administration of new tax credits for individuals and businesses and additional information reporting. These new responsibilities must be afforded budget priority as well to enable the IRS to properly implement the law.

²The United States Government Accountability Office, *2010 Tax Filing Season: IRS's Performance Improved in Some Key Areas, but Efficiency Gains Are Possible in Others*, GAO-11-111, December 2010.

IRS Oversight Board Recommended FY2012 IRS Budget

The IRS Oversight Board recommends an FY2012 IRS budget of \$13.342 billion, as shown in Table 1. This recommendation is about \$58.6 million higher than the President's request of \$13.284 billion, a difference of 0.4 percent. In comparison to budgets for earlier years, the Board's recommended IRS budget for FY2012 is about \$1.2 billion higher than the FY2010 enacted IRS budget, and \$709 million higher than the President's FY2011 IRS budget request. A substantial portion of the differences relative to the earlier budget years is the cost to implement provisions of the ACA, which total \$473 million in the Board's FY2012 IRS budget recommendation. These costs are not contained in the earlier budget year figures, as the ACA was only recently enacted.

To facilitate a more detailed comparison of the Board's and President's FY2012 IRS budgets, Table 2 displays the Board's recommended budget by account. Table 3 delineates the specific resource recommendations embedded in Table 2 that relate to the implementation of the ACA.

Table 1. IRS Oversight Board Recommended FY2012 IRS Budget
(dollars in thousands)

FY2010 Enacted Budget	12,146,123
FY2011 Annualized CR Level	12,146,123
Maintaining Current Levels	85,754
Efficiencies/Savings	(189,957)
Base Reinvestment: Consolidate Submission Processing (Atlanta)	1,486
Adjustment FY2011 President's Policy Level	401,665
<i>FY2012 Adjusted Base</i>	12,445,071
Taxpayer Service Initiatives	114,307
Improve Taxpayer Service	81,307
Expand Online Options Through IRS.gov Improvements	33,000
Enforcement Initiatives	605,671
Increase International Service and Enforcement	72,596
Increase Collection Coverage	52,000
Implement Merchant Card and Basis Reporting	35,730
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	96,718
Ensure Accurate Delivery of Tax Credits	260,293
Administer New Statutory Reporting Requirements	58,505
Leverage Return Preparer Program to Reduce Non-Compliance	16,600
Address Appeals Workload Growth	9,100
Implement Uncertain Tax Position Reporting Requirements	4,129
Infrastructure Initiatives	177,434
Enhance Security and Disaster Recovery Systems Capability	35,000
Update Integrated Financial System	27,500
Leveraging Data to Improve Compliance	1,400
Enhance Physical Security for Federal Employees	31,057
Implement Individual Coverage Requirement and Employer Responsibility Payments	62,477
Attract, Retain, and Develop a Highly Engaged Workforce	20,000
BSM Initiative	0
Continue Migration from Aging Tax Administration System	0
HITCA	0
Total Oversight Board Budget	13,342,483
President's FY2012 Budget	13,283,907
Increase Over President's Budget	58,576
Percent Increase Over President's Budget	0.4%

FY2012 IRS Budget Recommendation

Table 2. IRS Oversight Board Recommended FY2012 IRS Budget by Account
(dollars in thousands)

	Taxpayer Services	Enforcement	Operations	BSM	HITCA	Total
FY2010 Enacted Budget	2,278,830	5,504,000	4,083,884	263,897	15,512	12,146,123
FY2011 Annualized CR Level	2,278,830	5,504,000	4,083,884	263,897	15,512	12,146,123
Maintaining Current Levels	12,908	30,691	41,755	168	232	85,754
Efficiencies/Savings	(41,333)	(21,996)	(124,440)	(1,026)	(1,162)	(189,957)
Base Reinvestment: Consolidate Submission Processing (Atlanta)	1,486	0	0	0	0	1,486
Adjustment FY2011 President's Policy Level	23,254	242,275	10,128	122,561	3,447	401,665
Taxpayer Service Initiatives	44,078	0	70,229	0	0	114,307
Improve Taxpayer Service	44,078		37,229			81,307
Expand Online Options Through IRS.gov Improvements			33,000			33,000
Enforcement Initiatives	25,910	209,668	370,093	0	0	605,671
Increase Interantional Service and Enforcement		48,363	24,233			72,596
Increase Collection Coverage	2,201	30,275	19,524			52,000
Implement Merchant Card and Basis Reporting	10,475	17,495	7,760			35,730
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	7,229	33,936	55,553			96,718
Ensure Accurate Delivery of Tax Credits	4,946	49,083	206,264			260,293
Administer New Statutory Reporting Requirements	1,059	5,061	52,385			58,505
Leverage Return Preparer Program to Reduce Non-Compliance		14,240	2,360			16,600
Address Appeals Workload Growth		7,450	1,650			9,100
Implement Uncertain Tax Position Reporting Requirements		3,765	364			4,129
Infrastructure Initiatives	500	7,911	169,023	0	0	177,434
Enhance Security and Disaster Recovery Systems Capability			35,000			35,000
Update Integrated Financial System			27,500			27,500
Leveraging Data to Improve Compliance			1,400			1,400
Enhance Physical Security for Federal Employees		3,911	27,146			31,057
Implement Individual Coverage Requirement and Employer Responsibility Payments			62,477			62,477
Attract, Retain, and Develop a Highly Engaged Workforce	500	4,000	15,500			20,000
BSM Initiative	0	0	52,000	(52,000)	0	0
Continue Migration from Aging Tax Administration System	0	0	0	0	0	0
HITCA	0	0	0	0	0	0
Total	2,345,633	5,972,549	4,672,672	333,600	18,029	13,342,483

Resources Needed to Implement the Affordable Care Act

The detail in Table 3 makes the FY2012 budget needs for implementing the ACA fully transparent. The IRS has been tasked with a wide range of new responsibilities under the ACA. Among these are requirements that it:

- Administer new tax credits for individuals and businesses;
- Collect a new excise tax on tanning services and a new fee on certain businesses engaged in the manufacturing and importing of prescription drugs;
- Implement expanded exemption requirements on charitable hospitals; and
- Gather, process, and share additional information reports.

The Oversight Board reviewed the methodology the IRS used to build the FY2012 resource requirements to implement the ACA and the associated explanations of those resource needs. Such an approach is in keeping with the Board’s statutory requirements in 26 USC §7802(c) (1)(B) to “ensure that the organization and operation of the Internal Revenue Service allows it to carry out its mission.” The Board concurs with the President’s budget request as to what the IRS funding needs are in FY2012 to responsibly implement the ACA as currently enacted. As shown in Table 3, the FY2012 funding needed to implement the

Table 3. Affordable Care Act Related Funding and FTE by Initiative (dollars in thousands)

	Taxpayer Services		Enforcement		Operations Support		Total	
	\$	FTE	\$	FTE	\$	FTE	\$	FTE
Taxpayer Service Initiatives								
Improve Taxpayer Service	20,725	150			30,582		51,037	150
Subtotal, Taxpayer Service Initiatives	20,725	150			30,582		51,037	150
Enforcement Initiatives								
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	4,904	46	22,784	174	45,927	143	73,615	363
Ensure Accurate Delivery of Tax Credits	4,946	49	23,015	233	199,535	222	227,496	504
Administer New Statutory Reporting Requirements	1,059	7	5,061	48	52,385	132	58,505	187
Subtotal, Enforcement Initiatives	10,909	102	50,080	455	297,847	497	359,616	1,054
Infrastructure Initiatives								
Implement Individual Coverage Requirement and Employer Responsibility Payments					62,477	65	62,477	65
Subtotal, Infrastructure Initiatives					62,477	65	62,477	65
Total, FY2012 Affordable Care Act Initiatives	31,634	252	50,860	455	390,906	562	473,400	1,269

ACA is \$473 million with a staffing level of 1,269 full-time equivalents (FTEs). The Board's budget recommendation identifies the funds the IRS needs to provide the necessary assistance, enforcement presence, and supporting systems infrastructure to carry out the ACA requirements in an effective manner.

Of the total dollar funding needed in FY2012 for ACA, nearly 83 percent is in the Operations Support account, much of which 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 ACA budget recommendations also include around \$32 million and 252 FTEs in the Taxpayer Service account to provide assistance to taxpayers in understanding the new law, and approximately \$51 million and 455 FTEs in the Enforcement account to help address and deter noncompliance. The Board also notes that should Congress repeal the particular ACA provision, which expanded information reporting requirements to businesses making payments of expenses of \$600 or more, the funding needs in the Board's recommendations for ACA would be \$23.3 million less.

Comparison of Oversight Board's and President's Budget Recommendations

The Board's recommendations are consistent with the President's budget request in many categories. In particular, inflation adjustments, savings, and reinvestments are identical in both budgets. To facilitate a direct comparison of the Board's recommendations to the President's request, the Board's budget also mirrors the upward adjustments to the FY2011 base funding to reach the President's policy level.

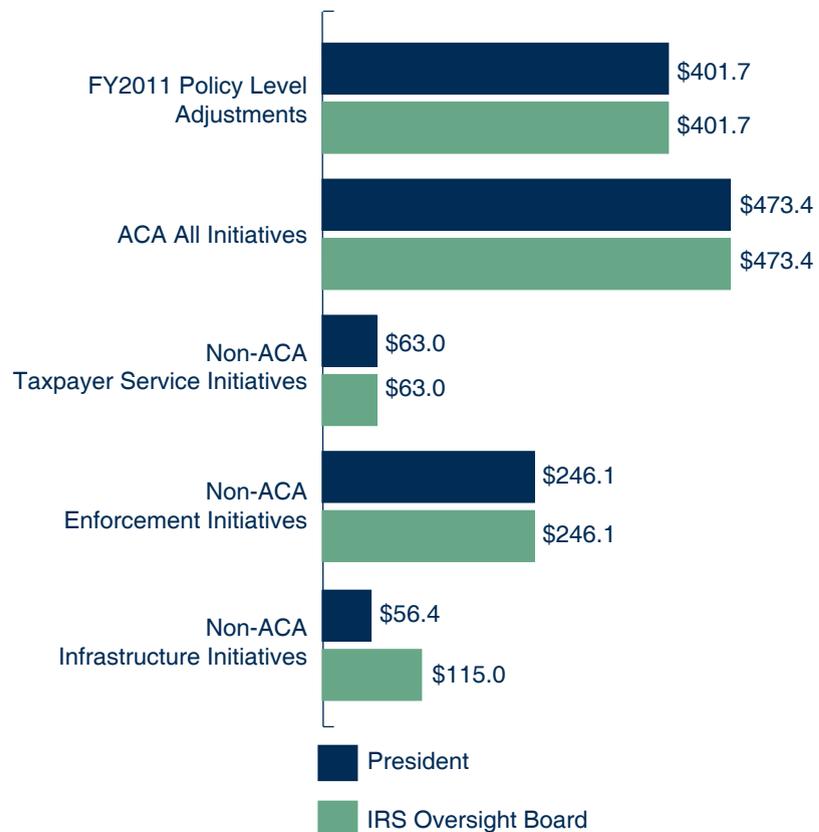
The Board further notes that its recommendations for BSM and taxpayer service funding, which encompass the Board's first and second priorities, are the same as in the President's request. The proposed enforcement budgets, as well as the ACA-related funding, are also the same, as is the total amount for the Health Insurance Tax Credit Administration (HITCA) account. *(Note: because the Oversight Board supports the President's request of \$18.03 million for the HITCA account, and because of its relatively small size at less than 0.2 percent of the overall IRS budget and with no proposed program increase, this account will not be further addressed in this report.)*

The differences between the Board's FY2012 IRS funding recommendations and the President's budget request occur in three areas. Two initiatives in the President's budget are also reflected in the Board's proposed IRS budget, but the Board is recommending higher funding levels for both. The Board is also recommending an additional initiative not contained in the President's request, which accounts for the third area of difference. In total, the Board's FY2012 IRS budget recommendation is \$58.6 million higher than the President's. Specifically, the Oversight Board recommends that:

- an additional \$23.0 million be added to the infrastructure initiative in the President’s budget to *Enhance Security and Disaster Recovery Systems Capability*;
- an additional \$15.6 million be added to the infrastructure initiative in the President’s budget to *Enhance Physical Security for Federal Employees*; and
- an additional infrastructure initiative for \$20.0 million to *Attract, Retain and Develop a Highly Engaged Workforce*.

Figure 1 compares the program increases proposed in the two budgets. The sum of the initiatives needed for the ACA is listed separately and excluded from the remaining “non-ACA” initiatives by major type (i.e., taxpayer service, enforcement, and infrastructure) presented in Figure 1. In addition, at the time this report was prepared, the IRS was operating under a continuing resolution and there was no final decision on whether the FY2011 funding for the IRS would include the increases by appropriation account needed to achieve the President’s FY2011 policy level. Thus, the sum of these increases is presented in Figure 1.

Figure 1. Comparison of Program Increases Contained in the President’s and Oversight Board’s FY2012 IRS Budget (in millions)



Meeting Strategic Goals

This section describes how the Board's budget recommendations support the achievement of the *IRS Strategic Plan 2009-2013*. In assessing the IRS' budget needs for FY2012, the IRS must balance the longer term goals and objectives identified in that strategic plan with the immediate need for greater efficiency and effectiveness, and to implement the ACA.

Goal 1: Improve Service to Make Voluntary Compliance Easier

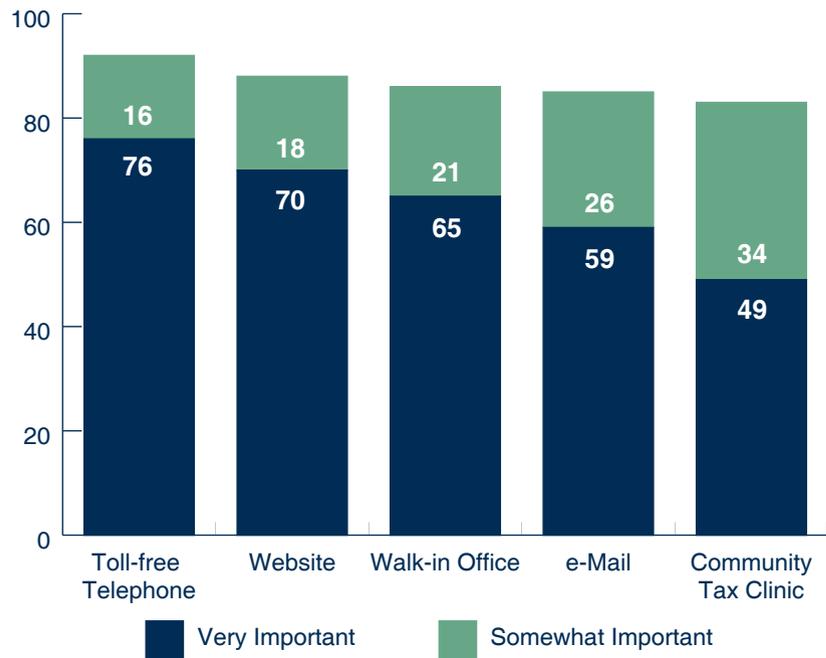
The Oversight Board supports the FY2011 adjustment to reach the President's policy level and the two taxpayer service initiatives contained in the President's budget request and listed in Table 4. The Board considers its support of the \$23.3 million FY2011 policy level adjustment for taxpayer service and the \$81.3 million FY2012 initiative to *Improve Taxpayer Service* particularly important to America's taxpayers, and has identified them as its second highest funding priority.

Table 4. Taxpayer Service Adjustment and Initiatives Recommended by the Oversight Board and the President
(dollars in thousands)

President's FY2011 Policy Level Adjustment	23,254	
Taxpayer Service Initiatives		Portion due to ACA implementation
Improve Taxpayer Service	81,307	51,307
IRS.gov Improvements	33,000	0
<i>Initiative Subtotal</i>	114,307	51,307

Data from the *IRS Oversight Board 2010 Taxpayer Attitude Survey* attests to the value taxpayers place on the IRS taxpayer assistance programs and the IRS toll-free telephone assistance operation in particular. As shown in Figure 2, over 80 percent of the public say it is either very or somewhat important that the IRS provide assistance on certain key service channels including assistance via toll-free telephone lines, an IRS website, and IRS office locations for walk-in assistance. In most instances, a sizable majority say it is "very important."

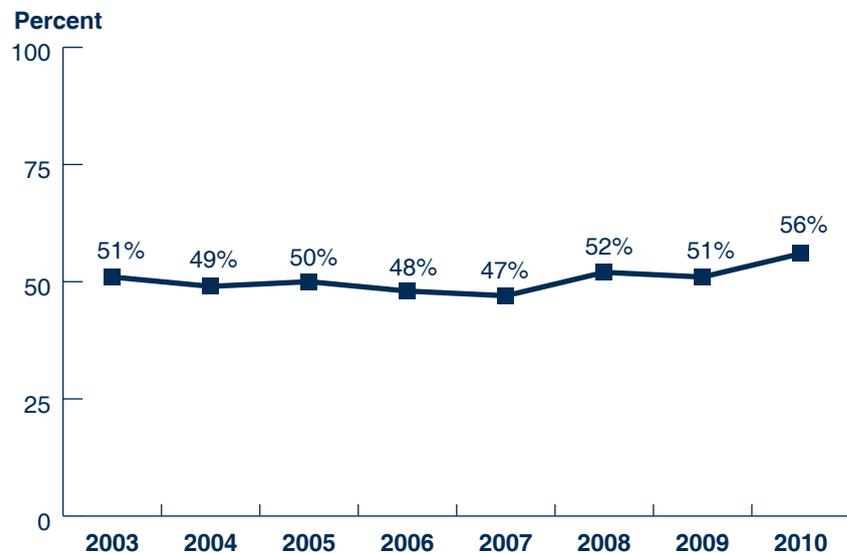
Figure 2. Percent of Public Who Say It Is Important IRS Provides Certain Tax Assistance Services



Source: IRS Oversight Board 2010 Taxpayer Attitude Survey

The Board’s survey further shows an increase in recent years in the percentage of the public who say that an IRS representative is a “very valuable” source for tax advice. As depicted in Figure 3, that upward trend, beginning in 2008, coincides with the start of major tax law changes designed to spur the economy. Clearly, taxpayers see a growing importance for the assistance the IRS provides through its service programs.

Figure 3. Percent of Public Who Say an IRS Representative is a Very Valuable Source for Tax Advice or Information



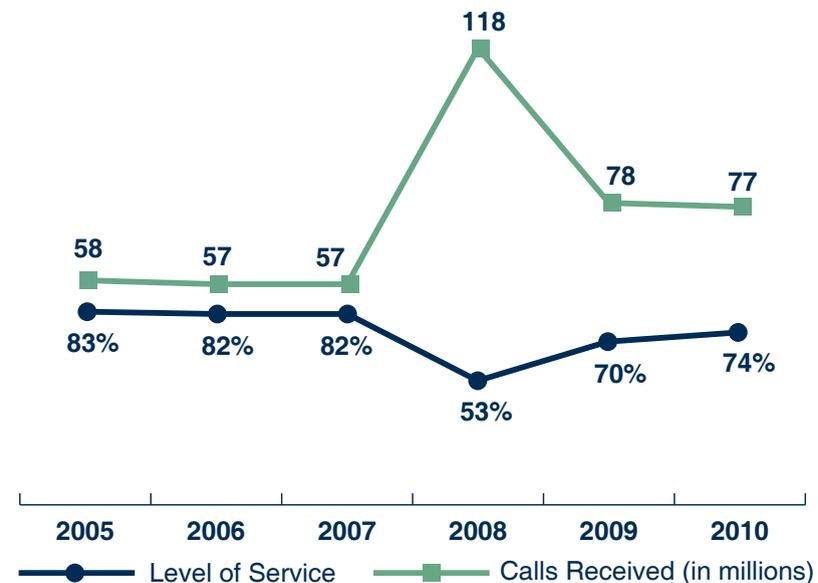
Source: IRS Oversight Board Taxpayer Attitude Survey

FY2012 IRS Budget Recommendation

The Board believes that quality IRS assistance is critical to maintaining and ultimately improving voluntary compliance. Both the FY2011 adjustment to achieve the President's policy level and the FY2012 initiative to *Improve Taxpayer Service* are needed to provide an 80 percent level of service in FY2012 on the IRS toll-free telephone operations, while maintaining an answer accuracy rate above 92 percent. In the view of the Board, IRS should be equipped with the resources to deliver no less than an 80 percent telephone level of service. However, the IRS has fallen short of that standard in recent years. Should Congress and the President agree on an IRS funding level for the rest of FY2011 that does not include the policy level adjustment, an additional \$23.3 million will need to be added to the FY2012 initiative to *Improve Taxpayer Service*.

As indicated in Figure 4, during the three year period prior to 2008, the IRS was receiving just under 60 million calls per year on its toll-free assistance lines and delivering a LOS of just over 80 percent. However, due primarily to major tax law changes, such as those relating to economic stimulus payments, recovery rebate credits, and several other special tax provisions, the number of calls the IRS received rose sharply starting in 2008 and is now nearly 80 million calls per year. This increase in call volume has resulted in a corresponding drop in LOS, which now stands in the low-70 percent range. In looking forward to 2012, the Board seeks to ensure that taxpayers once again receive a minimum 80 percent level of service, addressing not only the slippage that has occurred since 2008, but also the increased call volume that will surely ensue as provisions of the ACA become effective.

Figure 4. IRS Toll-Free Telephone Calls Received and Level of Service: 2005-2010



Source: IRS and GAO

The Board also views as an important investment the *Expand Online Options Through IRS.gov Improvements* initiative to upgrade and expand IRS Internet services. The resources recommended for the IRS.gov website reflect a strategic investment that is key to providing substantially better service to greater and greater numbers of taxpayers in the years to come. This initiative furthers one of the guiding principles articulated in the IRS *Taxpayer Assistance Blueprint*, which calls for the IRS to enhance its website so that it becomes the first choice of more taxpayers for obtaining the information and services needed to comply with tax obligations. It also advances one of the core objectives in the *IRS Strategic Plan 2009-2013* to deploy advanced information technology tools to improve IRS efficiency and productivity, and to expand online services that improve service and enforcement. In 2010, the IRS recorded over 304 million page visits on IRS.gov, up from around 268 million visits in 2009, and roughly double the volume experienced in 2004.

There is little doubt that IRS Internet applications for both internal and external customers are foundational to the success of tax administration. However, the IRS needs to replace its aging and outdated Internet portal environment to improve security and the quality of its web services. The critical upgrades and expansion of the IRS website funded by this initiative are key to achieving the long term vision for electronic tax administration inspired by the IRS Restructuring and Reform Act of 1998; a vision in which the vast majority of taxpayer interaction with the tax administration system are handled electronically. Moreover, taxpayer services delivered over the Internet are considerably less expensive than telephone service. Also, investing in an improved Internet capability that eventually lessens telephone volume will result in future savings. In addition, because the Internet is available to taxpayers 24 hours a day, it overcomes a limitation of IRS telephone service.

FY2012 IRS Budget Recommendation

Goal 2: Enforce the Law to Ensure Everyone Meets Their Obligation to Pay Taxes

The IRS Oversight Board supports the FY2011 adjustment and nine enforcement initiatives that are contained in the President's budget and listed in Table 5.

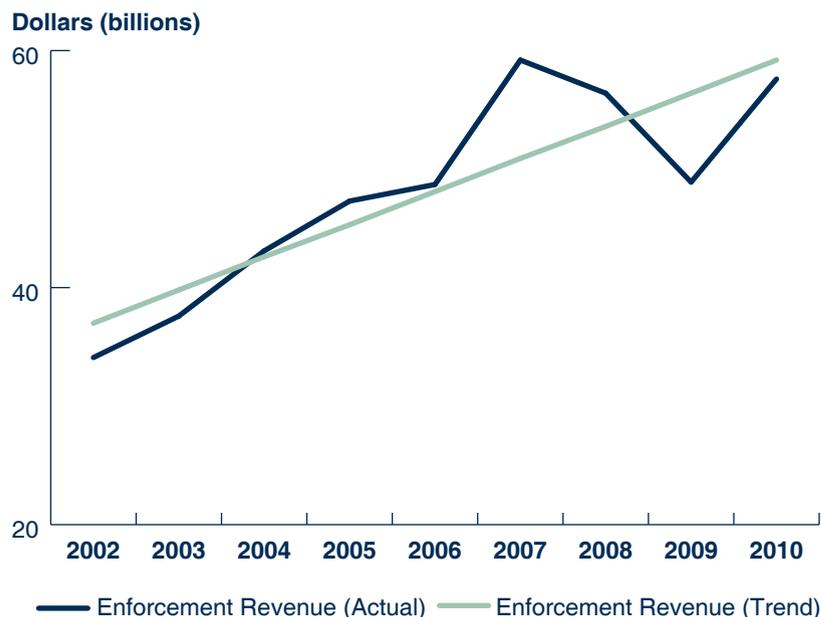
Table 5. Enforcement Adjustment and Initiatives Recommended by the Oversight Board and the President
(dollars in thousands)

President's FY2011 Policy Level Adjustment	242,275	
Initiative		Portion due to ACA implementation
Increase International Service and Enforcement	72,596	0
Increase Collection Coverage	52,000	0
Implement Merchant Card and Basis Reporting	35,730	0
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	96,718	73,615
Ensure Accurate Delivery of Tax Credits	260,293	227,496
Administer New Statutory Reporting Requirements	58,505	58,505
Leverage Return Preparer Program to Reduce Non-Compliance	16,600	0
Address Appeals Workload Growth	9,100	0
Implement Uncertain Tax Provision Reporting Requirements	4,129	0
<i>Initiative Subtotal</i>	605,671	359,616

The Oversight Board supports the President's proposed increases in the enforcement area in part because they continue a funding pattern in more recent years that has enabled the realistic and steady growth in enforcement resources; a pattern the Board has consistently recommended. For example, the IRS reports that staffing for its key enforcement occupations of Revenue Officers, Revenue Agents, and Special Agents, has grown from 20,113 in FY2002, to 21,185 in FY2006, to 22,710 in FY2010.

The gradual growth in enforcement resources has allowed the IRS to increase its enforcement presence among both business and individual taxpayers, and is generally reflected in the IRS enforcement revenue results, which totaled \$57.6 billion in FY2010. The value of IRS enforcement programs is more than just direct revenue, and year-to-year fluctuations in IRS enforcement revenue occur for various reasons, such as the final resolution of large dollar cases worked over several years. Nevertheless, the clear upward trend in direct enforcement revenue attributed to IRS compliance programs since 2002, as shown in Figure 5, illustrates one tangible result from funding a greater IRS enforcement presence in more recent years.

Figure 5. IRS Enforcement Revenue: Actual and Underlying Trend



Source: IRS and IRS Oversight Board Analysis

In the view of the Board, the recommended FY2011 policy adjustment and FY2012 initiatives also bolster IRS enforcement operations in a manner consistent with the IRS strategy to reduce the tax gap. In particular, the Board's and the President's recommended funding for enforcement initiatives combines a focus on:

- expanded IRS global enforcement presence relative to business and individual taxpayers with international economic activity;
- efforts to improve the accuracy of return submissions provided through paid tax preparers;
- implementation and leveraging of various new information reporting requirements;
- improved technology tools and increased enforcement staffing to detect fraud and other noncompliance with a myriad of new and existing tax credits, several involving rather substantial amounts; with
- attention to workload growth in Appeals to ensure taxpayer rights are protected.

The Board also notes that over 40 percent of the total requested amounts for the FY2011 policy level adjustment and these FY2012 initiatives are directed toward the implementation of the ACA—most of which are for the investment in new technology and related infrastructure to administer the new tax credits. Among these new credits are those for small businesses to help them provide health care coverage for their employees and the new premium credit designed to help millions of other Americans purchase individual health coverage. The Board strongly believes that a balanced approach to the implementation of ACA

requires a proper degree of compliance activity, in addition to taxpayer assistance efforts, to deter noncompliance and fraud.

The Board further notes that while IRS enforcement efforts produce direct revenue, their indirect contributions to voluntary compliance are likely even greater. IRS enforcement presence helps improve voluntary compliance by discouraging noncompliance by those who might otherwise be tempted to underreport their taxes and by giving compliant taxpayers confidence in the tax system and the fairness with which the IRS is administering the tax laws.

To provide further context to the value of improved voluntary compliance, the Board notes that a one percentage point improvement in the voluntary compliance rate translates into an additional \$21 billion per year in timely paid federal taxes, based on estimates for tax year 2001 developed from the IRS National Research Program. Some signs of potentially improved voluntary compliance from IRS enforcement efforts can be found in the Board's *2010 Taxpayer Attitude Survey*. Respondents who had received an IRS-initiated contact in the prior year, such as a math error notice, were less likely to agree that it is acceptable to cheat on one's taxes (either "a little here and there" or "as much as possible") than were respondents who had not been contacted by the IRS, i.e., 8 percent of the former versus 12 percent for the latter.

Strategic Foundations: Invest for High Performance in People and Technology

Strategic Foundations comprise two accounts in the IRS budget: Business Systems Modernization (BSM) and Operations Support.

Business Systems Modernization

The IRS Oversight Board supports the total FY2012 budget of \$333.6 million for the BSM account as contained in the President's budget request and summarized in Table 6. The Board considers its funding recommendation for BSM as its highest priority because it reflects a strategic investment, which is crucial to rectifying one of the fundamental weaknesses in the current tax administration environment, i.e., archaic IRS tax processing systems.

Embedded in the President's request and the Board's recommendation for BSM is an FY2011 adjustment (increase) of \$122.6 million to achieve the President's policy level. Because the Board considers BSM funding its highest priority, it further emphasizes that if the IRS does not receive the \$122.6 million increase in FY2011 to achieve the President's policy level, then this amount should be viewed as a Board-recommended FY2012 initiative for BSM.

Table 6. Total Proposed FY2012 Budget for Business Systems Modernization by Project Activity Recommended by the Oversight Board and the President (dollars in thousands)

Business Systems Modernization Projects	FY2012 Budget
Application Migration to CADE 2 (Taxpayer Account Database)	156,800
Current CADE	19,000
Modernized e-File	20,500
Core Infrastructure	37,700
Architecture, Integration and Management	27,645
Management Reserve	2,622
<i>Capital Investment Subtotal</i>	264,267
BSM Labor	69,333
Total BSM	333,600

The President’s request and the Board’s recommendations for BSM also include a proposed shift in FY2012 of \$52 million (following the President’s requested policy level increase for BSM in FY2011) from the BSM account to the Operations Support account. This shift recognizes that as major components of IRS’ aging computer technology are modernized through successful BSM efforts, the ongoing operation and maintenance needs of these components can best be met in the future as part of the funding for existing IT infrastructure within the Operations Support account.

The information in Table 6 reflects the total BSM budget for FY2012, by project activity, assuming the Board’s recommendations and President’s request for BSM are enacted. As is apparent in Table 6, most of the total BSM budget, including nearly 60 percent of the portion devoted to capital investments, reflect the funds needed for the Customer Account Data Engine 2 (CADE 2) program. By the 2012 filing season, CADE 2 will provide a modern relational database and daily updating capability for the core tax processing system for individual accounts. The IRS refers to this important milestone as “Transition State 1.”

Achievement of Transition State 1 under the CADE 2 program will have immediate benefits to taxpayers, including more timely account balance information to better serve taxpayers and the issuance of quicker refunds to the roughly 109 million individual refund filers each year—a major leap forward from the much smaller pool of about 41 million taxpayers receiving daily account processing today under the more limited “current” CADE system. The CADE 2 funding also enables the IRS to build on its new relational database foundation and begin the work on Transition State 2, which will help address long-standing financial material weaknesses identified by the GAO, and begin the replacement of current service and enforcement applications, based on antiquated computer code, with state-of-the-art, Internet-centric modular applications using modern programming languages.

The annual assessment of the BSM program by TIGTA lends further support to the merits of the requested BSM funds for CADE 2. As TIGTA stated in their most recent assessment issued in September 2010,

The IRS 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 CADE 2. When successful, the CADE 2 program will provide a significant boost to the IRS' ability to move away from its antiquated tax return processing systems and provide improved service to taxpayers.³

The Board's recommended funding for BSM will help IRS advance technologically on other fronts as well, such as enabling the IRS to continue further expansion of its successful Modernized e-File (MeF) applications to include the employment series tax returns such as the Form 941, *Employer's Quarterly Federal Tax Return*. Extending MeF capabilities to employment tax returns is particularly strategic, for as was emphasized in the Board's recent 2010 report to Congress on electronic filing, achieving the IRS long term goal of an 80 percent e-file rate for all major tax returns will require effective strategies to substantially increase the volume of electronically filed employment tax returns, particularly the Form 941.

The modern relational database to be achieved through the CADE 2 program and the Internet filing capabilities achieved through the expanding universe of MeF systems, provide the necessary foundations for a new generation of tools and Internet applications that can dramatically improve IRS service and enforcement programs. That is why it so important, in the view of the Board, that policymakers provide the needed BSM funding requested by the President. Indeed, in designating the IRS BSM program as one of the government programs on its "High-Risk Series" list, the GAO has emphasized that the development and delivery of the modernized tax administration and internal management systems are

...critical to providing improved and expanded service to taxpayers and internal business efficiencies for IRS and providing reliable and timely financial management information needed to better enable IRS to justify its resource allocation decisions and congressional budgetary requests.⁴

Operations Support

The IRS Oversight Board supports the FY2011 adjustment in the Operations Support account and the six infrastructure initiatives contained in the President's budget request, but also believes more funding is needed. In particular, the infrastructure funding requested by the President and supported by the Board is vital to sensible tax administration including resources needed to improve security for IRS

³ Treasury Inspector General for Tax Administration, *Annual Assessment of the Business Systems Modernization Program*, Reference Number 2010-20-094, September 23, 2010.

⁴ The United States Government Accountability Office, *High-Risk Series: An Update*, GAO-11-278, February 2011.

systems and staff; provide for a long overdue upgrade to the IRS' obsolete financial management system that currently prevents the agency from meeting federal accounting standards; and enable the development of the technology and other infrastructure components to implement major provisions of the ACA including new information reporting requirements.

However, while the Board applauds the President's budget request for including initiatives to enhance IRS computer systems security and disaster recovery capabilities, and to enhance physical security at IRS facilities, the Board believes more resources are warranted. In addition, the Board is also proposing a new initiative not in the President's budget, which supports a long term strategic goal for the IRS to be one of the best places to work in the federal government. The Board's recommendations for Infrastructure Initiatives are presented in Table 7.

Table 7. Operations Support Adjustment and Infrastructure Initiatives Recommended by the Oversight Board
(dollars in thousands)

President's FY2011 Policy Level Adjustment	10,128	
Infrastructure Initiatives		Portion due to ACA implementation
Enhance Security and Disaster Recovery Systems Capability	35,000	0
Update Integrated Financial System	27,500	0
Leveraging Data to Improve Compliance	1,400	0
Enhance Physical Security for Federal Employees	31,057	0
Implement Individual Coverage Requirement and Employer Responsibility Payments	62,477	62,477
Attract, Retain, and Develop a Highly Engaged Workforce	20,000	0
<i>Initiative Subtotal</i>	177,434	62,477

In relation to the areas where the Board believes more funding is needed for infrastructure initiatives than the President has requested, the Board is recommending an additional \$23 million for the initiative to enhance IRS system security and disaster recovery capabilities (bringing the total initiative request to \$35 million) and an additional \$15.6 million for the initiative to enhance the physical security for IRS employees and taxpayers at IRS office locations (bringing that total to \$31.1 million). The Board is also recommending an initiative of \$20 million to further develop a highly engaged IRS workforce.

Enhance Security and Disaster Recovery Systems Capability

The Board views its two recommendations around enhanced systems security/disaster recovery and enhanced physical security at IRS office locations as highly important to a more robust IRS enterprise risk management strategy. As recent events demonstrate, both natural and

manmade catastrophes do occur, so the IRS needs to be prepared—given the critical role tax administration plays in the economic health of this country. Indeed, Homeland Security Presidential Memorandum has designated several core IRS tax processing systems as part of the Critical Infrastructure Protection (CIP) Program. In a similar vein, TIGTA in its most recent report to the Treasury Secretary on the top ten management and performance challenges facing the IRS elevated “security” to the top challenge, in recognition of the difficult task the IRS faces in safeguarding a vast amount of sensitive financial and personal data and also protecting approximately 100,000 employees and more than 700 facilities.⁵

The infrastructure initiative to *Enhance Security and Disaster Recovery Systems Capability* would address the IRS’ need to provide resiliency of four critical tax systems:

1. Processing remittances;
2. Processing tax returns;
3. Processing refunds; and
4. Responding to taxpayer inquiries.

The intent of this initiative is to move IRS closer to its goal of having a disaster recovery time that does not exceed 12 to 36 hours, dependent upon the system disabled. IRS’ current disaster recovery capability could leave some systems out of operation for days or even weeks at a time.

Enhance Physical Security for Federal Employees

This initiative will fund guard services for the IRS Taxpayer Assistance Centers (TACs) during the filing season, a period when IRS employees and taxpayers receiving assistance may be exposed to greater risk of dangerous situations. The initiative will also enable the purchase and installation of security equipment—cameras, screening equipment, and surveillance devices—as another strategy to address areas of vulnerability identified through a thorough security reassessment of all IRS facilities. This initiative will also support IRS’ full participation on the Joint Terrorism Task Forces (JTTFs) and the Attorney General’s Advisory Counsels (AGACs). It will also train and develop agents to carry out assignments and rapidly follow-up on leads developed by the Garden City Counterterrorism Lead Development Center.

Attract, Retain and Develop a Highly Engaged Workforce

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’s 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.

⁵ Treasury Inspector General for Tax Administration, *Memorandum for Secretary Geithner, Management and Performance Challenges Facing the Internal Revenue Service for Fiscal Year 2011*, October 15, 2010.

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.

Additionally, in the last 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. Retirement rates are expected to remain high in the future, so the IRS will need to continue to recruit highly qualified new employees to replace retired employees, and it must retain those employees it has hired and trained in the last several years. Improving economic conditions will make both these objectives more difficult.

Specific findings by a major IRS operating division indicate that there is a significant benefit associated with high employee satisfaction, 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 proposed initiative will be used to fund activities that have a direct link to increasing and maintaining high levels of employee engagement for front line employees, especially those in mission critical occupations who deal with taxpayers on a regular basis. 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, many highly qualified technical employees are reluctant to move into management. Second, although qualified employees may be highly skilled in their chosen area, they often lack the skills needed to be effective managers and to effectively develop and engage the employees they supervise.

Approval of this initiative would enable the IRS to:

1. Eliminate the backlog of untrained front line managers.
2. Ensure enough capacity to train new managers upon selection in all business units.
3. Improve and expand readiness programs to provide a cadre of candidates to step into management positions.

4. Revise the management curriculum to incorporate more e-learning and promote continuous learning.
5. Evaluate the effectiveness and impact of the IRS' leadership programs.

Specific programs funded through this initiative will focus on the following:

- *Leadership Development* programs will be expanded to provide coaching/mentoring resources to improve manager skills and knowledge of human capital practices. This includes investments in the Accelerated Leadership Programs to provide an alternate path for cultivating a new generation of IRS leaders; in the Leadership Succession Review to determine competency gaps and establish bench strengths; and in the Succession Planning Program to help business units pinpoint where they need to develop skills in future leaders;
- *Workforce Competency & Readiness Assessments* will be updated to ensure that IRS hires candidates with the latest skills for an ever-changing tax code and that employees are ready to move into positions of higher responsibility; and
- *Occupational Support to Employees* will expand employment opportunities by enabling employees to be responsive to taxpayers by providing enhanced video relay service, a telecommunications relay service that enables individuals who are deaf or hard of hearing to communicate with hearing individuals.

Appendix

Changes in the IRS Oversight Board's Budget Recommendation Subsequent to the Submittal of its Approved Budget to the Department of the Treasury

The President's budget request indicates that the Board's FY2012 IRS budget recommendation submitted to the Department of the Treasury is \$13.515 billion. However, the Board's budget recommendation in this report is \$13.342 billion. This appendix explains why the budget recommendation contained in this report is different from that indicated in the President's budget request.

The IRS submitted a proposed FY2012 budget to the IRS Oversight Board in April 2010. Upon review and approval by the Board, the Board submitted its approved budget in June 2010 to the Department of the Treasury, after which it was reviewed and modified by both the Department of the Treasury and the Office of Management and Budget (OMB) before being incorporated into the President's budget. In addition, inflation adjustments in the Board's budget submission to the Department of the Treasury assumed a pay raise for federal employees. The Oversight Board did not participate in the review and approval process at either the Department of the Treasury or the OMB or in the formulation of the President's budget.

Although the Patient Protection and Affordable Care Act, P. L. 111-148 (also known as the ACA), was enacted on March 23, 2010, the IRS budget formulation process for FY2012 was well underway at the time of passage, and specific resource needs had not been estimated. Hence, there was no funding for any ACA-related activity in the IRS FY2012 budget submitted to the Department of the Treasury by the Board.

Any changes that occurred after the Board submitted its approved budget to the Department of the Treasury, such as changes in inflation rates, estimated savings, or changes in requirements, such as ACA-related needs, were unknown to the Board. The Board only saw the President's final budget request when it was made available to the public. Upon receipt of the final budget, the Board adjusted its previously-approved IRS budget recommendation to account for the following circumstances:

- The Board's approved FY2012 budget baseline in its June 2010 submission to the Department of the Treasury was the FY2011 President's request. The budget recommendation used in this report are the Continuing Resolution level modified by the FY2011 President's Policy Level adjustment.
- The inflation factors for labor and non-pay inflation were only estimated at the time when the Board approved the IRS budget, and were subsequently adjusted in this report to reflect the federal pay freeze as well as changes in non-pay inflation rates.

IRS Oversight Board Special Report

- The IRS budget approved by the Board did not contain all the savings contained in the President's budget. During subsequent reviews with the Department of the Treasury and OMB, additional savings were identified. The Board's budget recommendations in this report have been adjusted to reflect these additional savings.
- The Board also re-evaluated its recommendations for all initiatives based on program developments and shifting priorities that occurred between April 2010 and March 2011 and made adjustments accordingly.
- After release of the President's budget, the Board conducted an independent review of the need for the ACA-related initiatives in the President's FY2012 budget and the IRS' basis of estimate. It approved these initiatives and included them in its latest budget recommendation presented in this report.

IRS Oversight Board

Contact Information

IRS Oversight Board
1500 Pennsylvania Avenue, NW
Washington, DC 20220

www.irsoversightboard.treas.gov

Ph: 202-622-2581

Charles A. Lacijan
Staff Director