

**IRS Oversight Board  
FY2013 IRS Budget Recommendation  
Special Report**

April 2012

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## Executive Summary

The Internal Revenue Service (IRS) Oversight Board recommends a fiscal year (FY) 2013 IRS budget of \$13.034 billion, an increase of \$1.218 billion over the enacted FY2012 IRS budget, and an increase of \$273.2 million over the President's FY2013 IRS budget request.

The Board's FY2013 recommendation is substantially higher than the enacted FY2012 IRS budget for several reasons. It:

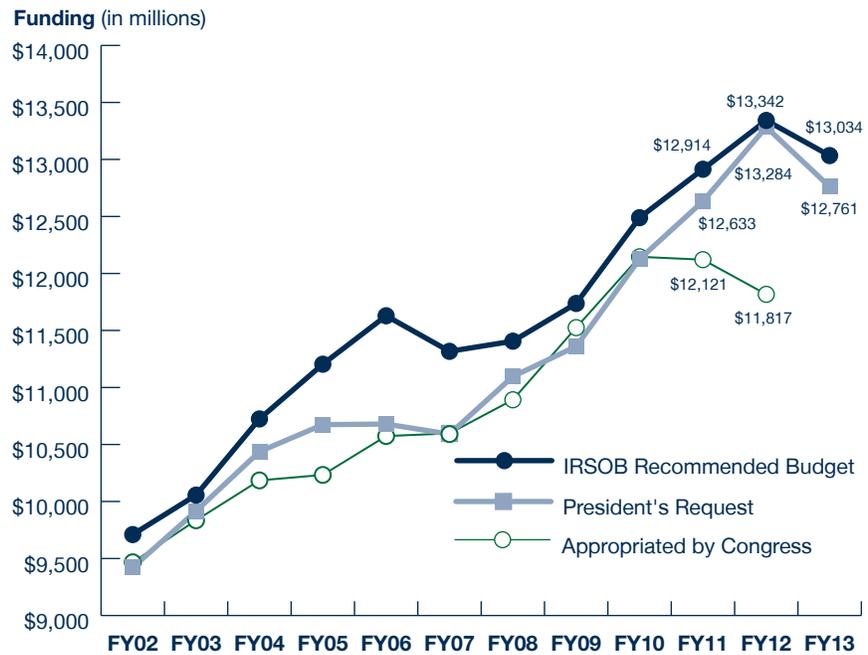
- restores funding cuts made to IRS enforcement programs in the FY2012 enacted budget;
- funds taxpayer services so that an 80 percent level of service (LOS) on IRS toll-free telephone lines can be achieved;
- funds programs and initiatives that represent investments in future performance gains; and
- funds programs related to the implementation of the tax-related provisions of the Affordable Care Act (ACA).

The overall funding trend for IRS over the last decade has been primarily characterized by relatively slow, steady growth, as shown in Figure ES-1. During this period, IRS performance, by almost every measure, has also been improving.<sup>1</sup> However, during the last two years, but especially in FY2012, this pattern of steady growth has been broken. The IRS Commissioner, the IRS Oversight Board, and the National Taxpayer Advocate have all warned Congress and the public about the dysfunctional consequences of such budget reductions, particularly in the form of reduced taxpayer service and lower tax revenue.

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<sup>1</sup> See the IRS Oversight Board's *Annual Reports to Congress* from FY2002 to FY2011 for a discussion of IRS annual and long-term performance.

**Figure ES-1. IRS Funding History, FY2002 to FY2013**



The IRS Oversight Board believes this recent trend of reduced IRS funding is harmful to the long-term national interest and needs to be restored back to a pattern of slow but steady growth. The Board's budget recommendations are consistent with this belief.

In the view of the Board, its FY2013 budget recommendations reflect a proper balance between taxpayer service and tax law enforcement; restore IRS funding to an appropriate long-term trajectory of stable growth; fund strategic investments designed to foster long-term productivity gains and reduced taxpayer burden; and invest in the IRS' most valuable asset—people.

Table ES-1 summarizes, by account, the enacted IRS funding for FY2010 through FY2012, and both the Board's FY2013 budget recommendations and the President's FY2013 budget request.

**Table ES-1. Enacted IRS Funding FY2010 to FY2012 and FY2013 Oversight Board's and President's Budget**  
(dollars in thousands)

	FY2010 enacted	FY2011 enacted	FY2012 enacted	Board FY2013 budget	President FY2013 budget
<b>Taxpayer services</b>	\$2,278,830	\$2,274,272	\$2,239,703	\$2,354,965	\$2,253,133
<b>Enforcement</b>	\$5,504,000	\$5,492,992	\$5,299,367	\$5,701,670	\$5,701,670
<b>Operations support</b>	\$4,083,884	\$4,075,716	\$3,947,416	\$4,647,519	\$4,476,200
<b>BSM</b>	\$263,897	\$263,369	\$330,210	\$330,210	\$330,210
<b>HITCA (Note 1)</b>	\$15,512	\$15,481	\$0	\$0	\$0
<b>Total</b>	<b>\$12,146,123</b>	<b>\$12,121,830</b>	<b>\$11,816,696</b>	<b>\$13,034,364</b>	<b>\$12,761,213</b>

Note 1: The Health Insurance Tax Credit Administration (HITCA) included in Taxpayer Service Account after FY2011

Both the Board's and the President's budgets reflect a belief that the economic health of the nation depends on effective tax administration, and adequate funding is needed for the IRS to fulfill its mission. As the Board stated to the House and Senate Appropriations Committees in October 2011<sup>2</sup>, reductions in IRS service and enforcement budgets will have unintended short- and long-range consequences, including the loss of billions of dollars of tax revenue, the creation of an uneven playing field that rewards businesses that are non-compliant with their tax obligations, and reduced public confidence in the tax system. The Board fully recognizes that all federal expenditures need to be kept to a minimum, but reductions in tax administration funding could be characterized as penny-wise and pound-foolish.

Key areas where the Board recommends program changes over the enacted FY2012 budget are summarized in the paragraphs that follow, by account.

#### **Taxpayer Service**

The Board's recommendations for taxpayer service funding exceed both the enacted FY2012 budget and the President's budget request because the Board is growing increasingly concerned about the level of service being provided to taxpayers. Taxpayer service funding has declined from FY2010 to FY2012, and the Board believes the level of taxpayer service has declined to unacceptable levels. Toll-free telephone level of service (LOS), a key performance measure of taxpayer service, declined to 70 percent in FY2011, and the President's FY2013 budget only funds a level of 63 percent, far below the 80 percent LOS the Board believes taxpayers deserve. The decline of service is particularly harmful to taxpayers as the tax system grows more complex with each passing year. When faced with growing complexity, taxpayers who want to do the right thing but are unable to obtain the right answers may be more likely to unknowingly file incorrect returns. Such taxpayers need to be served. Appendix 1 provides additional insight into the challenges that the IRS and taxpayers have faced during the last five filing seasons.

<sup>2</sup> IRS Oversight Board letters to House and Senate Appropriations Committees dated October 12, 2011.

In addition, the Board believes the IRS must invest in several key taxpayer service initiatives that represent investments in future performance gains. Such investments offer the benefits of future reduced taxpayer burden and greater IRS productivity. For example, a plan is needed to reduce future toll-free telephone call volume so the situation described above does not continue indefinitely. To implement such a plan, investments are needed to improve service channels, such as the Internet and social media, so that more taxpayers will make these less costly channels their first choice for service in the future.

### **Enforcement**

The Board's recommendations for FY2013 enforcement funding match those of the President's budget. Key enforcement initiatives contained in the Board's FY2013 budget recommendations include:

- the restoration of audit and collection coverage lost in the FY2012 budget reductions (\$200 million);
- new initiatives to expand key enforcement programs such as international and offshore compliance, expanded information reporting, enhanced collection coverage, implementation of a revenue protection strategy, and continued implementation of the tax return preparer regulation program that will produce future performance gains. (\$346 million); and
- enforcement activity related to the implementation of the tax provisions of the ACA (\$85 million).

### **Operations Support**

Funding for operations support provides the infrastructure foundation that enables the IRS to perform its taxpayer service and enforcement operations. The Board's recommendations for FY2013 operations support funding include two initiatives valued at \$275 million in the President's budget that develop information technology systems that support implementation of the ACA. In addition, the Board also recommends five individual initiatives, totaling \$102.1 million, which fund critical investments in technology, enhanced physical security of IRS employees, and workforce development.

### **Budget Priorities**

To assist congressional decision-making, the Oversight Board has identified its four highest budget priorities:

- The Board's highest priority is the restoration of enforcement resources that were lost due to budget reductions in FY2012. Restoration of these cuts, at a cost of \$200 million, will allow the IRS to increase its field exam and collection workload to previous levels and will, by IRS estimates, result in a gain of approximately \$1.15 billion in direct revenue. Moreover, the Board believes that restoring these enforcement programs will send a message to taxpayers that non-compliance is not acceptable.

- The Board's second highest priority is \$100 million in additional funding to increase the toll-free telephone LOS to 80 percent. The Board has strongly encouraged sufficient funding for an 80 percent LOS for several years, and still believes that taxpayers deserve service at that level. Tax law continues to become more complex, and telephone call volumes remain high. The proposed 63 percent LOS that the President's budget will support could result in many taxpayer questions going unanswered, with a result that is impossible to estimate, but under no circumstances could be considered a positive development. Moreover, it could lead to erosion in the public's confidence in the tax system.
- The Board's third priority is \$346 million in new enforcement initiatives in emerging areas of tax non-compliance that need attention. These initiatives will address offshore tax evasion, strengthen international tax compliance, use new information reporting requirements for merchant payment card and basis reporting to combat underreporting, stem the growing tide of refund fraud and protect innocent taxpayers, and use the new tax return preparer regulation program to increase overall compliance. By IRS estimates, these initiatives will result in \$1.48 billion in additional enforcement revenue with an overall return on investment of 4.3 to 1.
- The fourth priority is to make key investments in future taxpayer service capabilities at a cost of \$71 million to improve the future efficiency of taxpayer service programs. Toll-free telephone calls must be shifted to more cost-effective channels. Such an outcome is not likely to occur without a concerted investment to reduce call volume and increase the efficiency of existing service outlets.

Lastly, the Board recognizes the importance of Business Systems Modernization (BSM) funding. For the last several years the Board has recommended increased funding for the IRS' BSM program, and in FY2012, despite significant cuts in the IRS' overall budget, Congress increased BSM funding to the level recommended by the Board. The Board recognizes the significance of this action, and appreciates the funding decisions that are consistent with the Board's recommendation. As a result, critical milestones have been met in the BSM program.

For FY2013, the Board is not recommending any increase in BSM funding, nor is the President's request. However, the Board wishes to note the importance of maintaining BSM funding at current levels to ensure continued success.

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## 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 U.S.C. §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) 2013 budget of \$13.034 billion for the IRS. It also examines the President's FY2013 IRS budget request of \$12.761 billion and compares this request with the Board's recommendations.

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.

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## FY2013 Strategic Assessment: Key Challenges

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. 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 is required by 26 U.S.C. §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. It is this responsibility that requires the Board to provide Congress with its recommendations for the IRS FY2013 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

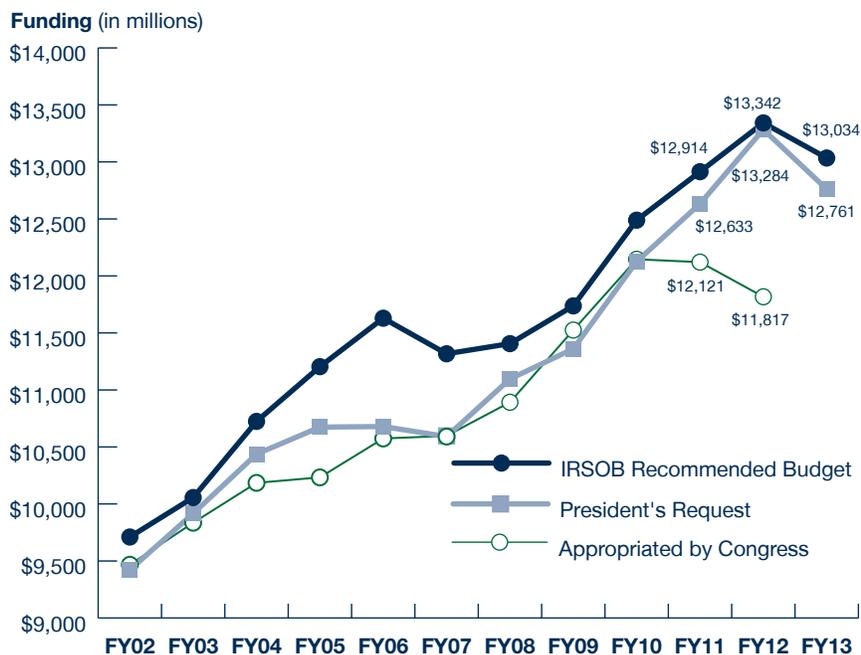
The Oversight Board recognizes the intense budgetary pressures confronting our political leaders today and the need to set priorities and ensure that the IRS is spending resources in a parsimonious and wise fashion. Still, the unique role the IRS plays in helping maintain the nation's economic health literally impacts every citizen in one fashion or another. The IRS' mission is 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. 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 than is prudent.

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. The need to restore IRS service and enforcement resources, ensure adequate service to taxpayers trying to understand and comply with an increasingly complex tax code, expand critical enforcement programs, make smart investments

about the future, implement provisions of the ACA, and ensure the safety of IRS personnel drive 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.

The overall funding trend for IRS over the last decade has been primarily characterized by relatively slow, steady growth, as shown in Figure 1. During this period, IRS performance, by almost every measure, has been improving, giving credence to the Board's belief that slow, steady growth is the optimum path to improving tax administration.<sup>3</sup>

**Figure 1. IRS Funding History, FY2002 to FY2013**



The IRS Oversight Board believes reduced IRS funding enacted in FY2011, and particularly in FY2012, has been harmful to the long-term national interest and needs to be restored. The Board's budget recommendations are consistent with this belief. We are joined in this opinion by others, including the National Taxpayer Advocate, stakeholders, outside commentators, and, most importantly, taxpayers, who have said the following:

<sup>3</sup> See IRS Oversight Board's *Annual Reports to Congress* from FY2002 to FY2011 for a discussion of IRS annual and long-term performance.

*The most serious problem facing U.S. taxpayers is the combination of the IRS' expanding workload and the limited resources available to the IRS to handle it. Among the consequences:*

- *the IRS is unable to adequately meet the service needs of the taxpaying public.*
- *the IRS is unable to adequately detect and address noncompliance, requiring honest taxpayers to shoulder a disproportionately large share of the tax burden.*
- *the IRS is unable to maximize revenue collection, contributing to the federal budget deficit.*

*—National Taxpayer Advocate, 2011 Annual Report to Congress*

*These increases (the Administration's requested FY2013 budget) are critically important for the Service to be able to fulfill its duties as our tax administrator, especially considering its workloads and responsibilities continue expanding through an increasingly complex tax code. We... specifically note that the proposed target FY2013 customer service representative level of service is 63 percent, which is a slight improvement over a level of service that in our experience is inadequate.*

*—National Association of Enrolled Agent letter to Senators Richard Durbin and Jerry Moran, March 12, 2012*

*On behalf of the American Bar Association, which has nearly 400,000 members, I urge you to support sufficient funding for the Internal Revenue Service in FY 2012. The Service relies on adequate government funding to perform its mission of administering and enforcing the tax laws and providing support to taxpayers who are attempting to meet their tax obligations. The ABA, which includes over 22,500 members who belong to the Section of Taxation, has consistently supported funding the Service at a level that will allow it to effectively carry out this mission.*

*The ABA recognizes and appreciates the challenges that Congress faces in its efforts to reduce federal spending on government programs in order to balance the federal budget. In light of those challenges, however, we believe that it is even more important that the Service have the resources it needs to administer the tax laws and collect the taxes due under those laws.*

*—American Bar Association Section of Taxation letter to Senators Richard Durbin and Jerry Moran, November 9, 2011*

*Congress is cutting the budget of the Internal Revenue Service. Granted, the IRS is not the most beloved agency in our government, and complying with the rules it enforces isn't exactly a favorite national pastime. But before you cheer the*

*move, consider this: While most parts of the government operate by consuming money, the sole mission of the IRS is to generate the funds that keep the country running.*

*Cutting its budget is like killing the goose that lays golden eggs – or at least putting her in a smaller pen and feeding her less.*

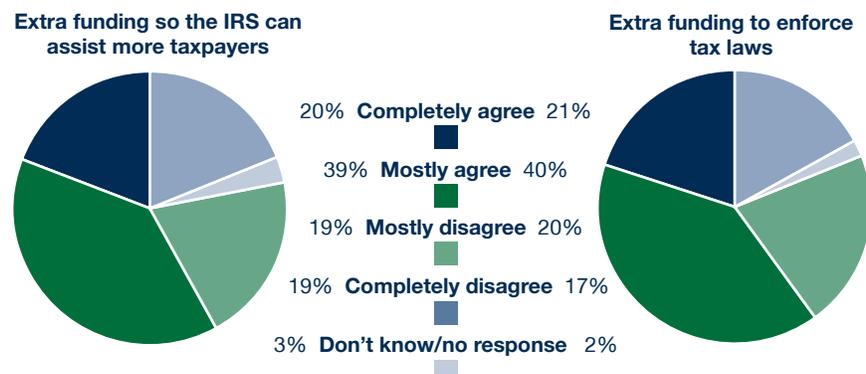
*–“Before You Cheer IRS Budget Cuts, Consider This,”  
by Selena Maranjian, The Motley Fool*

The Board can also speak with authority on the opinion of taxpayers. In its *2011 Annual Taxpayer Survey*, the Board asks taxpayers whether they completely agree, mostly agree, mostly disagree, or completely disagree with the following statements related to IRS funding:

- The IRS should receive extra funding to enforce tax laws and ensure taxpayers pay what they owe.
- The IRS should receive extra funding so it can assist more taxpayers over the phone and in person.

The results are shown in Figure 2. Approximately 60 percent of the public completely or mostly agrees the IRS should receive more funding for both service and enforcement.

**Figure 2. 2011 Public Opinion Results on Additional IRS Funding**



Source: 2011 Taxpayer Attitude Survey, IRS Oversight Board

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. Both these weaknesses were affected by the FY2012 enacted budget.

The increases in the BSM budget, which were made even as other budget accounts were being reduced, provided key funding to the IRS to advance its BSM program, and the Board recognizes the importance of this funding increase. For the last several years the Board has

recommended, as its highest priority, increased funding for the IRS' BSM program, and in FY2012, despite significant cuts in the IRS' overall budget, Congress increased BSM funding to the level recommended by the Board.

However, the FY2012 reductions in IRS taxpayer service, enforcement accounts, and operations support accounts, as noted above, have resulted in decreased service and enforcement resources at the IRS, much to the detriment of the national interest. Taxpayers who attempt to contact the IRS with questions need to be provided with the right answers, not ignored. The impact of these reductions on the tax gap, although difficult to measure quantitatively, can only logically be construed to be adverse.

Appendix 1 provides a listing of major administrative and legislative tax provisions enacted from 2007 through 2011 that presented tax administration challenges to the IRS, taxpayers, and tax preparers, and summarizes TIGTA and GAO audit findings relating to the implementation of each provision. A review of this information leads the Board to conclude that:

- late passed legislation has caused significant adverse effects on the IRS, tax preparers and taxpayers; especially because of delays in the start of several filing seasons;
- a steady stream of new and novel tax provisions that demand attention have required significant new taxpayer assistance and enforcement efforts, which have drawn resources away from other IRS service and enforcement efforts;
- the IRS has generally implemented these new provisions successfully, but a number of them have experienced a significant degree of misreporting and fraud; and
- reduced IRS budgets weaken the IRS' capacity to implement new tax provisions that place additional demands on IRS service and enforcement resources.



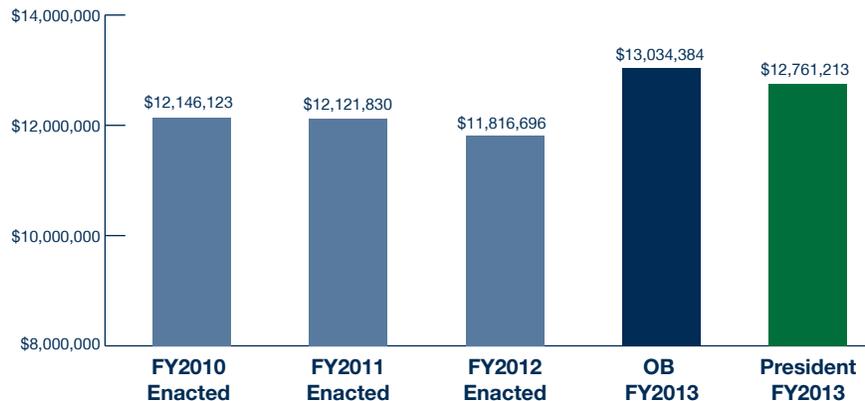
## IRS Oversight Board Recommended FY2013 IRS Budget and Funding Priorities

The IRS Oversight Board recommends a fiscal year (FY) 2013 IRS budget of \$13.034 billion, as shown in Tables 1 and 2 on the following page. This recommended budget is an increase of \$1.218 billion, or 10.3 percent, over the enacted FY2012 IRS budget, and an increase of \$273.2 million, or 2.1 percent, over the President’s FY2013 IRS budget request. The Board’s FY2013 recommendation is substantially higher than the enacted FY2012 IRS budget for a number of compelling reasons. It:

- restores funding cuts made to audit and collection programs in the FY2012 enacted budget (\$200 million);
- funds taxpayer services so that an 80 percent level of service (LOS) on IRS toll-free telephone lines can be achieved (\$100 million);
- funds programs and initiatives that represent investments in future performance gains (\$346 million for enforcement programs, \$71 million for taxpayer service, and \$26.6 million for workforce development);
- funds programs related to the implementation of the tax-related provisions of the Affordable Care Act (ACA) (\$360 million);
- funds critical investments in technology (\$58 million); and
- enhances the physical safety of federal employees (\$17.8 million).

Figure 3 shows the decline in IRS funding from FY2010 to FY2012, and compares these funding levels to the Oversight Board’s and President’s FY2013 IRS budgets. Table 2 displays the Board’s recommended budget by appropriation account.

**Figure 3. IRS Funding FY2010 to FY2013 Compared to FY2013 Oversight Board’s and President’s Budgets** (dollars in thousands)



## IRS Oversight Board Special Report

**Table 1. IRS Oversight Board Recommended FY2013 Budget** (dollars in thousands)

<b>IRS Oversight Board Recommended FY2013 IRS Budget</b>	
FY 2012 Enacted Budget	\$11,816,696
Changes to Base Maintaining Current Levels (MCLs)	\$108,423
Efficiencies/Savings	(\$70,950)
FY2013 Current Services (Base)	<b>\$11,854,269</b>
<b>Taxpayer Service Initiatives</b>	
Meeting Growing Customer Demand for Service	\$100,000
Expand Taxpayer Self-Assistance Services	\$2,941
Implement Residual Paper Strategy	\$22,973
Develop New Online Services	\$45,138
Subtotal, Taxpayer Service Initiatives	<b>\$171,052</b>
<b>Restoration of FY 2012 Reductions to Enforcement Programs</b>	
Restore Audit Coverage to Address Individual Tax Compliance Issues	\$127,172
Restore Collection Coverage	\$73,309
Restoration of FY 2012 Reductions to Enforcement Programs	\$200,481
<b>Enforcement Initiatives</b>	
Promote Offshore Compliance	\$110,739
Improve International Compliance	\$38,884
Implement Tax Legislative Changes	\$128,866
Implement Revenue Protection Strategy	\$88,856
Build Out Tax Return Preparer Program	\$35,166
Address Appeals Workload	\$20,324
Implement Uncertain Tax Position Reporting Requirements	\$4,030
Leverage Digital Evidence for Criminal Investigation (CI)	\$4,504
Subtotal, Enforcement Initiatives	\$431,369
<b>Infrastructure Initiatives</b>	
Enhance Physical Security for Federal Employees	\$17,774
Support Operations and Maintenance (O&M) of BSM Deployed Systems	\$12,900
Develop Converged Telecomm Networks	\$44,887
Attract, Retain and Develop a Quality Workforce	\$20,964
Implement Electronic Official Personnel Folders	\$5,594
Implement IT and Operational Infrastructure to Deliver New Tax Credits	\$266,894
Implement IT Changes Needed for Individual Coverage Requirement	\$8,200
Subtotal, Infrastructure Initiatives	\$377,213
Total FY 2013 Program Changes	\$1,180,115
<b>Total FY 2013 Budget Request</b>	<b>\$13,034,384</b>
FY 2013 President's Budget Request	\$12,761,213
<b>Increase over President's Budget</b>	\$273,171
Percent Increase over President's Budget	2.1%

**FY2013 IRS Budget Recommendation**

**Table 2. IRS Oversight Board Recommended FY2013 Budget by Account** (dollars in thousands)

<b>Summary of Proposed FY 2013 Budget Request</b>	<b>Taxpayer Services</b>	<b>Enforcement</b>	<b>Operations Support</b>	<b>BSM</b>	<b>Total</b>
<b>FY 2012 Enacted Budget</b>	<b>\$2,239,703</b>	<b>\$5,299,367</b>	<b>\$3,947,416</b>	<b>\$330,210</b>	<b>\$11,816,696</b>
Changes to Base Maintaining Current Levels (MCLs)	17,282	\$38,156	\$52,698	\$287	\$108,423
Efficiencies/Savings	(\$31,544)	(\$31,489)	(\$7,530)	(\$287)	(\$70,950)
<b>FY 2013 Current Services (Base)</b>	<b>\$2,225,441</b>	<b>\$2,225,441</b>	<b>\$2,225,441</b>	<b>\$2,225,441</b>	<b>\$11,854,269</b>
<b>Taxpayer Service Initiatives</b>					
Meeting Growing Customer Demand for Service	\$78,534		\$21,466		\$100,000
Expand Taxpayer Self-Assistance Services	\$1,432		\$1,509		\$2,941
Implement Residual Paper Strategy	\$5,602		\$17,371		\$22,973
Develop New Online Services	\$16,264		\$28,874		\$45,138
Subtotal, Taxpayer Service Initiatives	<b>\$101,832</b>		<b>\$69,220</b>		<b>\$171,052</b>
Restoration of FY 2012 Reductions to Enforcement Programs					
Restore Audit Coverage to Address Individual Tax Compliance Issues	\$388	\$83,265	\$43,519	\$0	\$127,172
Restore Collection Coverage	\$11,869	\$35,407	\$26,033	\$0	\$73,309
Subtotal, Restoration of FY 2012 Reductions to Enforcement Programs	<b>\$12,257</b>	<b>\$118,672</b>	<b>\$69,552</b>	<b>\$0</b>	<b>\$200,481</b>
<b>Enforcement Initiatives</b>					
Promote Offshore Compliance		\$81,738	\$29,001	\$0	\$110,739
Improve International Compliance		\$33,033	\$5,851	\$0	\$38,884
Implement Tax Legislative Changes	\$8,366	\$51,694	\$68,806	\$0	\$128,866
Implement Revenue Protection Strategy	\$7,069	\$60,490	\$21,297	\$0	\$88,856
Build Out Tax Return Preparer Program		\$29,190	\$5,976	\$0	\$35,166
Address Appeals Workload		\$16,466	\$3,858	\$0	\$20,324
Implement Uncertain Tax Position Reporting Requirements		\$3,576	\$454	\$0	\$4,030
Leverage Digital Evidence for Criminal Investigation (CI)		\$777	\$3,727	\$0	\$4,504
Subtotal, Enforcement Initiatives	<b>\$15,435</b>	<b>\$276,964</b>	<b>\$138,970</b>	<b>\$0</b>	<b>\$431,369</b>
<b>Infrastructure Initiatives</b>					
Enhance Physical Security for Federal Employees			\$17,774		\$17,774
Support Operations and Maintenance (O&M) of BSM Deployed Systems			\$12,900		\$12,900
Develop Converged Telecomm Networks			\$44,887		\$44,887
Attract, Retain and Develop a Quality Workforce			\$20,964		\$20,964
Implement Electronic Official Personnel Folders			\$5,594		\$5,594
Implement IT and Operational Infrastructure to Deliver New Tax Credits			\$266,894		\$266,894
Implement IT Changes Needed for Individual Coverage Requirement			\$8,200		\$8,200
Total, Infrastructure Initiatives	<b>\$0</b>	<b>\$0</b>	<b>\$377,213</b>		<b>\$377,213</b>
Total FY 2013 Program Changes	<b>\$129,524</b>	<b>\$395,636</b>	<b>\$654,955</b>		<b>\$1,180,115</b>
<b>Total FY 2013 Budget Request</b>	<b>\$2,354,965</b>	<b>\$5,701,670</b>	<b>\$4,647,539</b>	<b>\$330,210</b>	<b>\$13,034,384</b>

**Comparison of Oversight Board’s Recommended Budget to the FY 2012 Enacted Budget and the President’s Budget Request**

Both the Board’s recommended budget and the President’s budget, at \$13.034 and \$12.761 billion, respectively, are significantly higher than the enacted FY2012 budget. The Board’s budget exceeds the enacted FY2012 budget by \$1,218 million (10.3 percent) and the President’s budget request exceeds the FY2012 enacted budget by \$944 million (8.0 percent). Table 3 shows all three budgets by account.

**Table 3. Comparison of Board’s and President’s FY2013 Budgets to the Enacted FY2012 Budget**  
(dollars in thousands)

	FY2012 enacted	Board FY2013	President FY2013	Difference Board and FY2012	Difference President and FY2012	Difference Board and President FY2013
<b>Taxpayer services</b>	\$2,239,703	\$2,354,965	\$2,253,133	\$115,262	\$13,430	\$101,832
<b>Enforcement</b>	\$5,299,367	\$5,701,670	\$5,701,670	\$402,303	\$402,303	\$0
<b>Operations support</b>	\$3,947,416	\$4,647,519	\$4,476,200	\$700,103	\$528,784	\$171,319
<b>BSM</b>	\$330,210	\$330,210	\$330,210	\$0	\$0	\$0
<b>Total</b>	<b>\$11,816,696</b>	<b>\$13,034,364</b>	<b>\$12,761,213</b>	<b>\$1,217,668</b>	<b>\$944,517</b>	<b>\$273,151</b>

Both the Board’s budget recommendations and the President’s budget request were formulated using the enacted FY2012 budget as a base, and applied the same adjustment factors, efficiencies, and savings to compute an FY2013 Current Services Base of \$11.854 billion.

Key areas where the Board recommends program increases over the enacted FY2012 budget are summarized below, by account.

*Taxpayer Service*

The Board’s recommended FY2013 budget contains four taxpayer service initiatives. The President’s FY2013 budget request has none; the only increases in the Taxpayer Service account result from enforcement initiatives that allocate some funding to the taxpayer service account.

The Board’s recommendations for taxpayer service funding exceed the enacted FY2012 budget by \$115.3 million because the Board is growing increasingly concerned about the level of service being provided to taxpayers. Taxpayer service funding has been in decline during the period FY2010 to FY2012 and the Board believes the level of taxpayer service has declined to unacceptable levels. Toll-free telephone level of service (LOS), a key performance measure of taxpayer service, declined to 70 percent in FY2011, and the President’s FY2013 budget only funds a level of 63 percent; far below the 80 percent LOS the Board believes taxpayers deserve. The decline of service is particularly harmful to taxpayers as the tax system grows more complex with each passing year. When faced with growing complexity, taxpayers who want to do the right thing but are unable to obtain the right answers may be more likely to unknowingly file

incorrect returns. Such taxpayers need to be served. Appendix 1 provides a listing of major legislative tax provisions enacted from 2007 through 2011, many of which present taxpayer service challenges to the IRS, taxpayers, and tax preparers.

In addition to raising the toll-free telephone LOS, the Board believes the IRS must invest in several key taxpayer service initiatives that represent investments in future reduced taxpayer burden and greater IRS productivity. For example, because funding adequate service levels to taxpayers who call the IRS seeking assistance represents a significant expense, a plan is needed to reduce future telephone call volume so this situation does not continue indefinitely. To implement such a plan, investments are needed to improve service channels such as the Internet and social media so that taxpayers will make these less costly channels their first choice for service. Other taxpayer service investments deal with the remaining paper tax returns and provide automated mechanisms for augmenting IRS face-to-face service offerings.

#### *Enforcement*

The Board's recommendations for FY2013 enforcement funding match those of the President's FY2013 budget request. Key enforcement initiatives contained in the Board's FY2013 budget recommendations include:

- the restoration of audit and collection coverage lost in the FY2012 budget reductions (\$200 million);
- new initiatives to expand key enforcement programs such as international and offshore compliance, expanded information reporting, enhanced collection coverage, implementation of a revenue protection strategy, and continued implementation of the tax return preparer regulation program that will produce future performance gains (\$346 million); and
- enforcement activity related to the implementation of the tax provisions of the ACA (\$85 million).

#### *Operations Support*

Funding for operations support provides the infrastructure foundation that enables the IRS to perform its taxpayer service and enforcement operations. The Board's recommendations for FY2013 operations support funding include two initiatives valued at \$275 million that are also contained in the President's budget to develop information technology systems that support implementation of the ACA. In addition, the Board recommends five other initiatives, totaling \$102.1 million, which fund critical investments in technology, enhanced physical security of IRS employees, and workforce development, and are not contained in the President's budget.

To assist congressional decision-making, the Oversight Board has identified its four highest budget priorities:

- The Board's highest priority is the restoration of enforcement resources that were lost due to budget reductions in FY2012.

Restoration of these cuts, at a cost of \$200 million, will allow the IRS to increase its field exam and collection workload to previous levels and will, by IRS estimates, result in a gain of approximately \$1.15 billion in revenue. Moreover, the Board believes that restoring these enforcement programs will send a message to taxpayers that non-compliance is not acceptable.

- The Board's second highest priority is \$100 million in additional funding to increase the toll-free telephone LOS to 80 percent. The Board has strongly encouraged sufficient funding for an 80 percent LOS for several years, and believes that taxpayers deserve service at that level. The proposed 63 percent LOS that the President's budget will support could result in many taxpayer questions going unanswered, with a result that is impossible to estimate, but under no circumstances could be considered a positive development. Moreover, it could lead to an erosion in the public's confidence in the tax system.
- The Board's third priority is \$346 million in new enforcement initiatives in emerging areas of tax non-compliance that need attention. These initiatives will address offshore tax evasion, strengthen international tax compliance, use new information reporting requirements for merchant payment card and basis reporting to combat underreporting, stem the growing tide of refund fraud and protect innocent taxpayers, and use the new tax return preparer regulation program to increase overall compliance. By IRS estimates, these initiatives will result in \$1.48 billion in additional enforcement revenue with an overall return on investment of 4.3 to 1.
- The fourth priority is to make key investments in future taxpayer service capabilities at a cost of \$71 million to improve the future efficiency of taxpayer service programs. Toll-free telephone call volume must be shifted to more cost-effective channels. Such an outcome is not likely to occur without a concerted investment to reduce call volume and increase the efficiency of existing service outlets. Taxpayers ultimately chose the channels by which they seek assistance and hence the IRS can only influence taxpayers' behavior by making the most cost effective channels the most attractive and convenient to taxpayers, and improving the efficiency of other channels, such as walk-in assistance centers, for taxpayers who have needs for those channels.

Lastly, the Board recognizes the importance of BSM funding. For the last several years, the Board has recommended increased funding, as its highest priority, for the IRS' BSM program, and in FY2012, despite significant cuts in the IRS' overall budget, Congress increased BSM funding to the level recommended by the Board. The Board recognizes the significance of this action, and appreciates the funding decisions that are consistent with the Board's highest priority recommendation.

For FY2013, the Board does not recommend any increase in BSM funding, nor is the President's request. However, the Board wishes to note the importance of maintaining BSM funding at current levels to ensure continued success.

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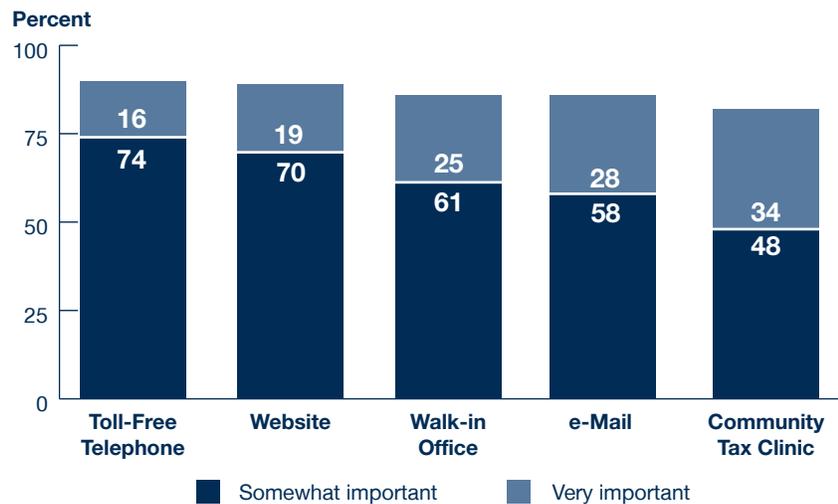
## Meeting Strategic Goals

All the budget recommendations by the Oversight Board are driven by the need to support the *IRS Strategic Plan 2009-2013* as demonstrated in the sections that follow.

### *Goal 1: Improve Service to Make Voluntary Compliance Easier*

Data from the *IRS Oversight Board 2011 Taxpayer Attitude Survey* attests to the value taxpayers place on the IRS taxpayer assistance programs. As shown in Figure 4, over 80 percent of the public says 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 says it is “very important.”

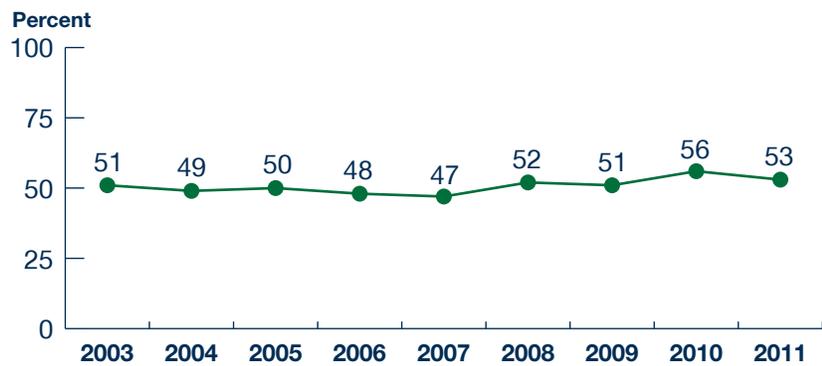
**Figure 4. Percent of Public Who Say It Is Important the IRS Provides Certain Tax Assistance Services**



Source: *IRS Oversight Board 2011 Taxpayer Attitude Survey*

As shown in Figure 5, the Board’s survey further shows that since 2008, over 50 percent of the public says that an IRS representative is a “very valuable” source for tax advice. Clearly, taxpayers value the assistance the IRS provides through its service programs.

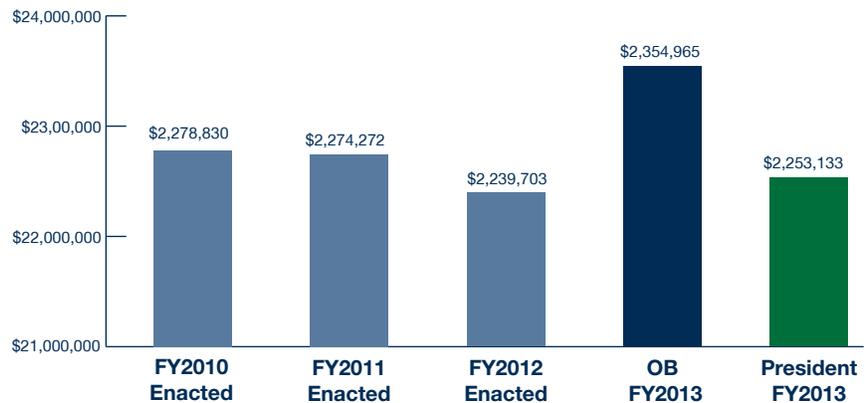
**Figure 5. Percent of Public Who Says an IRS Representative is a Very Valuable Source for Tax Advice or Information**



Source: IRS Oversight Board 2011 Taxpayer Attitude Survey

Despite the importance of taxpayer service, funding for such service has been in decline from FY2010 to FY2012 and the Board believes the level of taxpayer service is not adequate. Figure 6 illustrates the Taxpayer Service account funding for FY2010 to FY2012, and compares both the Oversight Board's and President's budget to those levels. The Board is growing increasingly concerned about the level of service being provided to taxpayers and believes several program initiatives are needed to serve taxpayers more effectively in FY2013 and invest in future service improvements.

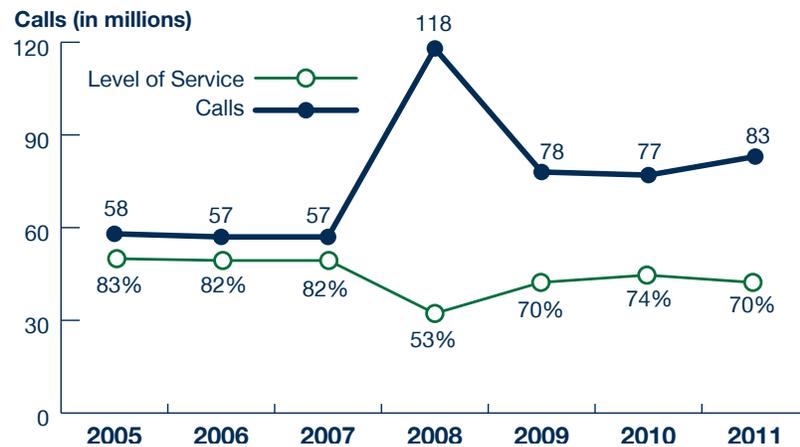
**Figure 6. Taxpayer Service Account Funding FY2010 to FY2012 Compared to Oversight Board's and President's FY2013 Budgets**  
(dollars in thousands)



Of immediate concern to the Board is toll-free telephone level of service (LOS), a key performance measure of taxpayer service. Figure 7 shows the LOS and call volume for toll-free telephone service from 2005 to 2011. The decline of service is particularly harmful to taxpayers as the tax system grows more complex with each passing year. When faced with growing complexity, taxpayers who want to do the right thing but are unable to obtain the right answers may be more likely to unknowingly file incorrect returns. Such taxpayers need to be served. The IRS last achieved an LOS above 80 percent in 2007. In 2008, call volume virtually doubled as taxpayers called the IRS in record numbers seeking

assistance, mostly because of economic stimulus payments. Although never reaching the 2008 peak, call volume has remained high since 2008 as new tax provisions create many questions for taxpayers. The pattern illustrated in Figure 7 cannot continue indefinitely without undermining taxpayer confidence and causing unintentional noncompliance by underserved taxpayers.

**Figure 7. IRS Toll-Free Telephone Calls Received and Level of Service: 2005-2011**



The four taxpayer service initiatives recommended by the Board are as follows. Each is discussed in subsequent paragraphs:

- Meet Growing Customer Demand for Service (\$100 million)
- Develop New Online Services (\$45.1 million)
- Expand Taxpayer Self-Assistance Services (\$2.9 million)
- Implement Residual Paper Strategy (\$23.0 million)

*Meet Growing Customer Demand for Service* provides funding for IRS Accounts Management staffing to increase the Telephone Customer Service Representative Level of Service to 80 percent in FY2013, maintain the 93 percent customer satisfaction rate for toll-free telephone service, and procure authentication retention technology to better serve taxpayers. The authentication retention technology funded by this initiative provides the capability to route authentication-related information provided by the taxpayer during telephone interaction with the IRS. It will eliminate the need for the taxpayer to provide their authentication information more than once during the contact experience.

*Develop New Online Services* funds the development of new online options on IRS.gov that will simplify the taxpayer online experience and provide new self-service products and services to meet taxpayer needs. This initiative continues to improve IRS infrastructure and capabilities, while delivering new taxpayer services, such as:

- online payment of tax obligations;
- online ordering and delivery of transcripts;
- electronic notice delivery;
- taxpayer account locking capability to limit risk of identity or information theft;

- electronic submission of non-tax forms (such as Power of Attorney); and
- compliance tools (such as determination of Offer-in-Compromise eligibility and application).

IRS.gov has more than 100,000 pages of content. This initiative funds the simplification of the online experience by organizing existing content based on known taxpayer segments so that information can be found easily and taxpayers can obtain reliable and accurate answers to their questions.

*Expand Taxpayer Self-Assistance Services* installs 50 Facilitated Self-Assistance (FSA) stations in Taxpayer Assistance Centers (TACs). These stations support the IRS' strategy to invest in processes and personnel to improve efficiency and productivity. FSA stations increase taxpayers' awareness and understanding of IRS.gov, allowing taxpayers to use web-based services to prevent, minimize, and correct taxpayer non-compliance.

Seasonal FSA facilitators will assist taxpayers at FSA stations. By using seasonal staff as FSA facilitators, taxpayers will be assisted in a timely manner, while permanent staff can focus on more complex issues. Providing taxpayers with the additional FSA stations improves taxpayer service by:

- providing taxpayers with excellent service and convenient locations;
- raising taxpayer awareness of self-service options;
- increasing taxpayers' comfort with self-help tools; and
- increasing awareness of IRS.gov.

*Implement Residual Paper Strategy* is the first year of a multi-year investment to increase data capture on the remaining paper tax returns, fund the Two Dimensional (2-D) Barcode project, the Campus Bulk Remittance Processing project, and Modernized e-File enhancement. This initiative expands data capture from paper returns to provide more complete, accurate, and timely tax return data for more effective reporting and compliance. These projects will allow the IRS to:

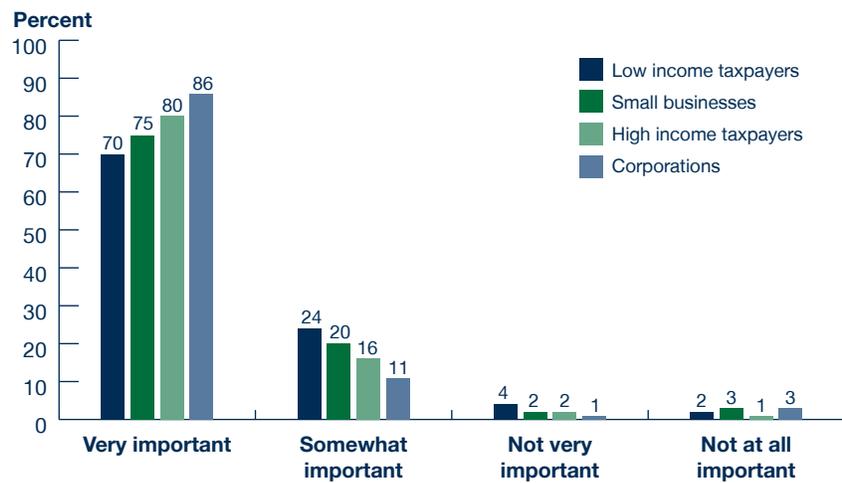
- use significantly more data for analysis;
- provide the means to convert data from paper tax returns into electronic formats;
- scan barcodes on computer-generated tax returns, which is a much faster and less labor-intensive process than current manual data entry, and will result in fewer transcription errors;
- make data from residual paper returns available electronically to support compliance efforts and enhance existing research capabilities;
- process paper payments electronically;
- increase the number of lines transcribed from paper returns; and
- allow the IRS to accept and store individual amended returns electronically.

The IRS will be able to more effectively monitor, examine, and report on tax law changes, including new and established credits and deductions, by targeting additional requested lines through data capture prioritization. Transcribing and posting more comprehensive information from income tax and information reporting returns will facilitate selecting appropriate returns for audit, expedite contacts with taxpayers for faster resolution, reduce handling costs, and potentially better identify tax compliance issues.

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

The IRS Oversight Board can state categorically that taxpayers overwhelmingly support enforcement of the tax laws. Figure 8 shows the results of the Board's 2011 Taxpayer Attitude Survey when the public was asked about the importance of IRS enforcement.

**Figure 8. Importance to the Public That the IRS Ensures Various Taxpayer Segments are Reporting and Paying Their Taxes Honestly**



Source: IRS Oversight Board 2011 Taxpayer Attitude Survey

Vigorous enforcement of the tax laws by the IRS gives taxpayer confidence in the tax administration system. Moreover, in times of significant budget deficits, it makes good business sense for the IRS to take what steps it can to ensure that all taxpayers, regardless of the tax segment, pay what they legally owe. With a net annual tax gap of \$385 million, there are numerous opportunities for improved enforcement.

Figure 9 shows the amount of enforcement revenue collected by the IRS annually from FY2001 through FY2011. Although the amount of enforcement revenue can fluctuate from year to year in response to specific enforcement actions, such as final resolution of unique large dollar cases, there is a clear upward growth trend indicated. Moreover, the figure only illustrates direct revenue received, and does not take into account indirect revenue that results from the deterrent value of IRS enforcement.

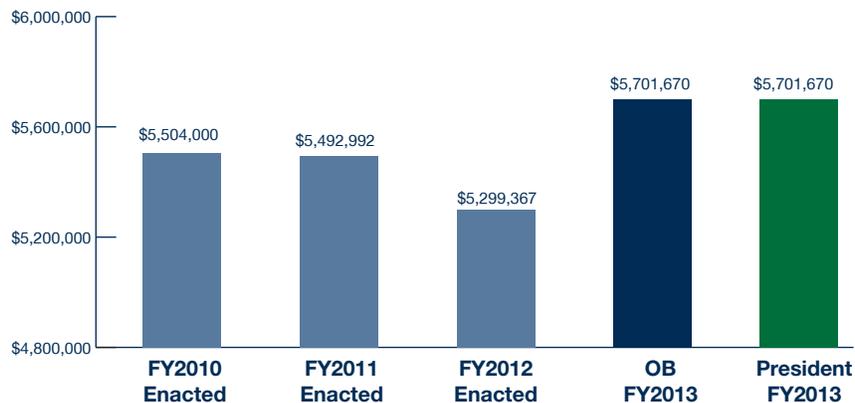
The Board has previously pointed out that the growing complexity of the tax code increases the demand for taxpayer service, but a case can also be made that the complexity of new tax provisions since 2007 has also created numerous opportunities for taxpayers to test IRS enforcement efforts. Appendix 1 illustrates several examples where taxpayers failed to fully comply with the tax code, either purposefully or unintentionally, and the efforts of the IRS to deal with the additional complexity.

**Figure 9. IRS Enforcement Revenue: Actual and Underlying Trend, FY2001 to FY2011**



The Oversight Board has advocated slow, steady growth in IRS enforcement resources for a number of years, and Figure 9 confirms that enforcement revenue growth has resulted. However, enforcement funding has decreased in FY2011 and FY2012, as shown in Figure 10. To reverse this trend, the Board supports the President’s FY2013 budget request for enforcement funding of \$5.701 billion.

**Figure 10. Enforcement Account Funding FY2010 to FY2012 Compared to Oversight Board’s and President’s FY2013 Budgets (dollars in thousands)**



Both the Board's and the President's budgets segment key enforcement initiatives into the following broad categories:

- the restoration of audit and collection coverage lost in the FY2012 budget reductions (\$200 million);
- new initiatives to expand key enforcement programs such as international and offshore compliance, expanded information reporting, enhanced collection coverage, implementation of a revenue protection strategy, and continued implementation of the tax return preparer regulation program that will produce future performance gains. (\$346 million); and
- compliance activity related to the implementation of the tax provisions of the Affordable Care Act (ACA) (\$85 million).

Table 4 shows the enforcement initiatives contained in both budgets, with a separate identification of ACA-related funding.

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

<b>Restoration of FY2012 Reductions to Enforcement Programs</b>	
Restore Audit Coverage to Address Individual Tax Compliance Issues	\$127,172
Restore Collection Coverage	\$73,309
<b>Subtotal</b>	\$200,481
<b>New Enforcement Initiatives</b>	
Promote Offshore Compliance	\$110,739
Improve International Compliance	\$38,884
Implement Tax Legislative Changes (including ACA \$85,361)	\$128,866
Implement Revenue Protection Strategy	\$88,856
Build Out Tax Return Preparer Program	\$35,166
Address Appeals Workload	\$20,324
Implement Uncertain Tax Position Reporting Requirements	\$4,030
Leverage Digital Evidence for Criminal Investigation (CI)	\$4,504
<b>Subtotal, Enforcement Initiative (including ACA)</b>	<b>\$431,369</b>
<b>Subtotal, Less ACA</b>	<b>\$346,008</b>

The restoration of enforcement resources lost due to reductions in the FY2012 budget will allow the IRS to increase its field exam and collection workload to previous levels and will, by IRS estimates, result in a gain of approximately \$1.15 billion in revenue. Moreover, the Board believes that restoring these enforcement programs will send a message to taxpayers that non-compliance is not acceptable.

The Oversight Board also recommends the development of new enforcement initiatives in emerging areas of tax non-compliance that need attention.

*Strategic Foundations: Invest for High Performance in People and Technology*

Strategic Foundations comprise two accounts in the IRS budget: BSM and Operations Support.

Business Systems Modernization

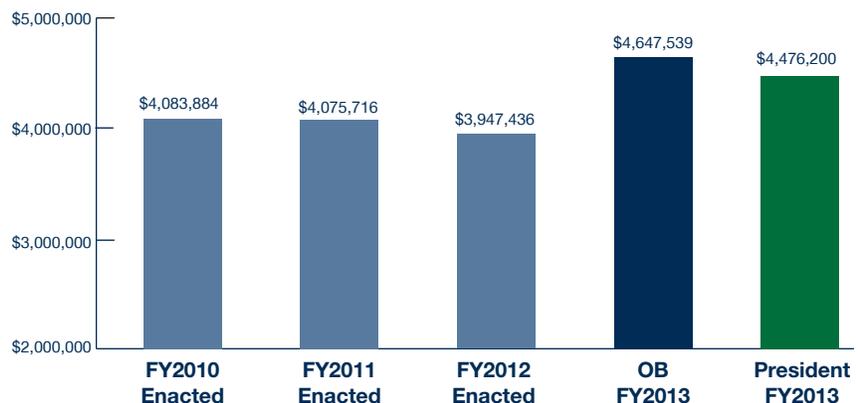
The Oversight Board recognizes the importance of BSM funding and appreciates congressional action on the FY2012 budget that raised BSM funding as recommended by the Board for several years. This action was all the more significant because it was taken at a time when significant cuts were being made to the IRS' overall budget.

For FY2013, the Board is not recommending any increase in BSM funding, nor is the President's budget request. However, the Board wishes to note the importance of maintaining BSM funding at current levels. The IRS has achieved two significant milestones in its BSM program, the successful deployment of the change to daily account processing included in the Customer Account Data Engine 2 (CADE 2) program and the update of the Modernized e-File (MeF) program, which now accepts all Form 1040 returns and the associated schedules and forms for the first time, and is processing the vast majority of electronic tax returns instead of the legacy e-file system. Continued success in the IRS' modernization program is dependent in maintaining BSM funding at current levels.

Operations Support

Funding for operations support provides the infrastructure foundation that enables the IRS to perform its taxpayer service and enforcement operations. Funding for this account has been trending downward since FY2010, on a similar path with other parts of the IRS budget, as illustrated in Figure 11.

**Figure 11. Operations Support Funding FY2010 to FY2012 Compared to Oversight Board's and President's FY2013 Budgets** (dollars in thousands)



The Board's recommendations for FY2013 operations support funding include two initiatives valued at \$275 million that are also contained in the President's budget to develop information technology systems that support implementation of the ACA.

In addition, the Board also recommends five other additional initiatives, totaling \$102.1 million, which fund critical investments in technology, enhanced physical security for IRS employees, and workforce development, and are not contained in the President's budget.

- Technology Investment
  - ✓ Support Operations and Maintenance (O&M) of BSM Deployed Systems (\$12.9 million)
  - ✓ Develop Converged Telecomm Networks (\$44.9 million)
- Workforce Development
  - ✓ Attract, Retain and Develop a Quality Workforce (\$21.0 million)
  - ✓ Implement Electronic Official Personnel Folders (\$5.6 million)
- Enhance Physical Security for Federal Employees (\$17.8 million)

*Support Operations and Maintenance (O&M) of BSM Deployed Systems* requests funds for the operations and maintenance costs of BSM systems deployed in 2012. In FY2012, the IRS is scheduled to deploy Transition State 1 (TS 1) of the CADE 2 BSM project. As the IRS continues to modernize its legacy information technology environment and supporting infrastructure, new systems are placed into the production environment each year. Since 2007, the IRS Operations Support appropriation has absorbed the O&M costs of these systems, and due to resource constraints, these costs can no longer be absorbed by this appropriation. BSM systems are developed and deployed incrementally, and the IRS is not able to replace the legacy systems (i.e., old method technology that continues to be used because the newer systems do not yet have all the functions to meet the users' needs) until a project is fully implemented. Therefore, the IRS must incur the cost of both the legacy and the deployed BSM systems simultaneously until the legacy systems are retired.

*Develop Converged Telecommunication Networks* funds the development of converged telecommunication networks by leveraging the Treasury Network (TNet) as a foundation for merging data services onto a shared, enterprise-wide network platform. Merging data, voice, and multimedia into a single infrastructure will allow all IRS sites to share a common, cost-effective communications infrastructure. In addition, it will provide operating efficiencies and advanced functionality to customers.

Furthermore, this initiative supports consolidated replacement for failing infrastructure to reduce exposure to future maintenance and repair costs, and facilitates:

- increasing productivity-enhancing features to users by combining telephone, voice mail, email, and desktop video conferencing services onto user workstations over a single connection;
- increasing preparedness for the next stage of advanced telecommu-

- nifications in support of the Workforce of Tomorrow strategic initiative;
- providing functionality beneficial to taxpayers who rely on IRS employees to assist them in understanding their tax obligations;
- reducing the risk of phone service failure; and
- reducing travel costs and increasing collaboration between personnel in geographically-dispersed locations.

This investment will produce a cost-avoidance of \$58 million over the next three years. Without the requested resources for network convergence (\$45 million each year for a total of \$135 million), the current practice of operating and replacing obsolete telecommunications equipment would cost an additional \$193 million over the next three years, and compete for resources with the growing backlog of unfunded, aged IT equipment replacement. Additionally, future aged replacement for the converged telecommunications infrastructure will be less costly than the current hardware configuration over the entire lifecycle.

*Attract, Retain and Develop a Quality Workforce* promotes the goal of making the IRS the best place to work in government. Based on the recommendations made by the IRS Workforce of Tomorrow Taskforce and employee feedback, this request for additional resources funds:

- Enhanced Recruitment and Retention of Employees – The Student Loan Repayment Program supports recruiting top talent and retaining current employees; the Competency Assessments predict on-the-job performance and assist employees to understand their assessments; the Tuition Assistance Program enhances employee skills; and Telework enhances the work life balance of employees and supports IRS business resumption efforts.
- Integrated Human Capital Management Solution – The Integrated Talent Management solution provides a state-of-the-art Human Resources system that facilitates strategic management of talent and information; and the Entrance-on-Duty System will automate the pre-hire and on-boarding processes for persons considered for federal employment and selected for hire.
- Development of Workforce – The Career Management System’s virtual career center equips managers with education and coaching to provide career assistance to their employees; and the Coaching Cadre/Mentoring Program helps managers support employees through effective developmental and evaluative feedback.

Funding these programs reflects a commitment to and an investment in employees and their career development to ensure that the IRS has a leadership and workforce ready for the future.

*Implement Electronic Official Personnel Folders* creates an electronic Official Personnel Folder (eOPF) system for all IRS employees. The IRS currently stores OPFs for all employees in paper form. To satisfy an Office of Management and Budget (OMB) mandate, however, these paper OPFs must be converted to an electronic version. The eOPF will:

- create “virtual folders” to house training, payroll, performance and other data;
- allow IRS employees Web-enabled access to their individual OPFs;

- promote easier transfer of OPFs between federal agencies allowing for quicker updates to employee data;
- allow simultaneous viewing of documents from different locations; and
- assure continuity of operations and disaster recovery by having regularly backed up electronic records. The funds will improve transparency and efficiency, and will allow the IRS to comply with the OMB mandate. If this initiative is not funded, the cumbersome and inefficient way of accessing paper OPFs would continue.

*Enhance Physical Security for Federal Employees* improves federal employee security by increasing security guard services and installing additional security equipment. The Treasury Inspector General for Tax Administration (TIGTA) identified security as the top challenge for IRS management in FY2012. This initiative expands security guard services by providing a permanent annual guard presence in Taxpayer Assistance Centers (TAC). In addition, security guard services will be enhanced at non-TAC facilities to address identified security vulnerabilities. These funds will allow for the purchase, implementation, and installation of other security measures, such as entry control; intrusion detection system; screening equipment; barriers; alarms; and cameras at 254 sites nationwide.

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## **Appendix 1. Selected Major Legislative and Administrative Provisions That Created Significant Challenges for the IRS During the 2007 through 2011 Filing Seasons**

Appendix 1 provides a listing of major legislative tax provisions enacted from 2007 through 2011 that presented tax administration challenges to the IRS, taxpayers, and tax preparers. The IRS implementation of these provisions has been audited extensively by both GAO and TIGTA, and the information in the appendix has been designed for a twofold purpose: 1), to describe the impacts the enacted tax provisions had on the filing season, and 2), to summarize the GAO and TIGTA audit findings on the effectiveness of the IRS implementation. A review of this information leads the Board to conclude that:

- late passed legislation has caused significant adverse effects on the IRS, tax preparers and taxpayers; especially because of delays in the start of several filing seasons;
- the IRS, taxpayers and tax preparers have faced a steady stream of new and novel tax provisions that demand attention, and which have required significant new taxpayer assistance and enforcement efforts that have drawn resources away from other IRS service and enforcement efforts;
- the IRS, to date, has generally met the challenges of implementing these new provisions, but not without difficulty in some cases, especially because a number of these new tax provisions have experienced a significant degree of misreporting and fraud; and
- reduced IRS budgets weaken the IRS' capacity to implement new tax provisions that place additional demands on IRS service and enforcement resources.

2007 Filing Season	
<i>Legislation/Provision &amp; Impact(s) on Filing Season</i>	<i>Some Related GAO/TIGTA Audit Findings</i>
<p><b>Tax Relief and Health Care Act of 2006</b></p> <ul style="list-style-type: none"> <li>• Legislation extended certain existing tax deductions such as those relating to deductions for state and local sales taxes.</li> <li>• This late-passed legislation forced approximately one million taxpayers to delay their return filing and any associated refund claim for about 3 weeks while IRS finalized its system programs and testing.</li> <li>• Required taxpayers to make, and IRS to process, unique annotations on paper tax returns to claim certain deductions.</li> </ul>	<ul style="list-style-type: none"> <li>• IRS improved most filing season services during 2007: electronic filing grew and several IRS web site measures improved such as customer satisfaction; meanwhile, access to IRS telephone assistance and the associated IRS response accuracy were comparable to the prior year (GAO-08-38).</li> <li>• Overall, IRS correctly implemented the key tax law and administrative changes with no significant delays in returns processing during the 2007 filing season (TIGTA Report: 2007-40-187).</li> <li>• IRS provided taxpayers with effective access to telephone service; however, the quality and level of service for Spanish applications were lower than those in English (TIGTA Report: 2007-40-160).</li> <li>• There were some areas in which taxpayers did not take full advantage of the benefits the tax law and administrative changes provided (TIGTA Report: 2007-40-187).</li> </ul>
<p><b>Telephone Excise Tax Refund (TETR)</b></p> <ul style="list-style-type: none"> <li>• Allowed for a one-time refund on income tax returns applicable to all who paid telephone excise tax, regardless of obligation to file a tax return.</li> </ul>	<ul style="list-style-type: none"> <li>• IRS received fewer TETR requests from individuals than expected; early data showed minimal impact on returns processing and taxpayer service (GAO-07-695).</li> <li>• With some exceptions, IRS successfully planned and implemented the TETR program for individuals and businesses; this includes revising forms, developing strategies to educate taxpayers, and developing methods for taxpayers to estimate their TETR claim without burden of obtaining years of telephone bills (TIGTA Reports: 2007-30-178 and 2008-30-091).</li> <li>• Despite IRS efforts, much of the over-collected tax went unclaimed and un-refunded (TIGTA Reports 2007-30-178 and 2008-30-091).</li> <li>• IRS did not scrutinize many questionable TETR claims by individuals because of competing priorities to examine other issues on returns (TIGTA Report: 2007-30-178).</li> <li>• IRS effort to identify overstated TETR claims by businesses were ambitious; however, minimum selection criteria for some businesses were inconsistently applied (TIGTA Report: 2008-30-091).</li> <li>• A TIGTA survey indicated that 27 percent of preparers who did not compute the TETR claim for their business clients due to cost involved were not aware that IRS had offered a simplified method to estimate the refund (TIGTA Report: 2008-30-175).</li> </ul>

2008 Filing Season	
<i>Legislation/Provision &amp; Impact(s) on Filing Season</i>	<i>Some Related GAO/TIGTA Audit Findings</i>
<p><b>Tax Increase Prevention Act of 2007</b></p> <ul style="list-style-type: none"> <li>• Legislation extended Alternative Minimum Tax (AMT) “patch” and certain AMT credit offsets.</li> <li>• This late-passed legislation forced approximately 3 to 4 million taxpayers to delay their return filing and any associated refund claim for about 4 weeks, while IRS finalized its system programs and testing.</li> </ul>	<ul style="list-style-type: none"> <li>• Overall, the IRS correctly implemented the tax law changes enacted late in the year with no significant delays in the processing of tax returns (TIGTA Report: 2008-40-183).</li> <li>• IRS did not achieve its toll-free assistance and level of service performance goals because of the high volume of calls regarding the economic stimulus payments (TIGTA Report: 2008-40-168).</li> </ul>
<p><b>Mortgage Forgiveness Debt Relief Act of 2007</b></p> <ul style="list-style-type: none"> <li>• Allowed taxpayer to generally exclude from income forgiven mortgage debt used to buy or improve principal residence.</li> </ul>	<ul style="list-style-type: none"> <li>• The amount of forgiven mortgage debt excluded from income could be significant (GAO-10-997).</li> <li>• IRS faced several compliance challenges in administering this complicated tax provision, including limited information on current IRS forms, and return on investment considerations on whether to devote limited IRS enforcement resources to enforce this provision (GAO-10-997).</li> </ul>
<p><b>Economic Stimulus Act of 2008</b></p> <ul style="list-style-type: none"> <li>• Mandated that IRS send stimulus payments to over 100 million households based on who filed a tax year 2007 during the 2008 filing season.</li> <li>• Congressional passage occurred approximate 3 weeks after the start of the 2008 filing season.</li> </ul>	<ul style="list-style-type: none"> <li>• As of June 13, 2008, IRS had generated 129 million economic stimulus payments, totaling more than \$89 billion with an accuracy rate of 99.6 percent (TIGTA Report: 2008-40-174).</li> <li>• The first stimulus payments were issued via direct deposit on April 28, 2008 (TIGTA Report: 2009-40-069).</li> <li>• IRS made significant efforts to ensure eligible taxpayers received their stimulus payment such as sending advance information notices to more than 130 million taxpayers who filed a tax year 2006 return, initiating outreach efforts to retired individuals and veterans who normally have no need to file a tax return, and initiating outreach efforts to individuals whose stimulus payments were returned as undeliverable (TIGTA Reports: 2009-40-069 and 2008-40-100).</li> <li>• Demand for telephone assistance related to the economic stimulus legislation was unprecedented and led to a significant reduction in IRS telephone service (GAO-08-916T).</li> <li>• IRS decision to reallocate hundreds of collections staff to help address large telephone call demand resulting from economic stimulus legislation resulted in up to \$565 million in foregone enforcement revenue (GAO-08-916T).</li> </ul>

2009 Filing Season	
<i>Legislation/Provision &amp; Impact(s) on Filing Season</i>	<i>Some Related GAO/TIGTA Audit Findings</i>
<p><b>Economic Stimulus Act of 2008</b></p> <ul style="list-style-type: none"> <li>Allowed taxpayers who did not receive the full stimulus payment during the 2008 filing season to receive the unpaid portion on their tax year 2008 return as a Recovery Rebate Credit during the 2009 filing season.</li> </ul>	<ul style="list-style-type: none"> <li>TIGTA identified \$1.2 million in false stimulus payments that were issued by the IRS in 2008 and another \$138 million that could be potentially released erroneously in 2009 unless the IRS made improvements in its fraud referral process (TIGTA Report: 2009-10-049).</li> <li>Overall, the IRS successfully planned the implementation of the Recovery Rebate Credit and issued approximately \$8.5 billion in credits to approximately 21 million taxpayers (TIGTA Report: 2009-40-129).</li> <li>Taxpayers had difficulty determining whether they qualified for this credit and early in the filing season the IRS had already identified over 5 million tax returns with Recovery Rebate Credit errors (TIGTA Report 2009-40-058).</li> <li>TIGTA found the IRS calculation errors in less than one percent of the cases but also identified a programming error, which the IRS took immediate action to correct, that could have potentially allowed almost 6 million taxpayers to erroneously claim nearly \$1.6 billion in credits (TIGTA Report: 2009-40-129).</li> <li>Legislation did not provide the IRS with math error authority to prevent individuals without valid SSNs from receiving the credit at the time the returns were processed, and as a result the IRS provided more than \$27 million in credits to taxpayers without a valid SSN (TIGTA Report: 2009-40-129).</li> </ul>
<p><b>Housing and Economic Recovery Act of 2008</b></p> <ul style="list-style-type: none"> <li>Provided taxpayers a First Time Homebuyer (FTHB) credit of up to \$7,500 on purchase of home, but required them to repay the credit over 15 years starting in 2011 filing season.</li> <li>While the FTHB credit was initially contained in the Housing and Economic Recovery Act of 2008, it was subsequently expanded, and the repayment provision eliminated in most instances, under the American Recovery and Reinvestment Act of 2009.</li> </ul>	<ul style="list-style-type: none"> <li>The IRS met many of its processing goals during the 2009 filing season, but telephone access remained low, due in part to calls about tax law changes; despite the heavy call volume, IRS accuracy remained above 90 percent (GAO-10-225).</li> <li>The IRS had a successful 2009 filing season despite the unique challenges it faced (TIGTA Report 2009-40-142).</li> <li>The varied FTHB credit provisions within the Housing and Economic Recovery Act versus the American Recovery and Reinvestment Act may have confused taxpayers and also presented the IRS with significant challenges to ensure the credit was used correctly as authorized (TIGTA Report 2010-41-069).</li> <li>Nearly one million taxpayers will be required to repay the FTHB credit because their homes were purchased in 2008; however, a TIGTA analysis found that IRS had incorrectly recorded the purchase date on 4 percent of FTHB claims (TIGTA Report 2010-41-086).</li> </ul>

2009 Filing Season	
<i>Legislation/Provision &amp; Impact(s) on Filing Season</i>	<i>Some Related GAO/TIGTA Audit Findings</i>
<p><b>American Recovery and Reinvestment Act of 2009 (Recovery Act)</b></p> <ul style="list-style-type: none"> <li>• Congressional passage occurred approximately four weeks after start of the 2009 filing season.</li> <li>• Provided taxpayers a revised credit of up to \$8,000 on purchase of home with need to repay only if home is resold or ceases to be primary residence within 3 years.</li> <li>• Allowed small businesses to apply certain 2008 net operating losses (NOLs) against tax liabilities from the previous 5 years.</li> <li>• Provided federal subsidies for state and local bonds, including Build America Bonds, through certain credit provisions.</li> </ul>	<ul style="list-style-type: none"> <li>• The 2009 filing season provided challenges for the IRS due to the two significant tax laws that provided a new FTHB credit, and a massive bailout and tax relief package, which entailed 116 different tax provisions (TIGTA Report: 2009-40-058).</li> <li>• The Recovery Act posed significant implementation challenges for the IRS because it had over 50 provisions, many of which were immediate or retroactive and had to be implemented during the 2009 filing season (GAO-10-349).</li> <li>• The IRS responded quickly to the implementation challenges of the Recovery Act; however, that quick response entailed tradeoffs, such as not making some computer changes to collect data (GAO-10-349).</li> <li>• Nearly 50,000 taxpayers may not have claimed the full amount of the FTHB credit to which they were entitled; IRS agreed to contact the applicable taxpayers to inform them (TIGTA Report: 2009-41-144).</li> <li>• Despite the fact that the Recovery Act was enacted during the filing season, the IRS issued timely and clear guidance that helped foster compliance with the new NOL provisions; by the end of 2009, IRS processed approximately 44,000 NOL claims totaling more than \$3 billion (TIGTA Report: 2010-41-070).</li> <li>• The initial guidance on bonds published by the IRS was quick, complete, accurate, and consistent with the requirements of the Recovery Act (TIGTA Report: 2010-11-035).</li> <li>• Generally, all complete requests for payment of Build America Bonds (BAB) federal subsidies were processed accurately and timely by the IRS, and without indications of fraudulent or erroneous disbursements; as of September 2009, state and local governments received almost \$26.4 billion in funding through 315 BAB issuances (TIGTA Report: 2010-11-083).</li> </ul>

2010 Filing Season	
<i>Legislation/Provision &amp; Impact(s) on Filing Season</i>	<i>Some Related GAO/TIGTA Audit Findings</i>
<p><b>American Recovery and Reinvestment Act of 2009 (Recovery Act)</b></p> <ul style="list-style-type: none"> <li>• Provided a Making Work Pay (MWP) Credit to working individuals.</li> <li>• Increased allowable credit amount for homeowners who make certain energy efficiency improvements.</li> <li>• Amended the Hope Scholarship credit to provide for a refundable tax credit called the American Opportunity Tax (AOT) credit.</li> <li>• Included a number of provisions that encouraged the purchase of qualified motor vehicles (QMV) and vehicles that operate on clean renewable sources of energy.</li> </ul>	<ul style="list-style-type: none"> <li>• The IRS dealt with a number of challenges during the 2010 filing season, including significant tax law changes such as the MWP credit (GAO-11-111).</li> <li>• The IRS corrected about 7.7 million errors associated with MWP credit, including about 60 percent in favor of the taxpayer (GAO-11-691T).</li> <li>• IRS balanced its resources across filing season activities with improvements in some areas but fluctuations in others: electronic filing and IRS web site visits increased, level of service to callers seeking live IRS assistance improved compared to 2009, and the accuracy of answers remained high; however, average wait time for telephone service increased compared to 2009, and millions of taxpayer refunds were delayed primarily because of the time needed to correct taxpayer errors associated with the MWP Credit (GAO-11-111).</li> <li>• The IRS implemented the MWP Credit in accordance with the intent of Congress by advancing it to taxpayers through a decrease in Federal income tax withholding rates (TIGTA Report 2011-41-002).</li> <li>• The IRS initiated a significant outreach program to inform taxpayers about the change in withholding associated the MWP credit and its potential to leave certain taxpayers under-withheld and owing taxes at the time they are due (TIGTA Report 2011-41-002).</li> <li>• Despite IRS outreach actions, over 13 million taxpayers were or were expected to be negatively affected by the MWP credit withholding rate changes, including over 1 million who likely faced an increase in their Estimated Tax Penalty amount (TIGTA Report: 2011-41-002)</li> <li>• A survey of taxpayers who appeared to be negatively impacted by the MWP credit withholding changes indicated that most were not aware of the credit or its effect on their taxes (TIGTA Report: 2011-41-002).</li> <li>• More than 6.8 million individuals claimed more than \$5.8 billion in Residential Energy credits on returns filed during 2010. However, the IRS could not verify whether individuals claiming Residential Energy credits were entitled to them at the time the returns were processed because the IRS did not require individuals to provide any third-party documentation to support the claims (TIGTA Report: 2011-41-038).</li> <li>• In a review of a statistically valid sample of 150 tax returns claiming the Residential Energy credit, TIGTA was unable to confirm home ownership for 30 percent of the taxpayers, which is a requirement to claim the credit (TIGTA Report: 2011-41-038).</li> </ul>

2010 Filing Season	
<i>Legislation/Provision &amp; Impact(s) on Filing Season</i>	<i>Some Related GAO/TIGTA Audit Findings</i>
	<ul style="list-style-type: none"> <li>• The IRS did not have effective processes to identify taxpayers who claim erroneous education credits. As of May 2010, TIGTA identified 2.1 million taxpayers receiving \$3.2 billion in education credits (\$1.6 billion in refundable AOT credits and \$1.6 billion in nonrefundable credits) that appear to be erroneous; and at least 1.1 million of these returns were submitted through a paid return preparer. Subsequent IRS audit results on a sample of these cases identified by TIGTA as potentially erroneous showed that 72 percent were in fact erroneous (TIGTA Report: 2011-41-083).</li> <li>• Through November 2010, nearly 4.4 million individuals claimed over \$7.2 billion in Qualified Motor Vehicle (QMV) deductions. The IRS could not verify whether individuals claiming a QMV deduction were entitled to the deduction at the time of filing because the taxpayers did not have to provide any third party supporting documentation. In addition, the IRS processes to identify and properly verify potentially erroneous QMV deductions were not effective (TIGTA Report: 2011-41-037).</li> </ul>
<p><b>Worker, Homeownership, and Business Assistance Act of 2009</b></p> <ul style="list-style-type: none"> <li>• Extended FTHB credit another five months (to April 30, 2010) and allowed a credit up to \$6,500 for certain longtime homeowners purchasing new homes.</li> <li>• Provided IRS with “math error authority” to deny erroneous FTHB credit claims upfront during the IRS return processing phase.</li> <li>• Expanded and extended the net operating loss (NOL) carry back provisions for businesses.</li> </ul>	<ul style="list-style-type: none"> <li>• As of early 2010, the IRS still did not have the ability to identify individuals who received the FTHB credit but who would have some repayment requirements because the home ceased to be their main residence; the IRS was, however, developing a comprehensive strategy to address this issue (TIGTA Report 2010-41-086).</li> <li>• In May 2009, the IRS implemented a number of controls to prevent inappropriate FTHB credit claims from being issued before the claims were processed; however, certain follow-up action by IRS was still needed as of March 2010 on fraudulent and questionable claims processed before the controls were implemented (TIGTA Report 2010-41-069).</li> <li>• For processing years 2009 and 2010, IRS provided over \$27 billion in FTHB credits to almost 3.9 million taxpayers (TIGTA Report: 2011-41-035).</li> <li>• The IRS has taken positive steps to help prevent inappropriate FTHB credit claims from being issued, including implementation of filters to identify questionable claims before they are processed and application of math error authority to deny claims if proper documentation is not provided.. However, these actions occurred after many FTHB credit claims had already been processed during prior filing seasons and which allowed potentially \$513 million in erroneous FTHB credits to be issued (TIGTA Report: 2011-41-035)</li> </ul>

2010 Filing Season	
<i>Legislation/Provision &amp; Impact(s) on Filing Season</i>	<i>Some Related GAO/TIGTA Audit Findings</i>
	<ul style="list-style-type: none"> <li>• The IRS received millions of calls related to the FTHB and the MWP credits; approximately 9 percent of all calls received (GAO-11-111).</li> <li>• The IRS timely implemented procedures to identify and reject extended NOL claims inappropriately submitted by Troubled Asset Relief Program recipients, but was somewhat late in implementing controls to apply a limit on the amount of the loss carried back to the fifth year (TIGTA Report 2010-41-070).</li> </ul>
<p><b>Patient Protection and Affordable Care Act (ACA)</b></p> <ul style="list-style-type: none"> <li>• Created several new credits and other tax provisions, including some with immediate impact on IRS tax administration activities during 2010 filing season—such as the two noted below.</li> <li>• Signed into law in March 2010, the ACA required the IRS to establish the Qualifying Therapeutic Discovery Project (QTDP), in consultation with the Department of Health and Human Services (HHS), within 60 days of the enactment of the law.</li> <li>• The new ACA excise tax on indoor tanning services (“tanning tax”) became effective July 1, 2010 and is due and payable quarterly.</li> </ul>	<ul style="list-style-type: none"> <li>• The IRS met legislative requirements in establishing, processing and awarding credits and grants to QTDP Program recipients, despite the unprecedented short time period allotted by the law. IRS actions included: establishing the program and informing the public on May 21, 2010; processing over 5,600 applications seeking certification of eligibility for the QTDP; and enabling Treasury and HHS to award \$1 billion in QTDP credits and grants on November 3, 2010 (TIGTA Report 2011-40-100).</li> <li>• The IRS developed an outreach plan, updated the excise tax form and instructions, and made preparation for processing the returns with the tanning tax. The IRS also developed a plan for dealing with noncompliance (TIGTA Report 2011-40-115).</li> <li>• Identifying business taxpayers subject to the tanning tax has been one of the more challenging tasks the IRS has faced. While outside sources suggested that 25,000 businesses would be subject to the tax, IRS filings for the first three quarters averaged only around 10,300 (TIGTA Report 2011-40-115).</li> <li>• The IRS could have sent more timely notices to businesses who may owe the tanning tax, so as to reduce the interest and penalties associated with any resulting late filed returns. Also, the information IRS used to identify potential late filers appeared incomplete. In addition, the IRS publication containing information about excise tax requirements was not updated until more than a year after the effective date of the tanning tax (TIGTA Report 1011-40-115).</li> </ul>

2011 Filing Season	
<i>Legislation/Provision &amp; Impact(s) on Filing Season</i>	<i>Some Related GAO/TIGTA Audit Findings</i>
<p><b>Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (Tax Relief Act of 2010)</b></p> <ul style="list-style-type: none"> <li>Legislation extended certain existing tax provisions enacted under the Economic Growth and Tax Reconciliation Act of 2001, the Jobs and Growth Tax Relief Reconciliation Act of 2003 and the Recovery Act of 2009, as well as the AMT “patch.”</li> <li>This late-passed legislation forced approximately nine million taxpayers to delay their return filing and any associated refund claim for about 4 weeks while IRS finalized its system programs and testing.</li> </ul>	<ul style="list-style-type: none"> <li>The passage of significant tax laws affected the 2011 filing season. The IRS timely processed the majority of tax returns during 2011 filing season; however, the late passage of legislation delayed the filing of some individual taxpayers as the IRS worked to reprogram its computer systems to accommodate certain provisions extended by the Tax Relief Act of 2010 (TIGTA Report: 2011-40-128).</li> <li>Electronic Return Originators held approximately 6.5 million e-file returns and IRS held approximately 100,000 paper returns until the affected returns could be processed by the IRS starting February 14, 2011 (TIGTA Report: 2011-40-128).</li> <li>The IRS inability to accept certain returns until mid-February impacted tax professionals and taxpayers. IRS received about 21 percent fewer returns through mid-February 2011 compared to 2010 and representatives of tax professional groups stated that some taxpayers believed that the processing delay applied to all tax returns effectively condensing the filing season for all parties involved (GAO-11-481).</li> <li>For the 2011 filing season, the IRS administered a number of complex tax law changes, including the Residential Energy Property Tax credit and provisions of the Tax Relief Act of 2010 (GAO-11-481).</li> <li>During the 2011 filing season, the IRS received 83 million calls, an increase over 2010 and substantially more than the 57 million received in 2007; meanwhile the IRS level of service (LOS) on its toll-free telephone lines decreased to 72 percent in 2011 compared to 76 percent in 2010 and 81 percent in 2007—the most recent year such service has exceeded 80 percent (GAO-12-176).</li> <li>The IRS does not have math error authority to verify compliance with lifetime limits on amounts that can be claimed. For example, the IRS does not have the authority to verify that the Residential Energy credits claimed for tax years 2009 and 2010 do not exceed the lifetime limit of \$1,500 (GAO-11-481).</li> <li>TIGTA’s review of 2011 filings through April 30, revealed that implementing some legislative provisions such as the FTHB Credit, Adoption Credit, Nonbusiness Energy Property Credits, and Plug-in Electric and Alternative Motor Vehicle Credits resulted in an IRS inability to identify around 141,000 taxpayers erroneously claiming \$140 million (TIGTA Report: 2011-40-128).</li> </ul>

2011 Filing Season	
<i>Legislation/Provision &amp; Impact(s) on Filing Season</i>	<i>Some Related GAO/TIGTA Audit Findings</i>
<p><b>Worker, Homeownership, and Business Assistance Act of 2009</b></p> <ul style="list-style-type: none"> <li>Mandates electronic filing by certain preparers filing income tax returns for individuals, estates or trusts (starting with the 2011 filing season)</li> </ul>	<ul style="list-style-type: none"> <li>For the 2011 filing season, the IRS implemented a registration requirement for paid preparers that includes obtaining a preparer tax identification number (PTIN); IRS plans to implement competency testing later in 2011 (GAO-11-336).</li> <li>As of mid-July 2011, 717,000 paid preparers had registered for a PTIN (GAO-11-868T).</li> <li>The new preparer requirements, which include requirements for registration, competency testing, continuing professional education, ethical standards, and enforcement, will take several years to implement, and it will not be until 2014 that all preparers will be subjected to all suitability and competency tests (TIGTA Report: 2010-40-127).</li> <li>IRS is funding the paid preparer requirements through user fees, which it is setting consistent with established criteria for cost estimating (GAO-11-336).</li> <li>As of March 2011, the IRS had yet to document how it plans to use the preparer regulations to improve compliance, how it will assess whether the requirements provide their intended benefits, and what baseline data it needs to accomplish that assessment (GAO-11-336).</li> </ul>
<p><b>Patient Protection and Affordable Care Act (ACA)</b></p> <ul style="list-style-type: none"> <li>Legislation created or expanded several credits and other tax provisions, including some with particular impact on IRS tax administration activities during the 2011 filing season—such as the two noted below.</li> <li>The ACA enabled eligible small businesses to claim the Small Business Health Care Tax (SBHCT) credit as part of their general business credit starting with the 2010 income tax return filed in 2011.</li> <li>The ACA increased the Adoption Credit to \$13,170 for tax year 2010 and made the tax credit refundable.</li> </ul>	<ul style="list-style-type: none"> <li>The IRS timely completed actions to plan for and implement the SBHCT credit. The volume of claims has been low despite IRS efforts to inform 4.4 million taxpayers who could potentially qualify for the credit. As of mid-May 2011, 228,000 taxpayers had claimed the SBHCT credit for a total of more than \$278 million (TIGTA Report 2011-40-103).</li> <li>The IRS used various tools to inform taxpayers about the new requirements for claiming the adoption credit, but missed some opportunities to further communicate about the documentation requirements. As a result, taxpayers submitted a majority of returns with either no, or insufficient documentation (GAO-12-98).</li> <li>As of August 2011, taxpayers filed just under 100,000 returns claiming about \$1.2 billion in adoption credits—68 percent of which were selected for IRS correspondence audits mainly due to inadequate documentation. However, completed audits on over half of these returns indicated that 83 percent were legitimate claims (GAO-12-98).</li> </ul>

## **Appendix 2**

### **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 FY2013 IRS budget recommendation submitted to the Department of the Treasury is \$13.764 billion. However, the Board's budget recommendation in this report is \$13.034 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 FY2013 budget to the IRS Oversight Board in April 2011. Upon review and approval by the Board, the Board submitted its approved budget in June 2011 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.

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:

- Because the FY2012 appropriation had not been approved by Congress at the time the Board approved the IRS budget, the Board's FY2013 budget recommendations used the President's FY2012 request, as adjusted based on a reevaluation of the FY2011 and FY2012 initiatives, as a baseline. The FY2013 IRS budget recommendations in this report use the enacted FY2012 budget as a base.
- 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.
- 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 reevaluated its recommendations for all initiatives based on program developments and shifting priorities that occurred between April 2011 and February 2012 and made adjustments accordingly.

## **IRS Oversight Board**

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