



# IRS Oversight Board

## FY2014 IRS Budget Recommendation Special Report

MAY 2013

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This report captures the Board's recommendations to Congress regarding the IRS Fiscal Year (FY) 2014 budget, a budget that is in line with the strategic goals and strategic foundations identified in the *IRS Strategic Plan*:

- > **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

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-prepared budget request submitted to the Department of the Treasury. The Board must ensure that the approved budget and related performance expectations: (1) support the IRS' mission and annual and long-range strategic plans; (2) are consistent with the IRS' goals, objectives and strategies; and (3) properly align with the 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 Act (GPRA) spells out the agency's responsibilities for linking its strategic, budget and performance plans and reporting to a comprehensive strategic process.

The IRS Oversight Board would also like to note that this year marks the 10<sup>th</sup> anniversary of the Board's budget recommendation special reports. Much has changed over the past decade when it comes to IRS programs and funding, including an equal emphasis on Taxpayer Services as well as enforcement and the removal of the IRS Business Systems Modernization (BSM) program from the Government Accountability Office's "High Risk" list. Nevertheless, some of the Board's concerns raised in that first budget report still ring true today, such as the need to provide reliable and adequate funding to the IRS so it may achieve a high level of customer service, to address non-compliance, and to enhance information technology systems.



# Executive Summary

In June 2012, the IRS Oversight Board recommended to Treasury a Fiscal Year (FY) 2014 budget of \$13.074 billion for the Internal Revenue Service. This is \$213.6 million more than what the President put forth in his FY2014 budget request. After careful examination and deliberation, the Board believes the President's recommended funding is appropriate for the IRS to carry out both its statutory and additional new responsibilities.

The IRS' budget has been reduced since FY2010, with the biggest reductions coming in FY2013 through the sequestration. Although the IRS has achieved significant cost savings and efficiencies in recent years

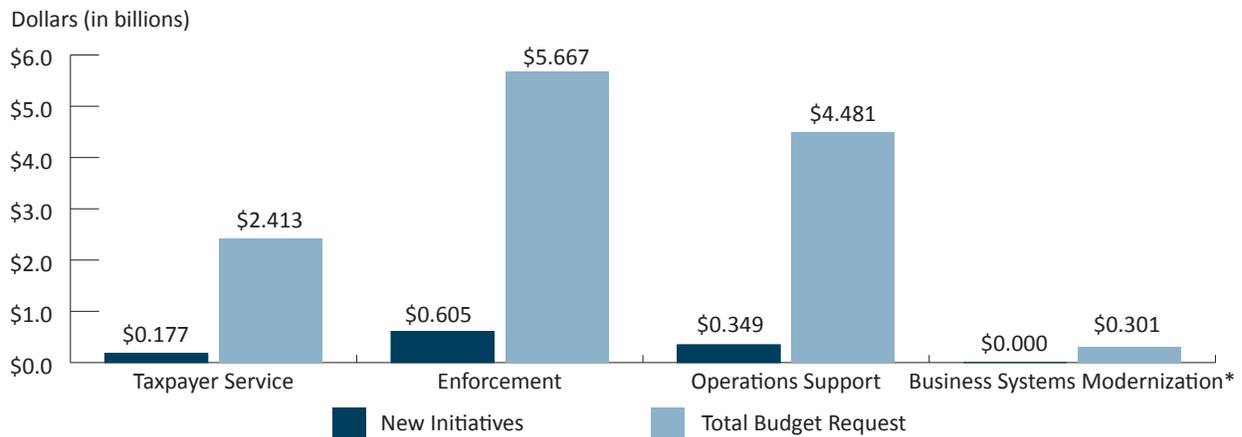
through substantial cuts in program support and IRS staffing, this path is no longer sustainable. While many factors impact IRS performance, such as the state of the economy, there are already indications that the reductions in IRS budgets funding through

*The Board believes the President's recommended funding of \$12.8 billion for Fiscal Year 2014 is appropriate for the IRS to carry out its responsibilities.*

FY2012 are leading to a deterioration in performance. The amount of enforcement revenue collected, the level of service on the IRS toll-free assistance line, and measures of taxpayer satisfaction with the IRS and of IRS employee engagement are all down in FY2012 compared to where these results stood in FY2010. The effects on the cuts will likely be even more pronounced in FY2014.

The Board recommends that investments above the current FY2013 enacted level be made in Taxpayer Service, Enforcement, and Operations Support. The Board's budget does that and does not take funding from one category to bolster another.

FIGURE 1. **President's FY2014 IRS Budget Request as Supported by the IRS Oversight Board**



\* While no new initiative funding for BSM is being requested for FY2014, continuation of the existing BSM funding level is critical to continuing the progress in replacing IRS' antiquated master file system and other outdated technology.

The Board believes that the IRS' budget must reflect the intent of the *IRS Restructuring and Reform Act of 1998* (RRA 98) where both taxpayer service and enforcement are funded at appropriate levels, and not to the detriment of either.

**Why Should the IRS Receive the Cap Adjustments?**

The IRS estimates the requested cap adjustment funding will generate more than \$1.6 billion in additional annual direct enforcement revenue beginning in FY2016, for a return on investment of \$6-to-\$1. Increased resources for IRS enforcement programs yield measurable results that help reduce the deficit, close the tax gap, and generate revenue for the United States.

Although slightly lower than what the Board initially recommended, the President's budget request makes significant investments in the same areas, such as strengthening telephone level of service. The President's budget also has a number of proposed revenue-generating enforcement initiatives that the Board supports which will increase both enforcement revenue and overall compliance. In addition, it provides funding so the IRS can effectively implement new responsibilities, such as the tax portions of the Affordable Care Act (ACA) and merchant credit card and stock basis reporting.

**PROGRAM INTEGRITY CAP ADJUSTMENT**

The *Budget Control Act of 2011* imposed caps on discretionary spending by Federal agencies including the IRS. Recognizing that certain activities generate rates of return greater than their respective investment costs, Congress created a budgetary mechanism to increase spending allocations for programs that generate positive new revenue and remove them from competition against other national funding priorities. These allocations are referred to as program integrity cap adjustments.

The IRS is requesting approximately \$412,000,000 in high-return initiatives through program integrity cap adjustments as outlined below:

Requested Funding Amount for Program Integrity Cap Adjustment Initiatives (dollars in thousands)	
Address International and Offshore Compliance Issues	\$49,354
Increase Audit Coverage to Address Tax Compliance Issues	\$110,935
Increase Collection Coverage	\$60,474
Expand Coverage of High-Wealth Individuals and Enterprises	\$33,965
Improve Coverage of Partnerships and Flow-Through Entities	\$45,013
Build Out Tax Return Preparer Compliance Activities	\$18,315
Leverage Data to Improve Case Selection	\$41,353
Leverage Digital Evidence for Criminal Investigation	\$4,539
Develop New Online Services	\$24,059
Develop Converged Telecommunications Networks	\$15,000
Expand Virtual Services Delivery	\$3,983
Alcohol and Tobacco Tax and Trade Bureau Transfer	\$5,000
<b>Total</b>	<b>\$411,990</b>

For every dollar invested in IRS services, enforcement, operations support, and Business Systems Modernization, there is an average \$4-to-\$1 return.

Approximately one-half of the one billion dollar increase the President seeks for the IRS would be financed by a program integrity cap adjustment. Treasury Secretary

Jacob Lew has made a compelling case for this suite of enforcement programs and their average \$6-to-\$1 return on investment when fully realized. The Board believes these initiatives could play an important role in closing the tax gap while producing revenues to reduce the deficit and creating funding for other programs that are critical to our nation.

# IRS Budget Challenges

The IRS confronts a number of formidable budgetary challenges. Funding uncertainty and budget cuts loom largest and present the highest risks to the IRS and our nation's tax administration system. The inability to pass federal budgets for the past several years has forced Congress and the Administration to increasingly rely on Continuing Resolutions (CR) to avoid a full or partial federal government shutdown, but often

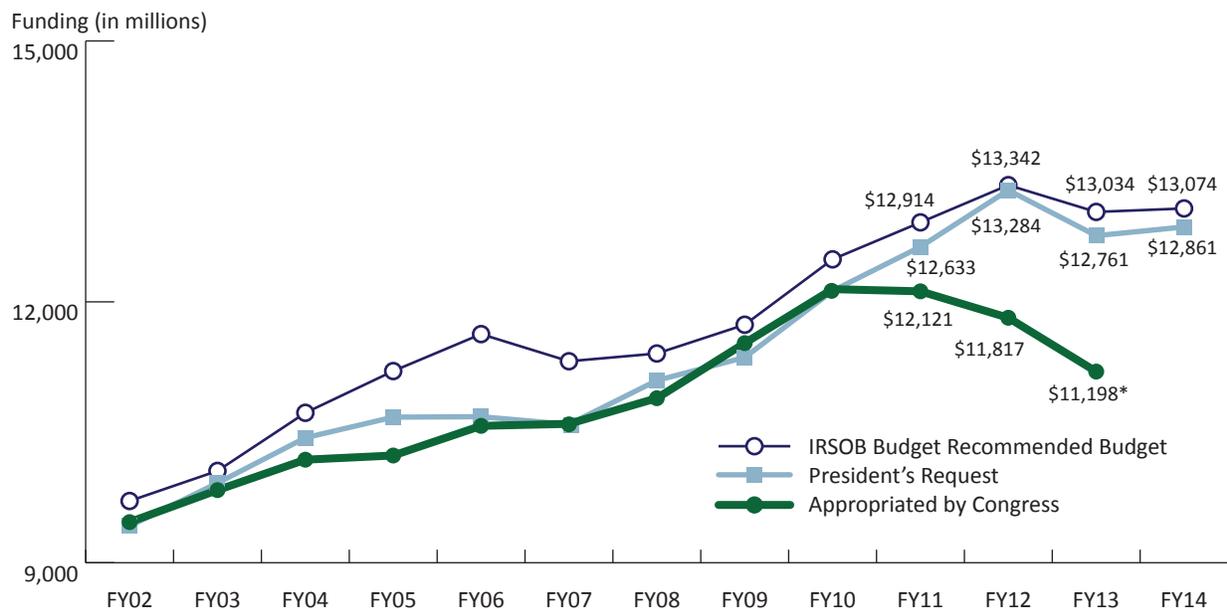
at a lower, or stagnant funding level.

Today, the IRS is operating under a CR, plus sequestration rules, that fund the agency at just under \$11.2 billion, well below both the President's and the Board's FY2013 recommendations. This level is also more than \$600 million less than the FY2012 level, and almost \$1 billion less than FY2010.

Together, these budget cuts have forced the IRS to find major cost efficiencies and implement significant spending cuts. This has led to dramatic curtailments in training, travel, office space and outside contracts. The IRS has also been forced to significantly reduce the size of its workforce. In FY2012, the agency offered buyouts to 7,000 of its employees, with more than 1,200 accepting. The IRS also instituted an

**Today, the IRS is operating under a continuing resolution, plus sequestration rules, that fund the agency at the level of just under \$11.2 billion, well below both the President's and the Board's FY2013 recommendations. This level is less than \$600 million than the FY2012 level, and \$1 billion less than FY2010.**

FIGURE 2.  
**IRS Funding History, FY2002-2014**



\*After sequestration.

“exception-only” hiring freeze leaving many positions lost to attrition unfilled.

All told, approximately 8,000 full-time IRS positions have been lost since 2010, with about 5,000 coming from front-line enforcement personnel. In 2012, the IRS workforce (as measured in average full-time equivalent positions realized, or FTE) stood at just under 90,300; its lowest level in more than a decade. That number could go even lower given the large pool of IRS employees now eligible to retire.

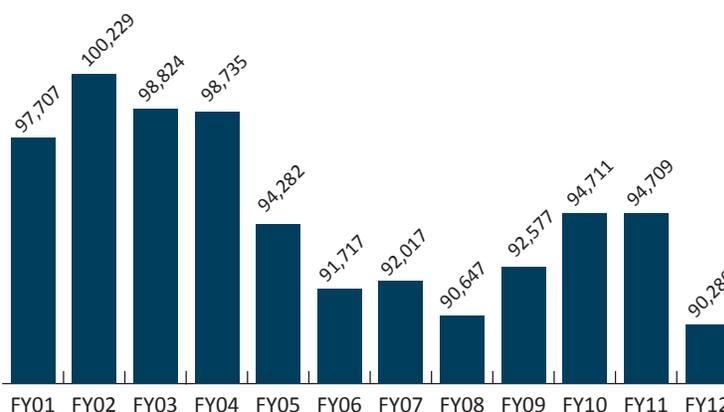
The immediate effects of absorbing these budget cuts have been most apparent in Taxpayer Services, especially during the past two filing seasons when toll-free telephone Level of Service (LOS) hovered around 70 percent – far below the Board’s and IRS’ desired level of 80 percent. Many IRS Taxpayer Assistance Centers are also understaffed and offer reduced hours and limited tax preparation services.

Stagnant funding provided through the CRs was only the beginning of the IRS’ funding shortfalls. Today, the IRS’ budget

**In 2012, the IRS workforce (as measured in average full-time equivalent positions realized—FTE) stood at just under 90,300; its lowest level in more than a decade.**

FIGURE 3.

**Number of Full-Time Equivalents, FY2001-2012**



Source: IRS Data Book

has been reduced by a total of \$618 million from the \$11.8 billion it would have received under the FY2013 Continuing Resolution with \$594.5 million coming from the sequestration and \$24 million in rescission cuts.

The resulting \$11.198 billion budget is \$1.6 billion less than the President’s FY2013 budget request. This also marks the third consecutive year that the IRS’ annual appropriation has

declined. Since FY2010, it has seen reductions to its appropriated funding totaling almost \$1 billion.

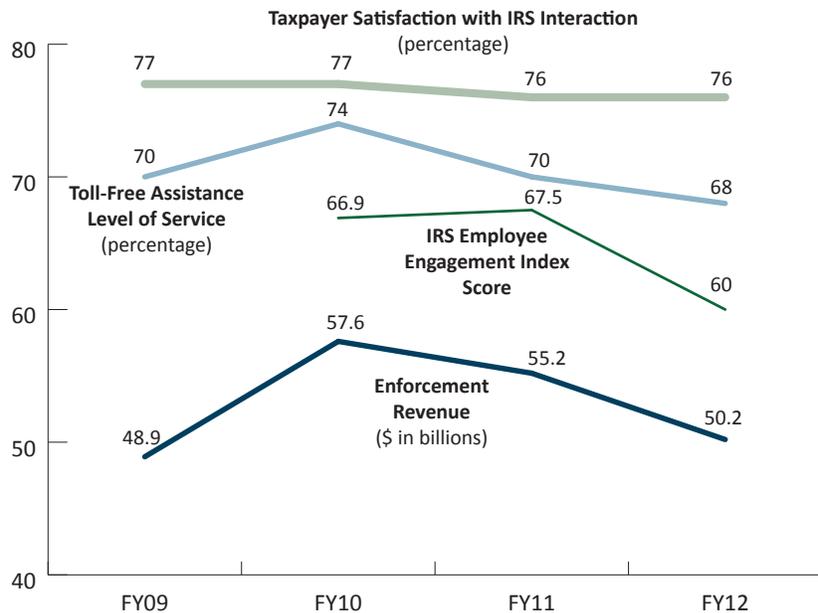
To meet the mandatory spending cuts for FY2013 under sequestration, the IRS plans to furlough all employees for five to seven specific days beginning in late May until the end of the fiscal year. All IRS operations will be closed on these uniform dates, including toll-free operations and Taxpayer Assistance Centers.

Although the furloughs will occur after the conclusion of the 2013 filing season, legitimate concerns have been expressed about the sequestration's potential effect on the IRS' long-term performance, especially if more budget cuts continue in the out-years. The Board notes there are already signs of declining performance in key areas, as indicated in Figure 4. A continuing budget sequestration will reduce the enforcement revenue the IRS collects. The effects from the budget cuts will likely become more apparent as time goes on, with more significant reductions in revenues and performance beginning to show in 2014.

The IRS has already had to adjust its FY2013 Operating Plan to reflect the sequestration's drain on funding. For example, to apply the employee furloughs evenly across the organization, the IRS proposed to transfer up to \$75 million from its Enforcement Appropriation to its Taxpayer Services and Operations Support Appropriations.

The Department of the Treasury asked the Board to review and comment on the IRS Operating Plan. We believe the plan will most likely result in significantly reduced performance results and the erosion of taxpayer service and compliance programs in FY2013 and future years. It should also be noted that a reduction of this size and scope will most likely impact voluntary compliance and IRS efforts to close the tax gap.

FIGURE 4.  
**Recent Indicators of Declining Performance in Key Measures, FY2009-2012**



Source: IRS Oversight Board Taxpayer Attitude Survey, IRS Enforcement and Services results, and the Federal Employee Viewpoint surveys

The Board is also concerned that these drastic budget cuts and subsequent staffing reductions come at a time that the IRS is faced with increased responsibilities and workload. For example, administering the tax portions of the ACA presents large challenges in both taxpayer service and enforcement. In FY2014, the IRS must also leverage the merchant card and stock basis matching initiatives and the Foreign Account Tax Compliance Act, all of which will require increased funding and staff. In addition, stolen identity refund fraud continues to be a major problem for tax administration.

Given all these factors, the Oversight Board believes that this is not the time to make shortsighted budget cuts that can erode the many important gains the IRS has achieved since the enactment of RRA 98, including better taxpayer service, an overall increase in enforcement revenue, and success in modernizing major information systems. It is important to restore continuity and make the needed investments in three key areas: (1) Taxpayer Services; (2) Enforcement; and (3) Operations Support.



# President’s FY2014 IRS Budget Request and IRS Oversight Board Recommendations

The President’s FY2014 budget requests \$12.861 billion in direct appropriations for the Internal Revenue Service. This represents an 8.8 percent funding increase over the FY2012 enacted level. However, the budget request is \$213.6 million below the \$13.074 billion initially recommended by the Oversight Board for the IRS to meet its statutory responsibilities. The \$213 million difference in the President’s request is related primarily to additional savings the IRS identified.

It should be noted that the President’s FY2014 budget request does not reflect the \$594 million (five percent) sequestration and \$24 million (0.2 percent) rescission cuts that the IRS had to make in FY2013. At present, the IRS does not know the impact of sequestration in FY2014. The Board assumes no sequestration will be in effect in FY2014.

Nonetheless, the Board believes that the President’s FY2014 Budget Request is credible and reasonable. It is aligned with and supports IRS Strategic Plan goals and objectives and Treasury Department priority goals. Moreover, it makes up for much of the loss in resources and FTE over the past few years when

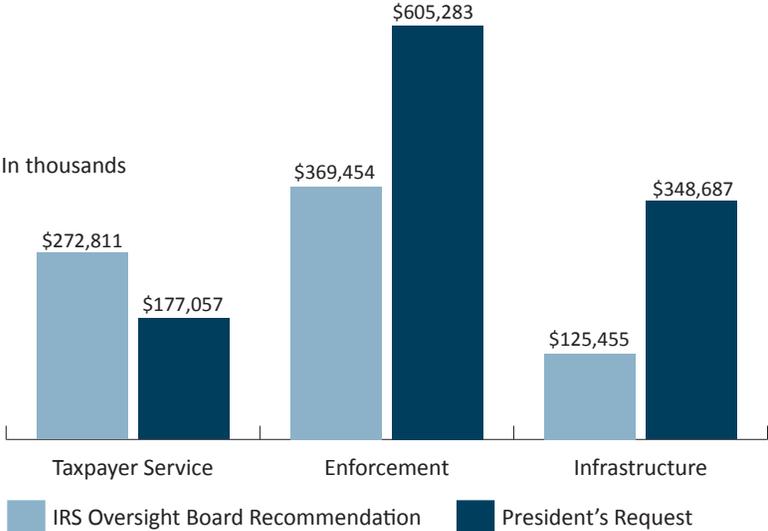
**The President’s 2014 budget further requires that the IRS achieve efficiencies and savings of \$254.8 million from the following:**

- **Targeted Personnel**  
\$77.8 million
- **Space Optimization Savings**  
\$76.7 million
- **Reduce IT Infrastructure**  
\$57.5 million
- **Business System Modernization (BSM)**  
\$30 million
- **Implement Human Capital Efficiencies**  
\$7.9 million
- **Increase e-File Savings**  
\$5 million

the IRS was funded at FY2012 enacted levels.

The Board also strongly supports a permanent extension of the Streamlined Critical Pay Provision contained in RRA 98. The President’s request supports extending this provision through September 30, 2018. The Board has found the provision to be a valuable and effective tool in bringing specialized expertise to IRS initiatives. It has proven to be successful in not only information technology, but also in sophisticated and complex areas of international taxation, such as transfer pricing. The Board recommends the provision’s permanent extension.

FIGURE 5.  
**FY2014 IRS Oversight Board Initial Request and President’s Budget Request for Initiatives**



The Board appreciates that the FY2014 budget request is but the beginning of a long process that can be affected by a number of other factors, including the larger continuing debate over deficit reduction. However, that should not prevent us from beginning a productive dialogue about how to fund the IRS so it may achieve its mission. Following are more detailed discussions on various budget items.

*The Board believes that Streamlined Critical Pay is vital to the IRS' ability to attract leaders with cutting edge skills and talent for key positions.*

*The Board strongly supports the President's request for \$2.41 billion for Taxpayer Services in FY2014 and believes the President's funding level is necessary to raise IRS telephone level of service and to educate taxpayers on ACA tax-related provisions.*

## TAXPAYER SERVICES

Providing taxpayers with quality taxpayer service is an essential part of the IRS' balanced mission and delivers on its strategic goal: "Improve Service to Make Voluntary Compliance Easier." Taxpayers need assistance to navigate and understand a highly complex tax code and file a correct return. Getting it right the first time benefits both taxpayers and the IRS as it helps prevent inadvertent non-compliance and costly and burdensome post-filing actions, such as audits and penalties. Figure 6 shows the dramatic decline in telephone assistance and practitioner priority service levels over the past decade. In addition to raising its telephone LOS to acceptable levels, FY2014 also presents a major taxpayer service, outreach and taxpayer education challenge for the IRS as major tax-related portions of the ACA take effect, including those related to health insurance exchanges.

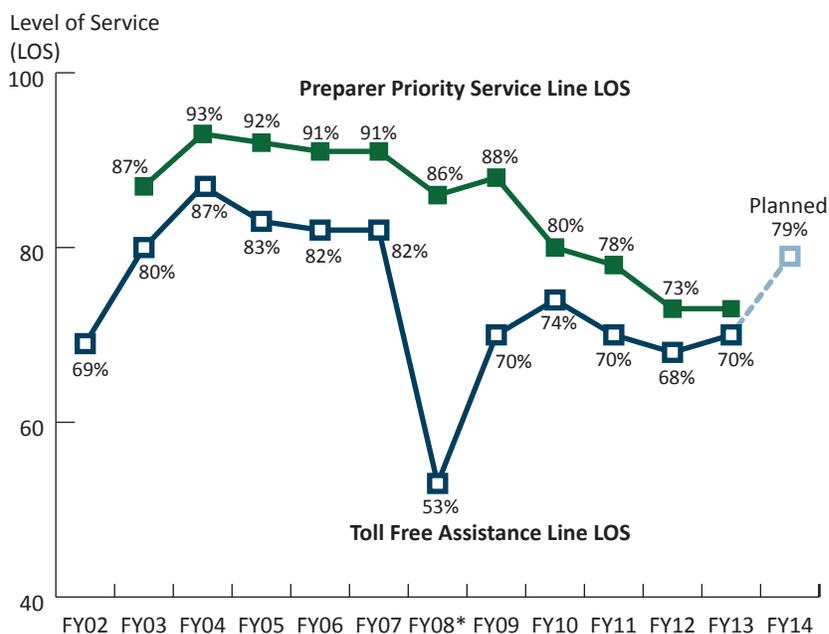
### What the Board Recommends

The Board strongly supports the President's request of \$2.41 billion for Taxpayer Services in FY2014. This request includes an additional \$177

**Through March 30, 2013, the IRS was able to answer only seven out of 10 taxpayer assistance calls after an average wait time of 13 minutes. That translates to a 70 percent Level of Service (LOS) – far below the Board's desired level of 80 percent.**

FIGURE 6.

### Toll Free and Preparer Priority Lines: Level of Service



\*Toll free LOS dropped dramatically in 2008 due to a near doubling of calls from inquiries concerning the unique, one-time only IRS issuance of economic stimulus checks.

Source: IRS Enforcement and Service Results report and IRS reports to Board Operations Committee

million to improve taxpayer service and meet increased demand. The Board believes that this funding level is necessary for the IRS to reach the LOS goal of 79 percent stated in the budget request. Otherwise, providing an acceptable LOS will continue to be a challenge for the IRS; one that the Board hopes the Congress will help the IRS overcome for the sake of all taxpayers.

*The Board strongly supports the President's request for \$5.67 billion for Enforcement activities in FY2014 and believes that the enforcement initiatives represent a sound, strategic approach to effective and fair tax administration.*

## **ENFORCEMENT**

Enforcement is a top priority in the IRS Strategic Plan. In recent years, the IRS has made some significant achievements and advancements in enforcement, such as the successful Offshore Voluntary Disclosure Programs that not only collected \$5 billion in back taxes, penalties and interest but sent a strong deterrence message to those considering illegally hiding income and assets in overseas tax havens. Last year, the IRS managed to maintain and deliver most of its key enforcement priorities, such as audits in the upper-income brackets. However, the IRS still faces a number of enforcement challenges in FY2014. The IRS must ramp up its efforts to address offshore non-compliance and abusive tax avoidance schemes and expand its audit coverage of high-wealth individuals and enterprises. On a broad scale it must also increase the overall audit and collection coverage for all taxpayers.

The Board and other observers from both the private and public sectors also question why the approximate \$4-to-\$1 return on investment (ROI) for IRS enforcement activities is not recognized in the budgetary process. These investments pay for themselves many times over. They can deter noncompliance, provide greater revenues to fund essential government services, and help reduce the deficit and national debt.

### **What the Board Recommends**

The Board strongly supports the President's request for \$5.67 billion for Enforcement activities in FY2014. The President's budget request also includes a number of high ROI tax enforcement and compliance initiatives which would receive above-base funding by a program integrity cap adjustment through 2018, with additional cap adjustments to sustain these revenue-producing initiatives from FY2018 through FY2023. The \$407 million in IRS program integrity cap adjustment funding for FY2014 will generate more than \$1.6 billion in additional annual enforcement revenue, achieving a potential ROI of \$6.0-to-\$1.0 in FY2016. Absent a cap adjustment, these initiatives would go unfunded. Table 1 on page 14 identifies the ROI on each enforcement initiative.

TABLE 1.

**Estimated Return on Investment for Recommended Enforcement Initiatives**

*The program integrity cap adjustment funding for FY2014 will generate more than \$1.6 billion in additional annual enforcement revenue, achieving a potential ROI of \$6.0-to-\$1.0 in FY2016. Absent a cap adjustment, these initiatives would go unfunded.*

Initiatives	Recommended Funding (Note 1)	FY2016 Return on Investment
<b>Program Increases Before Cap Adjustment</b>		
Improve Identification and Prevention of Refund Fraud and Identity Theft	\$101,098	\$14.4 to \$1
Implement Merchant Card and Basis Matching	\$50,279	\$8.5 to \$1
Implement Foreign Account Tax Compliance Act (FATCA)	\$35,190	\$3.7 to \$1
Address Impact of Affordable Care Act (ACA) Statutory Requirements	\$44,420	\$1.9 to \$1
Leverage Data to Improve Case Selection (Taxpayer Services portion)	\$10,348	Note 2
<b>Additional Program Increases After Cap Adjustment</b>		
Expand Coverage of High-Wealth Individuals and Enterprises	\$33,965	\$13.4 to \$1
Increase Collection Coverage	\$60,474	\$9.3 to \$1
Improve Coverage of Partnerships and Flow-Through Entities	\$45,013	\$7.7 to \$1
Address International and Offshore Compliance Issues	\$49,354	\$4.5 to \$1
Increase Audit Coverage to Address Tax Compliance Issues	\$110,935	\$3.2 to \$1
Leverage Data to Improve Case Selection	\$41,353	\$1.5 to \$1
Build Out Tax Return Preparer Compliance Activities	\$18,315	Note 2
Leverage Digital Evidence for Criminal Investigation	\$4,539	Note 2

Note 1: Dollars in thousands.

Note 2: While these initiatives do not have an immediate ROI associated with them, they provide long-term benefits to the IRS such as significantly increasing the availability and use of electronic data in case work.

The Board believes that the suite of enforcement initiatives funded in the President's budget request represent a strategic and sound approach to effective and fair tax administration. They will help bolster IRS compliance efforts and provide balanced audit coverage rates across taxpayers with expanded coverage of high-wealth individuals and enterprises and partnership entities. However, as earlier discussed, the Board is concerned that some of these high-ROI enforcement initiatives are proposed to be funded via a program integrity cap that has not been provided through the authorization process in recent years. We hope that this year is not a repeat of the past.

## **OPERATIONS SUPPORT AND BUSINESS SYSTEMS MODERNIZATION**

The successful launch of the Customer Account Data Engine (CADE) 2 was a major milestone in the IRS' technology modernization program. It will allow for the retirement of the antiquated legacy system and enable the IRS to move from a weekly to a daily processing cycle for individual accounts, which conveys numerous benefits. In another development, Modernized e-File systems now accept both individual and corporate returns and processed over 115 million returns last year.

However, the Board wants to be sure that a sense of complacency does not set in and that funding for future releases of CADE and other IT programs is not reduced or delayed. The risk of complacency is not limited to technology.

The IRS' employees are its greatest asset but are placed at heightened risk during these uncertain budget times. An engaged workforce is essential if the IRS is to function at a high level and deliver on its mission and strategic goals. Last year, the IRS ranked third amongst the 15 largest federal agencies and departments on an employee engagement scale. However, the Board is concerned that ranking could slip, especially if further staffing reductions take place and the exception-only hiring freeze continues.

### **What the Board Recommends**

The Board strongly supports the President's request for \$4.48 billion in Operations Support and \$300.8 million in Business Systems Modernization activities in FY2014.

The President's budget proposal would increase staffing to support a number of enforcement and taxpayer service initiatives previously described. The Board believes that is a wise investment in human capital and could provide the IRS workforce with new career opportunities that have been unavailable for the past two years. However, the President's budget also assumes that the IRS will continue to seek efficiencies in personnel and non-labor costs, including training. It is not clear whether the exception-only hiring freeze will continue in programs outside of those marked for increased staffing.

*The Board strongly supports the President's request for \$4.48 billion in Operations Support and \$300.8 million in Business Systems Modernization activities in FY2014 and believes that funding for future IT programs should not be reduced or delayed.*

*The President's budget request increases IRS staffing to support several enforcement and taxpayer service initiatives. The Board believes it is a wise investment in human capital and the workforce.*

Moreover, while the Board believes that the IRS must continue to explore and use more cost-efficient means to deliver training, such as over the IRS intranet, it also wants to be sure that employees receive quality training that may require live interaction with trainers and peers. As previously noted, the Board also recommends a permanent extension of the Streamlined Critical Pay Provision contained in RRA 98.

## Appendices

- A. IRS Oversight Board Recommended FY2014 Budget
- B. IRS FY2014 Budget Highlights Before and After Cap Adjustment

*IRS Oversight Board FY2014 IRS Budget Recommendation Special Report*

APPENDIX A.

**IRS Oversight Board Initial Recommended FY2014 Budget (dollars in thousands)**

<b>IRS Oversight Board Initial Recommended FY2014 IRS Budget</b>	
FY2012 Enacted Budget	11,816,696
FY2013 Adjusted Base Request/Annualized Continuing Resolution (CR) Rate	12,304,750
FY2014 Changes to Base	
Maintaining Current Levels	112,548
Efficiencies/Savings	(140,381)
Reinvestment	<b>30,000</b>
Subtotal, FY2014 Changes to Base	<b>2,167</b>
FY2014 Current Services (Base)	<b>12,306,917</b>
Program Increases	
<b>Taxpayer Services Initiatives</b>	<b>272,811</b>
Improve Taxpayer Services to Meet Increased Demand	162,720
Develop New Online Services	24,059
Assist Taxpayers in Understanding ACA Tax Issues	79,128
Expand Virtual Services Delivery (VSD)	4,300
Expand Low Income Taxpayer Clinics	2,604
<b>Enforcement Initiatives</b>	<b>369,454</b>
Address International and Offshore Compliance Issues	84,544
Implement Merchant Card and Basis Matching	50,279
Improve Identification and Prevention of Refund Fraud and Identity Theft	96,455
Expand Coverage of High-Wealth Individuals and Enterprises	18,607
Improve Coverage of Partnerships and Flow-Through Entities	45,014
Build Out Tax Return Preparer Compliance Activities	18,315
Leverage Data to Improve Case Selection	51,701
Leverage Digital Evidence for Criminal Investigation (CI)	4,539
<b>Infrastructure Initiatives</b>	<b>125,455</b>
Implement IT Changes to Deliver Tax Credits and Other Requirements	102,255
Implement IT Changes Needed for Individual Coverage Requirements	8,200
Develop Converged Telecommunication Networks	15,000
Total FY 2013 Program Changes	768,435
<b>Total FY2014 Budget Recommendation</b>	<b>13,074,637</b>
FY2014 President's Budget Request	12,861,033
<b>Increase over President's Budget</b>	<b>213,604</b>
Percent Increase over President's Budget	1.6%

This table presents the FY2014 IRS funding and initiatives initially proposed by the Oversight Board in June 2012. The table also identifies the overall funding difference between the Board's initial proposal and the President's request. Note that in developing its FY2014 IRS budget recommendation in June 2012, the Board started with an assumed FY2013 adjusted base of \$12.3 billion (along with an associated set of initiatives being funded in FY2013, which was in line with the federal budget preparation process at that time.)

APPENDIX B.

IRS FY2014 Budget Highlights Before and After Cap Adjustment (dollars in thousands)

Appropriation	Taxpayer Services	Enforcement	Operations Support	BSM	Total
<b>FY2012 Enacted<sup>1</sup></b>	2,239,703	5,299,367	3,947,416	330,210	11,816,696
<b>FY2013 Annualized CR Rate</b>	2,253,510	5,331,000	3,971,000	332,231	11,887,741
FY2014 Changes to Base:					
Non-Recur CR Increase	(13,807)	(31,633)	(23,584)	(2,021)	(71,045)
<b>Maintaining Current Levels (MCLs)</b>	22,391	50,551	52,115	617	125,674
Pay Inflation Adjustment	19,277	45,802	13,977	617	79,673
Non-Pay Inflation Adjustment	3,114	4,749	38,138		46,001
<b>Efficiencies/Savings:</b>	(18,208)	(56,605)	(150,051)	(30,000)	(254,864)
Increase e-File Savings	(4,969)		(71)		(5,040)
Business Systems Modernization (BSM) Savings				(30,000)	(30,000)
Reduce Information Technology (IT) Infrastructure			(57,500)		(57,500)
Implement Human Capital Administrative Efficiencies			(7,858)		(7,858)
Targeted Personnel Savings	(13,239)	(56,605)	(7,922)		(77,766)
Savings from Space Optimization			(76,700)		(76,700)
Reinvestment:			37,500		37,500
Implement Space Optimization to Achieve Savings			37,500		37,500
<b>Subtotal FY2014 Changes to the Base</b>	(9,624)	(37,687)	(84,020)	(31,404)	(162,735)
<b>FY2014 Current Services (Base)</b>	2,243,886	5,293,313	3,886,980	300,827	11,725,006
<b>Program Changes</b>					
<b>Program Increases Before Cap Adjustment:</b>					
<b>Promote Voluntary Compliance, Implement Legislative Changes, and Protect Revenue</b>	168,690	127,570	427,777		724,037
Improve Taxpayer Services and Meet Increased Demand	130,306	3,250	43,501		177,057
Implement Foreign Account Tax Compliance Act (FATCA)		19,600	15,590		35,190
Implement Merchant Card and Basis Matching	7,643	30,275	12,361		50,279
Address Impact of Affordable Care Act (ACA) Statutory Requirements	1,124	26,084	17,212		44,420
Implement IT Changes to Deliver Tax Credits and Other Requirements			305,645		305,645
Improve Identification and Prevention of Refund Fraud and Identity Theft	19,269	48,361	33,468		101,098
Leverage Data to Improve Case Selection (Taxpayer Services portion)	10,348				10,348
<b>Total Request Before Cap Adjustment</b>	2,412,576	5,420,883	4,314,757		12,449,043
<b>Cap Adjustment Program Increases</b>					
<b>Enforcement Initiatives</b>		240,904	123,044		363,948
Address International and Offshore Compliance Issues		43,311	6,043		49,354
Increase Audit Coverage to Address Tax Compliance Issues		71,453	39,482		110,935
Increase Collection Coverage		36,261	24,213		60,474
Expand Coverage of High-Wealth Individuals and Enterprises		29,456	4,509		33,965
Improve Coverage of Partnerships and Flow-Through Entities		39,136	5,877		45,013
Build Out Tax Return Preparer Compliance Activities		15,982	2,333		18,315
Leverage Data to Improve Case Selection		4,474	36,879		41,353
Leverage Digital Evidence for Criminal Investigation (CI)		831	3,708		4,539
<b>Infrastructure Initiatives</b>			43,042		43,042
Develop New Online Services			24,059		24,059
Develop Converged Telecommunications Networks			15,000		15,000
Expand Virtual Services Delivery (VSD)			3,983		3,983
<b>Alcohol and Tobacco Tax and Trade Bureau (TTB) Program Integrity Transfer</b>		5,000			5,000
Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities		5,000			5,000
<b>Subtotal FY2014 Cap Adjustment</b>		245,904	166,086		411,990
<b>Total FY2014 Budget Request</b>	2,412,576	5,666,787	4,480,843	300,827	12,861,033

Source: U.S. Treasury Budget in Brief

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