



# IRS Oversight Board

## FY2015 IRS Budget Recommendation Special Report

MAY 2014

This report captures the Board's recommendations to Congress regarding the IRS Fiscal Year (FY) 2015 budget, a budget that is in line with the strategic goals and strategic foundations previously identified by the IRS:

**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

## IRS Oversight Board Roles and Responsibilities and the IRS Budget

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.”

One of the IRS Oversight Board's most important statutory responsibilities under 26 U.S.C. §7802(d) is to review and approve the annual IRS budget request submitted to the Department of the Treasury. The Board must ensure the approved budget and related performance expectations: (1) support the IRS mission, and both the annual and long-range strategic plans; (2) are consistent with IRS goals, objectives and strategies; and (3) properly align with IRS strategies and plans.

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 Modernization Act* spells out the agency's responsibilities for linking its strategic plan, budget and performance plans and reporting to a comprehensive strategic process.

The Board recently reflected upon its role in tax administration and identified the significant contributions it has made in the 15 years since RRA 98 was passed. These contributions are noted in the Board's *Annual Report to Congress 2013*, which was released this year and is available at [www.irsoversightboard.treas.gov](http://www.irsoversightboard.treas.gov).



# IRS Oversight Board

## FY2015 IRS Budget Recommendation Special Report

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# Executive Summary

The Internal Revenue Service (IRS) Oversight Board recommended a Fiscal Year (FY) 2015 budget of \$13.590 billion to the Secretary of the Treasury in July 2013. The President's Budget Request, which the Board ultimately supports, is for \$12.477 billion. In FY2014, the IRS was one of only a few government agencies that did not have its funding restored to pre-sequestration levels under the *Consolidated Appropriations Act of 2014*. Meanwhile, the FY2013 post-sequestration IRS funding level was the lowest since FY2009.

In the last four years, the IRS has faced uncertain funding levels and budget reductions due to sequestration and other issues. Uncertainty in the budget process and limited funding has hindered the IRS in addressing its long term strategic goals and

initiatives. This is a primary concern of the Board. The IRS must invest in technology, training, and employees in order to keep up with ever-increasing security threats, new statutory responsibilities, and the service needs of taxpayers. As a result of

*Uncertainty in the budget process and limited funding has hindered the IRS in addressing its long term strategic goals and initiatives.*

this budget environment, the IRS has scaled back investments to pay for more pressing needs and must now catch-up to avoid long term harm.

In the current budget environment, the IRS faces numerous challenges, many of which are rooted in budget shortfalls that the Board believes must be addressed to preserve the integrity of our tax system. One of the biggest challenges the IRS faces is its inability to provide a balanced portfolio of customer service options with a shrinking budget and workforce.

Since FY2010, taxpayer service and infrastructure needs increased, while funding for taxpayer assistance, education, and outreach decreased. As a result, the level of service for taxpayers on IRS toll-free telephone assistance lines dropped, wait times increased, services at Taxpayer Assistance Centers were scaled back, and taxpayer correspondence piled up. Investments in technology have also fallen behind in recent

## IRS OVERSIGHT BOARD BUDGET AT A GLANCE

- IRS Oversight Board FY2015 Budget Recommendation: \$13.590 billion
- President's FY2015 Budget Request for the IRS: \$12.477 billion
- Difference: \$1.114 billion, largely due to different starting points in developing budget recommendations<sup>1</sup>

<sup>1</sup> IRS Fiscal Year (FY) 2014 Budget Enacted: \$11.290 billion

years as a result of chronic under-funding.

IRS enforcement is also suffering. The overall audit coverage rate for individuals fell below one percent for the first time since FY2006.

The coverage rate for businesses also decreased across all business returns. There were also declines in enforcement personnel, as the number of IRS revenue officers and revenue agents continued to decline in FY2013.

Compounding these challenges are unfunded legislative mandates the IRS must administer, the growth of identity theft and refund fraud, a shrinking workforce, and aging technology infrastructure. All of these consume valuable resources from the IRS, and ultimately, the American people.

The Board recognizes the recent fiscal environment may likely persist in future years, and ultimately supports the President's Budget Request because it addresses many areas of concern for the Board. If funding levels remain at the amounts seen in recent years and legislators continue to add complexity and unfunded statutory changes to the tax code, taxpayers will be harmed by additional cuts to services they need to comply.

The stability of our nation's tax system will also be at risk if enforcement plummets and the tax gap grows. The Board believes under-funding the IRS only punishes American taxpayers by endangering critical programs upon which they depend.

## HIGHLIGHTS OF THE PRESIDENT'S FY2015 IRS BUDGET REQUEST

If the President's request is funded, the IRS will:

- Increase telephone level of service to at least 71 percent.
- Collect an additional \$2.1 billion in enforcement revenue.
- Prevent, through improved identity theft fraud detection, an additional \$360 million a year in revenue from going out the door.
- Enhance online services to make it easier for taxpayers to understand and meet their tax compliance obligations.
- Enhance its capability to detect, resolve, and prevent criminal and civil tax noncompliance through the Return Review Program.
- Upgrade telephone technology to save taxpayers time when calling to address account issues.
- Close an additional 13,000 identity theft cases.
- Close more than 500,000 additional cases, including individual audits, employment tax exams and collection matters.
- Strengthen its document matching program to identify underreporting of income.
- Continue implementing provisions of the *Affordable Care Act* and *Foreign Account Tax Compliance Act*.
- Complete or continue a number of long term infrastructure projects on the drawing board, such as improving security at IRS facilities.

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# The President's Budget Request and IRS Oversight Board Recommendations

In the last four years, the Internal Revenue Service (IRS), along with other federal agencies, has faced uncertain funding levels and budget reductions due to sequestration and other issues. Uncertainty in the budget process and limited funding has hindered the IRS in addressing its long term strategic goals and initiatives, a primary concern of the Board. The IRS must invest in technology, training, and employees in order to keep up with ever-increasing security threats, new statutory responsibilities, and the service needs of taxpayers. As a result of this budget environment, the IRS scaled back these investments to pay for more pressing needs and must now catch-up to avoid long term harm.

Throughout 2013, the IRS was marred by a series of controversies that ultimately resulted in what the Board views as an inadequate funding level for the IRS in Fiscal Year (FY) 2014, and one that the Board is concerned may persist into FY2015. The Board believes under-funding the IRS only punishes America's taxpayers and endangers the fiscal health of our

nation and critical programs upon which Americans depend.

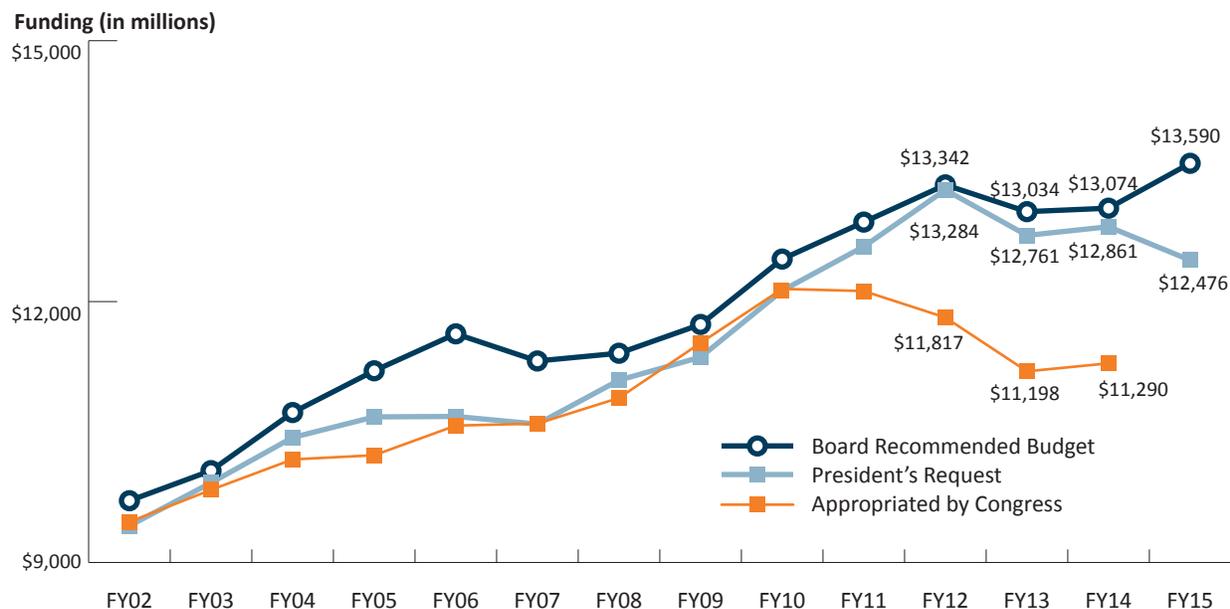
*The Board believes under-funding the IRS only punishes America's taxpayers and endangers the fiscal health of our nation and critical programs upon which Americans depend.*

The IRS Oversight Board recommended an FY2015 budget of \$13.590 billion to the Secretary of the Treasury in July 2013. The President's Budget Request is for \$12.477 billion. The \$1.114 billion difference is due largely to different assumptions regarding the starting points for the two budget requests. In developing its FY2015 IRS budget recommendation, the Board started with the President's FY2014 IRS Budget Request figure as the base, as it was the most appropriate starting point when the Board developed its recommendation. In contrast,

the President's Budget Request submitted in March 2014, reflected the enacted FY2014 funding level of \$11.290 billion. Appendix A on page 19 contains the Board's initial FY2015 recommended budget. Appendix B on page 20 is a comparison of the budgets requested by the Board and the President.

The President's Budget Request mentions the spending level agreed to by Congress for FY2015 and adheres to that level in the budget. Additionally, the President included an *Opportunity, Growth, and Security Initiative* in his overall budget request. This initiative would provide the IRS with an additional \$165 million, and is aimed to address the short-sighted nature of cuts to government operations that compromise efficiency and effectiveness and cost money over the long run. Such cuts result in growing deferred maintenance backlogs, sharp cuts to Federal employee training, and erosions in customer service at the IRS. These short term cuts ultimately become more costly to address over time. For this reason, the Board encourages Congress to consider the long

FIGURE 1.  
**IRS Funding History, FY2002-2015**



SOURCE: IRS

term consequences of underfunding the IRS.

### Historical Overview

The IRS has faced declining funding levels in three of the last four fiscal years. For FY2014, the IRS received approximately

\$11.3 billion in funding, which includes an additional \$92 million specifically to address taxpayer service, identity theft, fraud, and international compliance issues. When inflation is considered, the FY2014 enacted budget is almost equal to the FY2013

budget of \$11.2 billion, and both represent the lowest budgets in the history of the Oversight Board.<sup>2</sup> Without considering inflation, the President's Budget Request seeks approximately \$400 million less than the FY2014 request. Figure 1 shows the historic funding of the IRS.

<sup>2</sup> All inflation adjustments are based on the Gross Domestic Product (GDP) (chained) price index and are adjusted to 2014 dollars.

## Funding for Initiatives

While the Board believes the IRS could make effective use of the higher funding levels embedded in the Board's initial recommendation, the initiatives in the President's FY2015 Budget Request largely reflect refinements, based on more current circumstances, of the various initiatives previously recommended by the Board for FY2014 and FY2015. The Board can accordingly support the President's overall FY2015 Budget Request for the IRS. The President's Budget Request mentions the spending level agreed to by Congress for FY2015 and adheres to that level in the budget. Additionally, the President included a separate *Opportunity, Growth, and Security Initiative* to address the short-sighted nature of cuts to government operations that compromise efficiency and effectiveness and cost money over

*When inflation is considered, the FY2013 and FY2014 enacted budgets represent the lowest budgets in the history of the Oversight Board.*

the long run. The Board believes continuous budget cuts are counterproductive, and strongly encourages Congress to consider the long term consequences of under-funding the IRS.

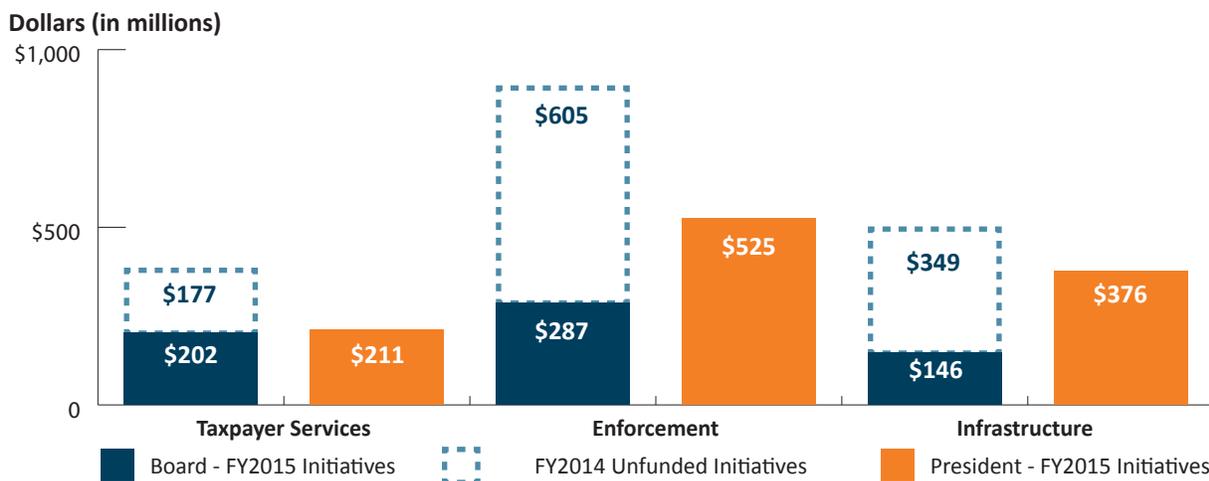
The differences between the Board's and the President's Budget Request for new initiatives are illustrated in Figure 2. In terms of increased IRS funding for taxpayer service initiatives in FY2015, the President's Budget

Request is \$211 million, while the Board's recommendation for FY2015 is \$202 million. However, in recommending taxpayer service initiatives for FY2015, the Board also assumed the IRS would receive an additional \$177 million in taxpayer service funding initiatives in FY2014—an increase for IRS customer service operations that never materialized. The President's request takes that baseline reduction into account. Thus, in total through FY2015, the Board has actually recommended increased funding for taxpayer service initiatives of approximately \$379 million (i.e., \$202 million plus \$177 million), or about \$168 million more than the President's request.

Similarly, the President's request for \$525 million in FY2015 enforcement initiatives is lower than the Board's combined

FIGURE 2.

## IRS Oversight Board Recommendation and President's Budget Request for New Initiatives



SOURCE: IRS

recommended enforcement initiatives through FY2015 of \$892 million (i.e., \$287 million in FY2015 plus \$605 million assumed in the FY2014 base).

The President's FY2015 request for infrastructure initiatives is \$376 million, compared to the Board's combined recommended infrastructure initiatives through FY2015 of \$495 million (i.e., \$146 million in FY2015 plus \$349 million assumed in the FY2014 base).

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# IRS Challenges and the President's Budget Request

In the current uncertain budget environment, the IRS faces numerous challenges, many rooted in budget shortfalls, which the Board believes must be addressed. Some challenges are related to technology, training, and employees, while others are associated with the broken budget process itself. The Board outlines the most pressing challenges below and comments on how the President's Budget Request addresses them, in keeping with the intent of the Board's budget recommendations.

## Expanding Unfunded Legislative Mandates

In recent years, the IRS has seen its duties expand, including some that go beyond its traditional service and enforcement mission. Congress has increasingly called upon the IRS to implement the tax-related portions of new legislation. Although the IRS has been tasked with more and more responsibilities, it has not received sufficient funding to carry them out.

The unfunded expansion of IRS responsibilities, inside and outside

of traditional tax administration, carries tremendous costs, with impacts often not immediately apparent. The IRS must carry out statutory responsibilities above all else. When new tax laws are passed and the IRS is not given funding, the IRS has no choice but to reallocate resources, i.e., take money and personnel away

*When new statutory responsibilities are assigned to the IRS without funding, the IRS must take money and personnel away from other programs.*

from other programs, in order to implement the new tax laws. As a result, while the areas of statutory responsibility increase, the IRS is often left with no choice but to reduce services and enforcement programs which support revenue collection, but are not explicitly required by law.

For example, the IRS began making difficult choices in

FY2013 and reduced the face-to-face services it provided to taxpayers for the 2014 filing season. Accordingly, the Board is concerned about the loss of services but ultimately supports the deliberate approach IRS leadership took in making these tough decisions.

The Board encourages Congress to consider the actual costs borne by the IRS in implementing new legislation without associated funding. The Board consistently calls for fully funding the IRS; calls echoed and recently amplified by other groups including tax professionals, the Treasury Inspector General for Tax Administration (TIGTA), the Internal Revenue Service Advisory Council, and the National Taxpayer Advocate. The Taxpayer Advocate called the cuts "shortsighted and counterproductive," in highlighting the IRS budget as one of the most serious problems facing taxpayers and the IRS in her most recent report to Congress. The Board, like the Taxpayer Advocate, believes inadequate funding is at the heart of many of the challenges faced by the IRS.

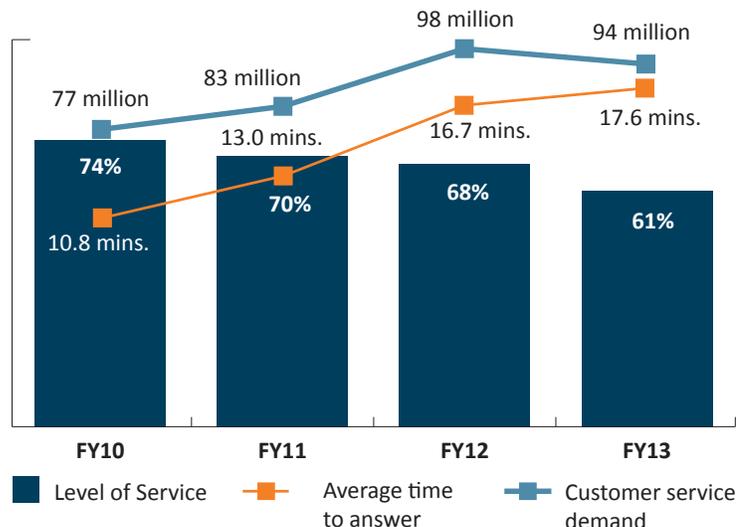
## Taxpayer Services Challenges

The IRS has a diverse customer base, requiring a number of different service options and products. It must provide effective customer service across its telephone operations and in-person contacts, through correspondence, and to the tax professional community. One of the biggest challenges faced by the IRS is the inability to provide a balanced portfolio of customer service options with a shrinking budget and workforce. Since FY2010, taxpayer demand on IRS employees and infrastructure increased while funding for taxpayer assistance, education, and outreach decreased. As a result, IRS level of service for taxpayers on its toll-free telephone assistance lines dropped while wait times increased, as illustrated in Figure 3.

*Without additional customer service funding, almost half of all calls will not be answered in 2015 due to projected increases in demand anticipated by the Affordable Care Act.*

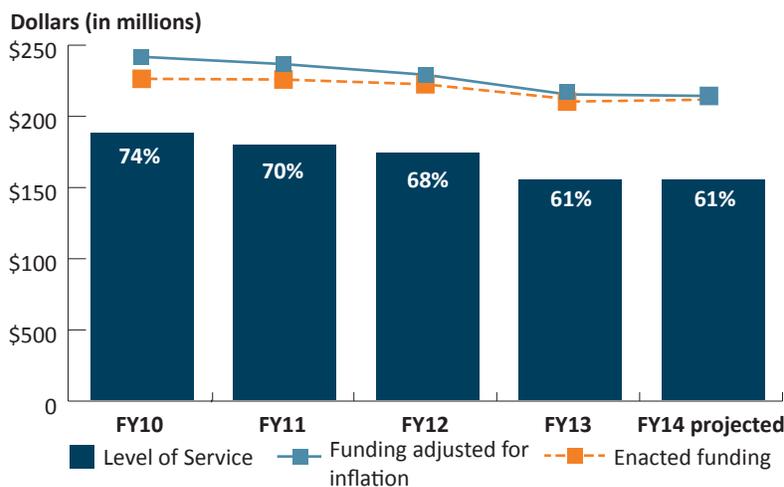
If the funding levels for Taxpayer Services are isolated from the FY2010-FY2014 budgets and adjusted for inflation, the negative consequence of less IRS funding and lower levels of service emerges.

FIGURE 3.  
IRS Telephone Customer Service Demand, Levels of Service, and Average Time to Answer



SOURCE: IRS

FIGURE 4.  
IRS Funding for Taxpayer Services and Telephone Levels of Service



SOURCE: IRS

See Figure 4 for an illustration.

The Board believes the IRS should provide, at a minimum, a level of service of 80 percent. Unfortunately, the IRS does not

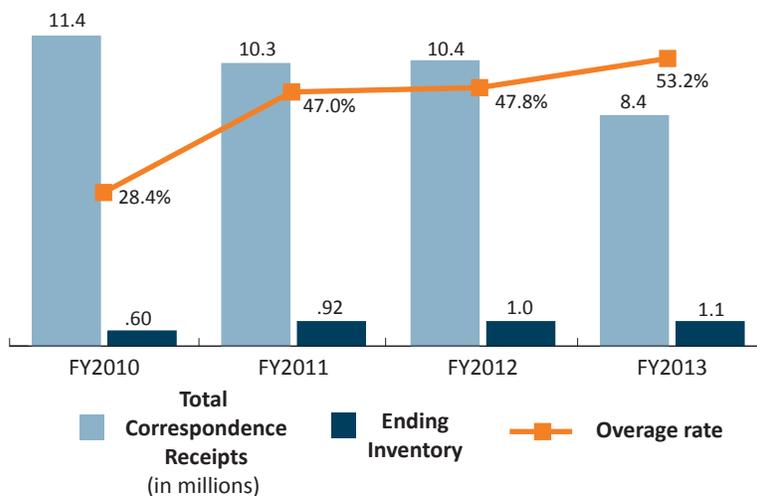
have adequate funding to do so. In the view of the Board, it is unrealistic to expect the level of service to increase to 80 percent without an associated increase in the Taxpayer Services budget.

The Board notes the accuracy rate of IRS employees remains high. While almost forty percent of taxpayers cannot reach the IRS by phone, those who do get through experience an accuracy rate of approximately 96 percent. The Board believes the IRS should continue to provide this level of accuracy.

Insufficient IRS funding hurts taxpayers in other areas. Operating hours at IRS walk-in Taxpayer Assistance Centers (TACs) were reduced in FY2013 due to funding constraints. The IRS assisted around 6.5 million taxpayers at its TACs in FY2013, down from about 6.8 million in FY2012. In addition, for FY2014, major services at TACs, such as return preparation assistance for low income taxpayers, were discontinued altogether.

The IRS also faces growing backlogs in its written taxpayer correspondence inventory, due in part to inadequate budget resources. Correspondence is a crucial part of customer service as the IRS conducts over one million individual examinations by mail each year, and sends out approximately nine million additional notices each year to taxpayers due to math errors and other discrepancies on tax returns. Most actions needed to resolve these cases are handled through the mail. At the end of FY2013, over half of the correspondence inventory was “overage,” or over 45 days old. As shown in Figure 5, while total correspondence receipts have decreased since FY2010, the percentage of overage cases has

FIGURE 5. Correspondence Receipts, Ending Inventory, and Overage Percentages FY2010-2013



SOURCE: IRS

nearly doubled to approximately 1.1 million cases—reflecting yet another negative consequence from insufficient IRS funding.

The President’s Budget Request addresses customer service in several places. The President requested \$211 million to improve taxpayer service and return

processing, which will allow the IRS to improve telephone level of service to 71 percent. The requested funding takes into account the projected growth in demand as a result of the Affordable Care Act (ACA), noting that without this additional funding, level of service will actually decline to 53 percent because of the increased demand. There is also \$64.8 million requested for the prevention of identity theft and refund fraud.

The President included a separate *Opportunity, Growth, and Security Initiative* in the budget request. The request provides an additional \$165 million for the IRS to boost the level of service another 11 percentage points to 82 percent overall, reduce the correspondence inventory backlog, and address complicated identity theft and refund fraud cases. The Board finds merit in this separate initiative, and encourages

*The President included a separate Opportunity, Growth, and Security Initiative, which provides \$165 million to boost telephone level of service another 11 percentage points to 82 percent. The Board finds merit in this initiative.*

Congress to explicitly address and fund a level of service of at least 80 percent.

### Compliance Challenges

IRS enforcement programs provide direct and measurable returns on investment. While estimates vary on the ratio of returns to investments depending upon which IRS tax law enforcement program is funded, the IRS reports an overall ratio of around \$4-to-\$1. Enforcement programs allow the IRS to further voluntary compliance, help reduce the estimated \$450 billion tax gap, and provide much needed dollars to the federal purse.

To date, the business case for collecting more revenue under existing law, without raising taxes on the American public, has not persuaded policymakers to fully fund IRS enforcement initiatives; the Board does not understand why.

Improved compliance remains a top priority of the IRS Strategic Plan. In FY2013, IRS

*Based on FY2014 funding, the individual examination coverage rate will soon fall below 0.9% for the first time since FY2004.*

enforcement actions brought in \$53.3 billion in direct revenue—\$3.2 billion more than FY2012. Yet this revenue amount, which is over four times the enacted FY2013 IRS budget level, can be misleading. Enforcement revenue results are often spread over multiple years as cases move through various stages of appeal, litigation, and collection. The IRS attributes almost 80 percent of the increase over FY2012 to the final resolution of a certain set of cases initiated in previous fiscal years. These results provide much needed ballast to the enforcement revenue figures but also distort the long term effects of under-funding enforcement programs.

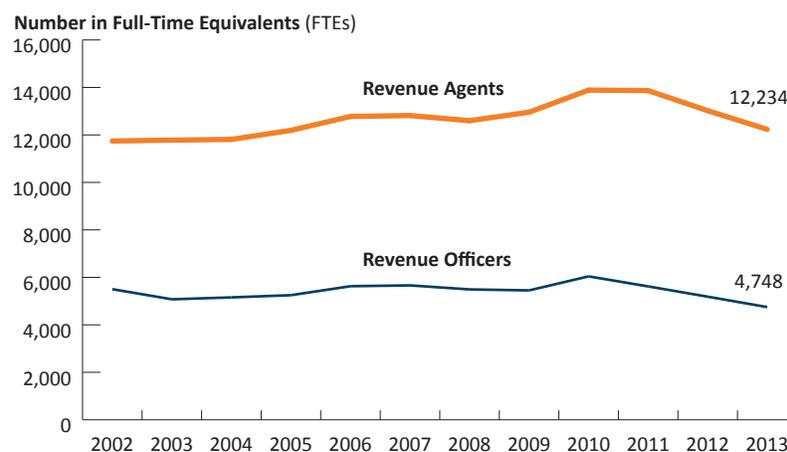
In short, recent enforcement revenue results should be considered as a cautionary note. Their lagged nature suggests direct enforcement revenue is likely to drop in the coming years as the impact of inadequate funding

for IRS enforcement programs manifests itself.

Other IRS enforcement-related data reflect the cumulative effect of several years of decreasing funding levels. While audits of individuals surpassed one million for the seventh year in a row, the overall examination coverage rate for individuals fell below one percent for the first time since FY2006. The coverage rate for all business returns also decreased. There were also declines in enforcement personnel, as the number of IRS revenue officers and revenue agents continued to fall in FY2013. As shown in Figure 6, by the end of 2013, the number of revenue officers was the lowest in at least 10 years, and the number of revenue agents was the lowest in nine years. Based on FY2014 funding, the individual examination coverage rate will soon fall below 0.9% for the first time since FY2004.

FIGURE 6.

### Staffing for Key Enforcement Occupations



SOURCE: IRS

These declines in IRS enforcement staffing and audit coverage will likely result in an overall downward trend in revenue and less voluntary compliance in future years.

The President's Budget Request contains initiatives to increase compliance, to prevent identity theft and refund fraud, and to implement new statutory requirements surrounding the *Foreign Account Tax Compliance Act* (FATCA) and ACA. The request seeks to fund some of the enforcement initiatives through program integrity cap adjustments that explicitly tie the needed IRS resources for these programs to the associated return on investment secured from the initiatives.

The Board supports all the FY2015 enforcement initiatives in the President's Request, but defers to policymakers on whether the initiatives should be funded through program integrity cap adjustments or regular appropriations. However, the Board wishes to emphasize that IRS enforcement initiatives typically generate direct enforcement revenue that far exceeds the associated costs, and thus serve to reduce deficit spending, whether some of that enforcement revenue also gets factored in as an IRS budget funding mechanism or not. The Board also expects the IRS to be a good steward and ensure all of the funds it receives to administer federal tax laws are used in the most efficient and

effective manner possible to meet legal requirements and further voluntary compliance.

### Infrastructure Challenges

The President's Budget Request includes a series of initiatives aimed at keeping IRS technology up to date. Investments in technology by the IRS fell behind in recent years as a result of chronic under-funding. The IRS aims to keep hardware and software technology as current as possible, but has deferred infrastructure maintenance and updates in recent years due to a lack of funding. As an example, the IRS still has computer workstations running the Windows XP operating system, which Microsoft stopped supporting in April 2014, and which required the IRS to expend a portion of its limited funds on a custom support contract to ensure that its XP machines keep getting security updates.

Other infrastructure initiatives are included to increase the efficiency of internal operations and maintain the accuracy of data in IRS financial statements. The Board remains concerned that without adequate funds for infrastructure, the IRS will fall further behind as older technology components begin to fail or otherwise become obsolete in the future. Reliance on outdated technology, in turn, raises serious security risks to IRS systems and the taxpayer data these systems must protect.

### Human Capital Challenges

If the inadequate funding trend continues, FY2015 will be another difficult year for IRS employees. The workforce has decreased over the last four years due to a longstanding combination of attrition and a hiring freeze. As the result of the hiring freeze, new employees replace outgoing employees at a rate of one to five. This means a current IRS employee will see five coworkers leave, some of them the most experienced and well trained, before one new employee is eventually hired to cope with a growing workload. This puts enormous stress on new employees arriving at understaffed offices and those who remain as they shoulder the burden of the work left behind until a new employee arrives to help.

*Because of the hiring freeze, new employees replace outgoing employees at a rate of one to five.*

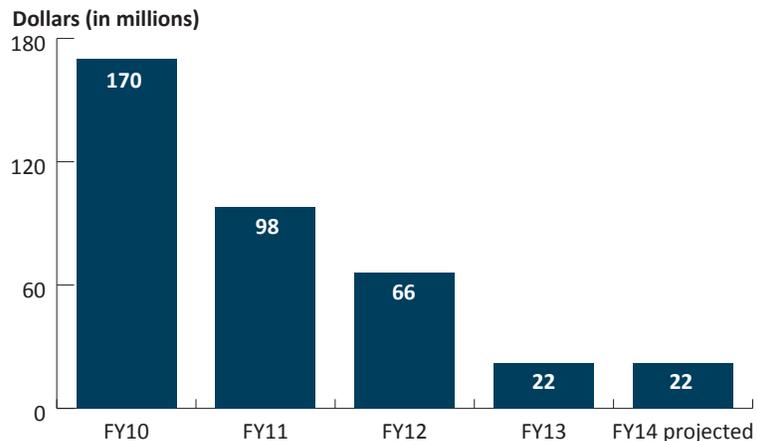
As a result of controversies the IRS faced in 2013, the training and travel budgets were slashed by IRS leadership. Since 2010, training costs have been reduced by 87 percent (see Figure 7). The Board believes the cuts went too far. As the tax code grows more complex every year, the IRS must train new employees to become, and existing employees to remain, knowledgeable and proficient.

Individual and business taxpayers look to the IRS to explain the tax code. The Board considers employee proficiency vital for providing quality service for taxpayers and also for preparing employees to enter, with a high degree of confidence, adversarial proceedings against well-trained tax advisors. With drastic cuts to training, the Board does not doubt the level of investment in professional training for tax professionals in the private sector far outpaces the IRS, and fears the imbalance will negatively influence IRS performance in both customer service and adversarial proceedings.

*Since 2010, training costs have been reduced by 87 percent.*

The Board believes travel for IRS employees is vital to internal management and to ensure effective communications with external stakeholders. The Board is supportive of the IRS devoting more resources, in an efficient and responsible manner, to employee training and travel.

FIGURE 7.  
**IRS Training Budget FY2010-2014**



SOURCE: IRS

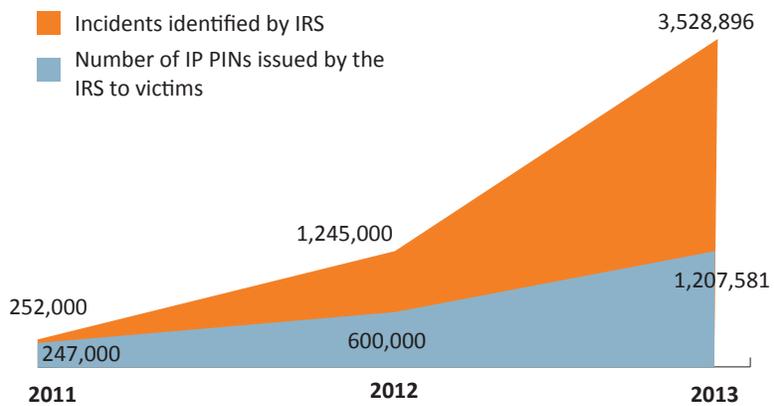
## Identity Theft and Refund Fraud

Tax refund fraud, particularly as it relates to identity theft, has been a major challenge for the IRS and the taxpayers who are victimized. Identity theft cases, as well as IRS efforts to combat identity theft related fraud, have increased dramatically over the past several years. As shown in Figure 8, in FY2013 the IRS identified more than 3.5 million identity theft incidents. Approximately 1.2 million taxpayers who were

*In FY2013 the IRS identified more than 3.5 million identity theft incidents.*

victims of identity theft were issued special Identity Protection (IP) PINs by the IRS for use in the 2014 filing season. This unique identifier establishes a taxpayer as the rightful filer of future returns and is, among other things, intended to reduce the number of taxpayers caught up in delays and prevent fraudulent returns from being processed. Identity theft and tax fraud remain very serious problems that consume valuable resources for both taxpayers and the IRS.

FIGURE 8.  
**Trends in Identity Theft 2011-2013**



SOURCE: IRS

## Business Systems Modernization

The Business Systems Modernization (BSM) effort allows the IRS to build and deploy IT systems to improve efficiency and enhance productivity. In 2014, the IRS moved the Return Review Program (RRP) and projects from the Office of Online Services (OLS) under the BSM program to reflect the strategic importance of these technology programs to the long term health of federal tax administration.

The President's Budget Request will allow the IRS to: continue the expansion of the Customer Account Data Engine (CADE) 2, begin the development of the electronic version of Form 1040X (*Amended U.S. Individual Income Tax Return*), detect and prevent tax refund fraud through the RRP, and build the future of digital customer service through OLS. The Board supports the BSM funding levels in the President's Budget Request and is encouraged by the selection of OLS to lead the IRS-wide transition to digital customer service.

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## Conclusion

The Board recognizes the recent fiscal environment may likely persist in future years, and ultimately supports the President's Budget Request because it addresses many areas of concern for the Board. If funding levels remain at amounts seen in recent years, and legislators continue to add unfunded complexity to the tax code, taxpayers must lower their expectations of IRS services while the IRS continues making very difficult decisions. The Board acknowledges that further cuts to IRS programs will continue in the coming years absent of more funding, and supports recent efforts to inform Congress and the American public what IRS budget dollars provide back to the country.

The Board supports the funding provided by the *Opportunity, Growth, and Security Initiative*

outlined in the request, as it provides the means to increase telephone level of service to above 80 percent, reduces the correspondence inventory backlog, and adds resources to address complicated identity theft and refund fraud cases. The IRS must carry out statutory responsibilities above all else.

Since its founding, the Board has consistently advocated for fully funding the IRS. When asked by Congress about the confines of the IRS budget, the Chairman of the Oversight Board said,

“The level of what [the IRS does] is to a great extent impacted by their budget. They get an amount of money; there are certain things that they have to do. They have to process the tax returns. They need to provide some level of service and do enforcement. But when there is more and more work

and less people and limited new technology to make them more efficient, what happens is they get less of the work done.”

This statement rings just as true today as it did when it was said twelve years ago. It was voiced by Larry R. Levitan, the first Chairman of the Oversight Board, during testimony to the Ways and Means Subcommittee on Oversight of the House of Representatives on February 28, 2002. The large gap between the budgets from the Oversight Board, the President, and Congress can be attributed to many causes over the years, but the role of the Oversight Board is to provide a nonpartisan voice to what the IRS needs. The Board encourages Congress to consider the needs of taxpayers and the long term stability of the tax system while making funding decisions.

*IRS Oversight Board FY2015 IRS Budget Recommendation Special Report*

APPENDIX A.

**IRS Oversight Board Initial Recommended FY2015 Budget**

	Dollars in Thousands
FY2013 Sequestration Operating Level	\$11,198,611
FY2014 President's Budget	\$12,861,033
Maintaining Current Levels (MCLs)	163,645
Efficiencies/Savings:	(99,128)
<i>Subtotal FY2015 Changes to Base</i>	<i>\$64,517</i>
FY2015 Current Services (Base)	\$12,925,550
<i>Program Increases</i>	
<i>Taxpayer Services Initiatives</i>	
• Improve Taxpayer Service and Returns Processing	166,939
• Expand Low Income Taxpayer Clinics	2,627
• Expand Online Services to Enhance Web Customer Service	32,456
<i>Subtotal Taxpayer Services Initiatives</i>	<i>\$202,022</i>
<i>Enforcement Initiatives</i>	
• Increase Offshore Compliance	23,429
• Prevent Identity Theft and Refund Fraud	79,291
• Expand Audit Coverage	75,332
• Enhance Collection Coverage	64,937
• Pursue Fraud Referrals, Employment Tax, and Abusive Tax Schemes	19,886
• Expand Office of Professional Responsibility	4,478
• Expand Compliance Coverage in the Tax-Exempt Sector	19,854
<i>Subtotal Enforcement Initiatives</i>	<i>\$287,207</i>
<i>Infrastructure Initiatives</i>	
• Improving Information Technology Services	10,000
• Implement Campus Consolidation and Revitalization Strategy	30,500
• Address Departmental Priorities	84,002
• Implement Security Countermeasures	2,500
• Maintain Integrity of Revenue Financial Systems	12,416
• Attract and Retain a Quality Workforce	6,123
<i>Subtotal Infrastructure Initiatives</i>	<i>\$145,541</i>
<i>BSM Initiative</i>	
• Migration from Aging Tax Administration System to Development of Real Time Tax System	30,000
<i>Subtotal BSM Initiative</i>	<i>\$30,000</i>
Subtotal FY2015 Program Increases	664,770
<b>Total FY2015 Budget Request</b>	<b>\$13,590,320</b>

This table presents the FY2015 funding and initiatives initially proposed by the Oversight Board in July 2013. Note that in developing its FY2015 IRS budget recommendation, the Board started with the President's FY2014 IRS Budget Request figure as the assumed base. As of July 2013, the President's FY2014 IRS Budget Request was deemed to be the most appropriate starting point.

APPENDIX B.

**IRS Oversight Board Budget Comparison**

Dollars in Thousands	Board's Budget	President's Budget	Difference
FY2014 President's Budget	\$12,861,033		
FY2014 Enacted Budget		\$11,290,612	(\$1,570,421)
Non-Recur FY2014 Supplemental Appropriation		(92,000)	(92,000)
Maintaining Current Levels (MCLs)	163,645	223,177	59,532
Efficiencies/Savings:	(99,128)	(95,200)	3,928
Reinvestment: Telecom Infrastructure		16,025	16,025
<i>Subtotal FY2015 Changes to Base</i>	\$64,517	\$52,002	\$12,515
FY2015 Current Services (Base)	\$12,925,550	\$11,342,614	(\$1,582,936)
<i>Program Increases</i>			
<i>Taxpayer Services Initiatives</i>			
• Improve Taxpayer Service and Returns Processing	166,939	211,258	44,319
• Expand Low Income Taxpayer Clinics	2,627	0	(2,627)
• Expand Online Services to Enhance Web Customer Service	32,456	0	(32,456)
<i>Subtotal Taxpayer Services Initiatives</i>	\$202,022	\$211,258	\$9,236
<i>Enforcement Initiatives</i>			
• Increase Offshore Compliance	23,429	56,810	33,381
• Prevent Identity Theft and Refund Fraud	79,291	64,876	(14,415)
• Expand Audit Coverage	75,332	97,779	22,447
• Enhance Collection Coverage	64,937	66,762	1,825
• Pursue Fraud Referrals, Employment Tax, and Abusive Tax Schemes	19,886	17,812	(2,074)
• Expand Office of Professional Responsibility	4,478	0	(4,478)
• Expand Compliance Coverage in the Tax-Exempt Sector	19,854	16,095	(3,759)
• Expand Coverage of High Wealth Individuals and Enterprises	0	20,957	20,957
• Address Impact of ACA Statutory Requirements	0	56,099	56,099
• Improve Coverage of Partnerships and Flow-Through Entities	0	36,539	36,539
• Build Out Tax Return Preparer Compliance and Professional Responsibility Activities	0	17,537	17,537
• Implement IT Changes to Deliver FATCA	0	32,223	32,223
• Leverage Digital Evidence for Criminal Investigation	0	4,372	4,372
• Leverage Data to Improve Case Selection	0	36,793	36,793
<i>Subtotal Enforcement Initiatives</i>	\$287,207	\$524,654	\$237,447
<i>Infrastructure Initiatives</i>			
• Improving Information Technology Services	10,000	10,000	0
• Implement Campus Consolidation and Revitalization Strategy	30,500	10,000	(20,500)
• Address Departmental Priorities	84,002	0	(84,002)
• Implement eGovernment and Other Administration Priorities	0	31,011	31,011
• Implement Security Countermeasures	2,500	0	(2,500)
• Maintain Integrity of Revenue Financial Systems	12,416	12,136	(280)
• Attract and Retain a Quality Workforce	6,123	0	(6,123)
• Implement IT Changes to Deliver Tax Credits and Other Requirements	0	305,645	305,645
• Expand Virtual Service Delivery	0	7,701	7,701
<i>Subtotal Infrastructure Initiatives</i>	\$145,541	\$376,493	\$230,952
<i>BSM Initiative</i>			
• Migration from Aging Tax Administration System to Development of Real Time Tax System	30,000	0	(30,000)
• Continue Migration from Aging Tax Administration Systems – Enhance Online Services	0	16,508	16,508
<i>Subtotal BSM Initiative</i>	\$30,000	16,508	(13,492)
<i>Subtotal FY2015 Program Increases</i>	\$664,770	\$1,128,913	\$464,143
<b>Proposed Transfer to Tax and Trade Bureau</b>	0	5,000	5,000
<b>IRS FY2015 Budget Request after Transfer to Tax and Trade Bureau</b>	\$13,590,320	\$12,476,527	(\$1,113,793)

**IRS Oversight Board**

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