

IRS Oversight Board

**STATEMENT OF
IRS OVERSIGHT BOARD
CHAIRMAN PAUL CHERECWICH, JR.
TO THE SENATE COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON FINANCIAL SERVICES AND GENERAL GOVERNMENT
APRIL 29, 2010**

The Internal Revenue Service (IRS) Oversight Board thanks Chairman Durbin, Ranking Member Collins, and members of the Subcommittee for the opportunity to present the Oversight Board's views on the Administration's FY2011 IRS budget request.

This statement presents the Board's recommendations for the IRS' FY2011 budget and why the Board believes this level of funding is needed to meet the IRS needs. Created as part of the IRS Restructuring and Reform Act of 1998 (RRA 98), the 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, RRA 98 gives the Oversight Board specific responsibilities for reviewing and approving the IRS-prepared submitted to the Department of the Treasury and IRS strategic plans.

The Board has a responsibility to ensure that the IRS' budget and the related measures contained in the performance budget support the *IRS Strategic Plan 2009-2013*. In addition to this statement, the Board developed a formal report in which it explains the detailed rationale for its budget recommendations. The Board requests that it be entered into the hearing record

Challenges Facing the IRS

The Board takes very seriously the charter imposed on it 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 FY2011 budget, one that will allow the IRS to achieve the strategic goals and strategic foundation 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 expects government agencies will continue to be under intense pressure to demonstrate that they are spending resources as wisely as possible. The Board believes that despite the national imperative for strong tax administration, the IRS will not be exempt from such scrutiny, nor should it. The Oversight Board, as well as many others, will ask the IRS to demonstrate, using outcome measures where possible, that it is being both effective and efficient.

However, the IRS FY2011 budget must show an aggressive approach to meeting its service and enforcement goals. At the same time, the IRS must also lay the foundation for transforming itself into an agency that uses modern tools and a high performing workforce to serve the public and meet its mission in a thoughtful, effective manner that emphasizes voluntary compliance and reduces taxpayer burden. Budget priorities and recommended program increases must be consistent with the goals identified in the strategic plan. Failure to plan for such a future will only burden both the IRS and taxpayers in years to come.

As reported in the Board's 2008 *Annual Report to Congress*, the tax administration system has two serious systemic weaknesses: the tax gap and IRS' archaic information technology systems. Overcoming these weaknesses and achieving the goals mandated by the strategic plan requires the budget recommended in this report. With tax administration so critical to the nation's economic health, the Board recommends that strengthening the country's tax administration system be a national priority. Failure to fund the IRS at appropriate levels will only create long-term performance issues for the tax administration system.

In recognition of the above, the Board considered the following factors in developing its FY2011 budget recommendations:

- The IRS needs to improve taxpayer service to make voluntary compliance easier. Because of growing volume of calls to the IRS toll-free telephone number and relatively fixed IRS resources to service those calls, the level of service (LOS) for this important channel has dropped in 2008 and 2009, and service levels below 80 percent will likely continue through 2010. The Board believes the IRS should be funded in FY2011 to deliver an estimated LOS for toll-free telephones of 80 percent as a minimum.
- In addition, the IRS has developed a five-year strategic approach for providing customer service, the Taxpayer Assistance Blueprint (TAB), which complements its existing service channels with a more proactive approach to providing service. The Board believes it is prudent to assume that taxpayers may still be affected by the economic downturn, and that service offerings will need to be tailored to provide the help that taxpayers need. Thus, the TAB process for identifying service improvements, including related research, should reflect these priorities and be suitably funded.
- The Board believes that reasonable, steady budget increases for enforcement over an extended period of time are most conducive to IRS success. Enforcement operations in the FY2011 budget should be consistent with Treasury's plan to reduce the tax gap.
- The IRS needs to evolve into a more data-driven organization. Such a transformation is essential of the IRS for two reasons: it offers the potential to create major efficiency gains in IRS business processes while simultaneously reducing taxpayer burden.
- One prerequisite to achieving a data-driven IRS is the modernization of its information technology (IT) systems and the updating of its IT infrastructure. An IRS with modern IT systems and infrastructure offers taxpayers the benefits associated with rapid and accurate electronic transactions, timely and accurate central data records, and effective

account management services. These systems are the foundation to the more effective use of data. The completion of the Customer Account Data Engine 2 (CADE 2) program is especially important.

- Although a modern IT system will provide the foundation for using data more effectively, performing research and implementing business systems and processes that make the IRS more data-centric also need to be a priority.

FY2011 IRS Budget Recommendations Summary

The IRS Oversight Board recommends a fiscal year (FY) 2011 Internal Revenue Service (IRS) budget of \$12.914 billion, an increase of \$767.7 million over the enacted IRS FY2010 budget of \$12.146 billion. This recommendation is \$280.6 million above the President's FY2011 request of \$12.633 billion for the IRS. The Board's recommended budget is 2.2 percent higher than the President's request.

Tables 1 and 2 show more information on the Board's budget recommendations. Table 1 shows the program initiatives or increases the Board is recommending, and Table 2 shows the Board's recommended budget by account.

Despite the \$280.6 million difference, there are many points of agreement between the Oversight Board's recommendations and the President's budget request. Notably,

- inflation adjustments, savings and reinvestments are identical in both budgets;
- both budgets contain \$5.8 billion for IRS enforcement; and
- both budgets contain \$387 million for the Business Systems Modernization (BSM) program.

The President's requested budget for enforcement contains a program increase of \$247 million over the enacted FY2010 budget. The IRS Oversight Board has long advocated that steady, stable growth in enforcement resources are needed. In light of the increases for the IRS enforcement budget in FY2009 and FY2010, the Board believes a program increase of \$247 million allows the IRS to move forward with its enforcement programs while assimilating new enforcement staff hired during the last two years.

The President's requested budget for the BSM program is a \$122 million increase over FY2010 funding, a gain of 47 percent. The Oversight Board is pleased that this request is in line with funding levels the Board has long advocated, and reflects the importance the Oversight Board has placed on modernizing the IRS IT systems. With increased demands on the IRS to administer new and expanded tax provisions, the Board is pleased that the need to modernize the IRS has received the attention and resources it deserves.

The Oversight Board reported last year that the age of IRS IT systems represented a serious weakness for tax administration. The President's requested funding for BSM will support the achievement of the daily updating of tax accounts by 2012, a foundational step in the IRS' plan to use data more effectively and improve its business processes.

However, despite these areas of agreement, there are two specific budget accounts where the Oversight Board believes additional resources are required: Taxpayer Service and Operations Support. Each account needs more resources if the IRS is to meet the strategic goals identified in

Table 1. IRS Oversight Board Recommended FY2011 IRS Budget (dollars in thousands)

FY2010 Enacted Budget	12,146,123
Maintaining Current Levels	219,523
Other Adjustments: Resource Adjustment - Maintain Staffing to Support ARRA	3,494
Efficiencies/Savings	(190,638)
FY2011 Base Budget	12,178,503
Program Changes	
Reinvestments: Submission Processing Consolidation (Atlanta)	2,792
Program Decreases	0
<i>Taxpayer Service Initiatives</i>	
Improve IRS.gov	25,000
Matching Grant for VITA	7,467
Expand LITC Geographic Coverage	2,347
Address TAS Workload	3,617
Research Tax System Complexity, Burden, and Compliance	8,443
Increase Telephone Level of Service	50,945
<i>Subtotal, Taxpayer Service Initiatives</i>	97,819
<i>Enforcement Initiatives</i>	
Address Business and Individual International Compliance	121,086
Reduce the Reporting Compliance Tax Gap	77,679
Reduce the Nonfiling & Underpayment Tax Gap	38,181
Support for Increased Enforcement Activities	5,000
Maintain Recovery Act Standards	5,500
<i>Subtotal, Enforcement Initiatives</i>	247,446
<i>Infrastructure Initiatives</i>	
Refresh/Sustain Infrastructure	37,500
Develop Converged Telecomm Networks	62,202
Enhance Business Productivity	75,000
Integrated Financial Systems (IFS)	45,000
<i>Subtotal, Infrastructure Initiatives</i>	219,702
<i>BSM Initiative</i>	
Continue Migration from Aging Tax Administration System Technology	167,585
Subtotal FY2011 Program Changes	735,344
Total Oversight Board Budget	12,913,846
President's FY2011 Budget	12,633,271
Increase Over President's Budget	280,575
Percent Increase Over President's Budget	2.2%

Table 2. IRS Oversight Board Recommended FY2011 IRS Budget by Account (dollars in thousands)

	Taxpayer	Enforce-	Ops	BSM	HITCA	Total
FY2010 Enacted Budget	2,278,830	5,504,000	4,083,884	263,897	15,512	12,146,123
Maintaining Current Levels	50,055	110,506	57,884	889	190	219,523
Other Adjustments: Resource Adjustment					3,494	3,494
Efficiencies/Savings	(28,023)	(7,092)	(155,314)		(209)	(190,638)
FY2011 Base Budget	2,300,862	5,607,414	3,986,454	264,786	18,987	12,178,503
Program Changes						
Reinvestments: Submission Processing	2,792					2,792
Program Decreases	0					0
<i>Taxpayer Service Initiatives</i>						
Improve IRS.gov			25,000			25,000
Matching Grant for VITA	7,276		191			7,467
Expand LITC Geographic Coverage	2,306		41			2,347
Address TAS Workload	2,987		630			3,617
Research Tax System Complexity, Burden, and Compliance			8,443			8,443
Increase Telephone Level of Service	50,945					50,945
Subtotal, Taxpayer Service Initiatives	63,514		\$34,305			97,819
<i>Enforcement Initiatives</i>						
Address Business and Individual	1,779	97,527	21,780			121,086
Reduce the Reporting Compliance Tax Gap	769	59,687	17,223			77,679
Reduce the Nonfiling & Underpayment Tax	91	28,166	9,924			38,181
Support for Increased Enforcement	3,738		1,262			5,000
Maintain Recovery Act Standards		4,606	894			5,500
Subtotal, Enforcement Initiatives	6,377	189,986	51,083			247,446
<i>Infrastructure Initiatives</i>						
Refresh/Sustain Infrastructure			37,500			37,500
Develop Converged Telecomm Networks			62,202			62,202
Enhance Business Productivity			75,000			75,000
Integrated Financial Systems (IFS)			45,000			45,000
Subtotal, Infrastructure Initiatives			219,702			219,702
<i>Business Systems Modernization (BSM) Initiative</i>						
Continue Migration from Aging Tax			45,463	122,122		167,585
Subtotal FY2011 Program Changes	72,683	189,986	350,553	122,122	0	735,344
Total Oversight Board Budget	2,373,544	5,797,400	4,337,007	386,908	18,987	12,913,846
President's FY2011 Budget	2,321,976	5,797,400	4,108,000	386,908	18,987	12,633,271
Increase Over President's Budget	51,568	0	229,007	0	0	280,575
Percent Increase Over President's Budget	2.2%	0.0%	5.6%	0.0%	0.0%	2.2%

the *IRS Strategic Plan 2009-2013*. Specifically, the Oversight Board recommends:

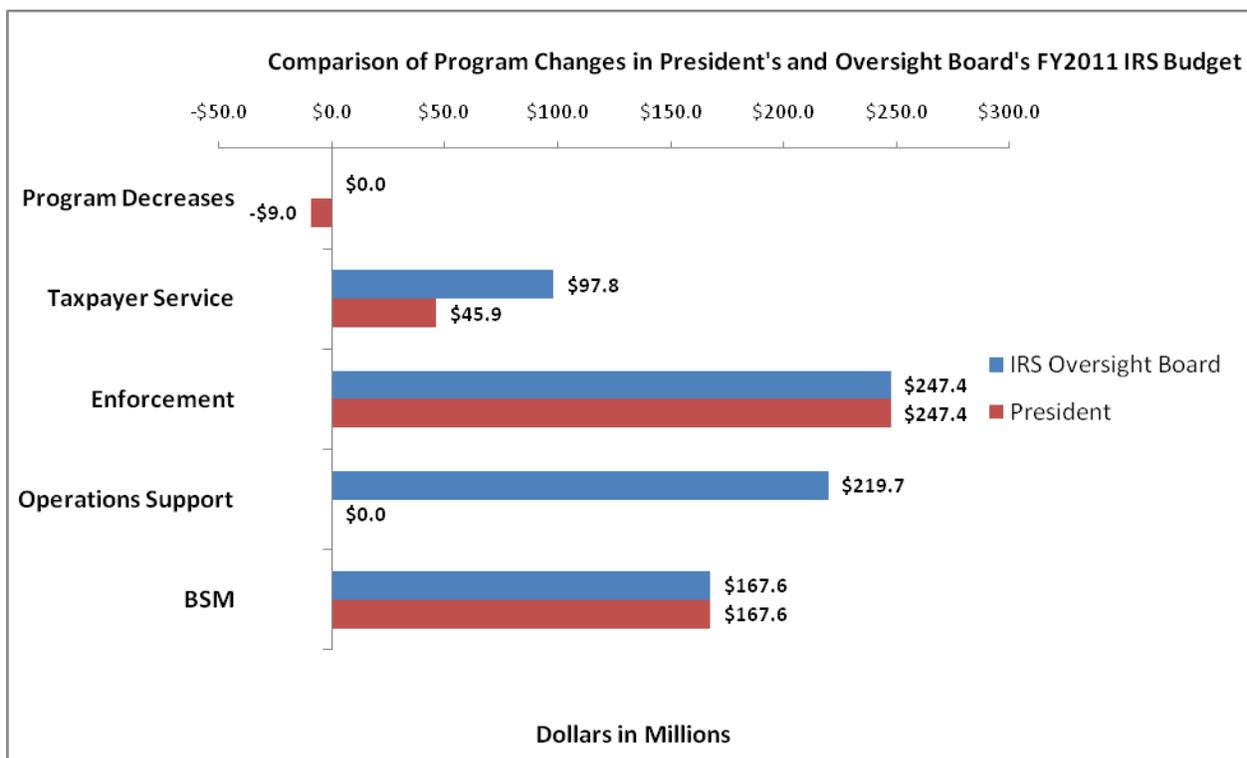
- Taxpayer Service be funded at a level of \$2.374 billion instead of the \$2.322 billion requested in the President’s budget, a difference of \$51.6 million.
- Operations support be funded at a level of \$4.337 billion instead of the \$4.108 billion requested in the President’s budget, a difference of \$229.0 million.

Also, the Board does not support the proposed program decrease in the President’s budget of approximately \$9 million to roll back increases made in the FY2010 budget for various taxpayer service programs. This decrease is proposed in order to partially fund the increase in toll-free telephone service levels. However, the Board believes it is inequitable to fund an increase of telephone service at the expense of mostly low income taxpayers that are served by the Low Income Tax Clinic (LITC), the Tax Counseling for the Elderly (TCE), and the Volunteer Income Tax Assistance (VITA) grants programs, or taxpayers who need the help of the Taxpayer Advocate Service (TAS) to resolve their issues.

Figure 1 provides a graphic overview of the major similarities and differences of the Oversight Board’s recommendations compared to the President’s budget.

The remaining sections describe how the Board’s budget recommendations support the achievement of the *IRS Strategic Plan, 2009-2013*. It contains sub-sections that address the two strategic goals and the strategic foundations, and relates the Board’s budget recommendations to each.

Figure 1. Oversight Board FY2011 Budget Recommendations by Strategic Goal and Strategic Foundations (dollars in millions)



Goal 1: Improve Service to Make Voluntary Compliance Easier

The Oversight Board recommends six separate initiatives for the Taxpayer Service Account; the President’s budget recommends two: Improve IRS.gov and Increase Telephone LOS. The Board fully supports Improve IRS.gov, but believes that Increase Telephone LOS is underfunded. The remaining four initiatives are not contained in the President’s budget. Table 3 shows the funding for initiatives in each budget. Following the table, each initiative is addressed in more detail.

Table 3. Taxpayer Service Initiatives Recommended by the IRS Oversight Board and the President in the FY2011 IRS Budget (dollars in thousands)

Initiative	Board	President
Improve IRS.gov	25,000	25,000
Increase Telephone Level of Service	50,945	20,945
Matching Grant for VITA	7,467	0
Expand LITC Geographic Coverage	2,347	0
Address TAS Workload	3,617	0
Research Tax System Complexity, Burden, and Compliance	8,443	0
<i>Subtotal</i>	97,819	45,095

Improve IRS.gov

Both the President’s and Board’s budgets contain an identical \$25 million initiative to improve the IRS web site, *www.IRS.gov*. Oversight Board surveys indicate that 65 percent of taxpayers regard a web site as very important, and this high rating is consistent with the IRS’ actual experience during the last four filing seasons.

Despite the growing use of the IRS’ web site, it has not yet replaced toll-free telephones as the channel of choice for many taxpayers seeking assistance. The Board recommends this initiative as it allows the IRS to leverage new portal technologies to reduce operating costs and improve service to taxpayers.

The Board agrees with the President’s budget request that this initiative will improve self-service, reduce taxpayer burden, increase compliance, reduce costs, and continue to position IRS.gov as the preferred choice for taxpayer service. It will improve customer satisfaction with *www.IRS.gov*, including navigation, content quality, and search capabilities.

Increase Telephone LOS

For the past two years IRS toll-free telephone service has been characterized by constant resources and growing demand; the inevitable result of these two factors has been a decline in service levels on IRS toll-free telephone lines. Table 4 illustrates the service taxpayers have experienced over IRS toll-free telephones during the periods FY2005 through FY2009. The table presents the LOS for the entire fiscal year as well as the LOS achieved during the filing season, when taxpayers typically need assistance the most. Not only has the level of service declined in

FY2008 and FY2009, but taxpayers must also wait longer for assistance.

Table 4. IRS Toll-Free Customer Service Measures during the FY2007-FY2009 Filing Seasons

Fiscal Year	2005	2006	2007	2008	2009
Assistor LOS (in percent for entire Fiscal Year)	83	82	82	53	70
Percentage of callers seeking live assistance who received it (during filing season)	82	81	81	57	68
Actual average wait time in minutes (during filing season)	4.3	3.9	4.6	8.6	8.4

Sources: IRS FY2009 Enforcement Results

GAO Report GAO-10-225, *2009 Tax Filing Season IRS Met Many 2009 Goals, but Telephone Access Remained Low, and Taxpayer Service and Enforcement Could Be Improved*, dated December 2009

The President’s budget contains a program increase of \$20.9 million to improve the telephone level of service from a projected 71 percent in FY2010 to a target of 75 percent in FY 2011. This increase is achieved by an initiative of \$11.9 million and a \$9.0 million program decrease in funding for the TAS and the LITC, TCE and VITA grant programs.

Although the Board is pleased that the President’s budget recognizes that 71 percent LOS on IRS toll-free telephone lines is inadequate, the Oversight Board believes the President’s requested budget is inadequate for two reasons:

1. The Board believes that the LOS on toll-free telephones should be 80 percent as a minimum. The IRS attained a level of service on toll-free telephone lines of 80 percent in FY2003. From FY2004 to FY2007 the level of service was 87, 83, 82, and 82 percent respectively, before falling to 53 and 70 percent during FY2008 and FY2009.
2. The Board believes it is inappropriate to partially fund the increase in LOS by decreasing funding that is targeted at decreasing the VITA, LITC, and TCE grant programs and decreasing the number of Taxpayer Advocate Service caseworkers. Taxpayers who benefit from these programs are typically underserved, low-income taxpayers, and an increase in telephone LOS should not come at their expense.

The IRS estimates that an additional \$30 million, or a \$50 million program initiative in total, is needed to restore toll-free telephone LOS to 80 percent. The Board recommends that the toll-free telephone LOS levels be funded to achieve this service level at a minimum. The Board believes taxpayers deserve service levels at 80 percent or above.

Matching Grant for Volunteer Income Tax Assistance (VITA)

The Oversight Board recommends a \$7.5 million initiative to expand the matching grant demonstration program for Volunteer Income Tax Assistance (VITA). The Consolidated Appropriations Act, 2008 (Public Law 110-161) provided \$8 million to establish and administer the VITA matching grants demonstration program. When the IRS solicited proposals for the first VITA matching grants in July 2008 it received 379 applications requesting more than \$30 million. The Oversight Board believes expansion of the VITA grant program from \$8 million to

\$14 million, an increase of \$6 million, will boost support for organizations that operate volunteer tax preparation sites in communities across the country.

This initiative supports the IRS goal to make voluntary compliance easier because it will expand the ability of volunteer groups to help individuals understand and meet their tax obligations. These third-party providers offer free tax help to low-to-moderate income people who cannot afford professional assistance. VITA volunteers help prepare basic tax returns for low-income taxpayers, including persons with disabilities, those located in rural communities, non-English speaking persons, Native Americans and elderly taxpayers.

The IRS has been very successful at the municipal level in partnering with other agencies that are delivering services to urban areas. In the last three years Board members have met with VITA volunteer organizations in Salt Lake City, Atlanta, Kansas City, Chicago, New York City, Boston, Pittsburgh, Dallas, Las Vegas, and San Antonio. However, more should and can be done to extend and improve this volunteer network. Every major city should have such a program.

The Board has found that volunteer groups that provide VITA services also team with other service providers and have a significant economic effect on the neighborhoods, towns, and cities in which they are located. This initiative will expand the matching grant demonstration program for VITA. The IRS estimates that refunds through the earned income tax credit, child tax credit, education credit, and elderly tax credit exceeded \$2.5 billion in 2008. This initiative not only will advance the self-sufficiency of targeted low-income individuals and their families, but it puts money back into the local economy and serves as an economic stimulus for communities that participate.

Expand Low-Income Taxpayer Clinics (LITC) Geographic Coverage

The Oversight Board recommends a \$2.3 million initiative to expand coverage of the LITC program to provide tax assistance to low-income taxpayers. This program provides low or no-cost representation to needy individuals involved in tax disputes with the IRS. These resources will be used to expand geographic and service coverage by providing increased matching grants to qualified organizations. In addition, this initiative also will provide additional clinic support and oversight by increasing the number of site assistance visits conducted by the Taxpayer Advocate Service (TAS) LITC Program Office each year.

For calendar year 2008, the TAS awarded almost \$9 million in matching grants, ranging from, \$10,000 to \$100,000, to 156 nonprofit organizations and accredited academic institutions in all 50 states plus the District of Columbia, Puerto Rico, and Guam. For calendar year 2009, the National Taxpayer Advocate approved 163 clinics. The current economic environment presents significant challenges as the number of taxpayers who cannot pay their liabilities is increasing while available assistance from tax professionals is declining.

The Oversight Board believes expansion of the LITC Program supports the IRS goal of making voluntary compliance easier for taxpayers because this program is an important aspect of a fair and just tax system. By providing low income and ESL taxpayers access to services for free or a nominal fee, the IRS ensures that these taxpayers are provided access to high quality representation and education about their rights and responsibilities.

Several states have only one clinic or have clinics that provide only one service in that state. This initiative proposes expansion of clinic coverage in states that do not have both controversy representation and ESL outreach and education. Additionally, through this initiative TAS will

expand the coverage of clinics into rural areas where low income taxpayers have limited access to assistance and representation.

Address Taxpayer Advocate Service Workload

The Oversight Board recommends a \$3.6 million initiative to add 33 positions to address large and complex case inventories. The TAS caseload has been increasing dramatically in recent years, and the number of employees available to work the cases has declined. In FY2008, TAS received 274,051 cases, a 62 percent increase compared to FY 2004. During this period, TAS case advocate staffing has declined six percent.

A concern of particular note is that economic burden receipts involving bankruptcy issues increased by 143 percent from FY2004 to FY 2007, and TAS has received 567 cases in FY 2008, 358 more than for all of FY 2004. The increase may be attributable in part to the rise in U.S. bankruptcy filings for 2008, up 31 percent from FY 2007. With the collapse of the subprime mortgage market and the increase in home foreclosures and loan workouts, the tax consequences of cancellation of debt (COD) income pose a significant challenge to taxpayers with potential COD income. These taxpayers are already in financial distress, and may face additional tax debt if their COD income is taxable. TAS anticipates taxpayers experiencing economic burden resulting from COD income will continue to seek assistance.

TAS has also found that as more U.S. taxpayers encounter job loss, home foreclosures, and other financial distress in uncertain economic times, it is likely that more taxpayers will require TAS assistance to relieve economic burden. TAS economic burden case receipts have increased 167 percent from FY 2004 to FY 2008. TAS defines economic burden cases as those that involve financial difficulty for taxpayers.

Research Tax System Complexity, Burden, and Compliance

The Oversight Board recommends an \$8.4 million initiative to enhance the quantity and reliability of research information available to the IRS. The Board believes the IRS needs to conduct additional multi-year research that will lead to a better understanding of the relationships among complexity, burden, and compliance to support more effective tax administration, and how to improve assistance over various of service channels to reduce taxpayer burden and make compliance easier to achieve. At the heart of these initiatives is the goal of enabling the IRS to work smarter and ultimately reducing taxpayer burden.

A significant amount of service-related research is currently underway at the IRS, particularly as an outgrowth of the congressionally-mandated Taxpayer Assistance Blueprint (TAB). However, unfunded research remains in many critical areas, including:

- Greater understanding of taxpayer needs, behavior, and compliance as a result of tax law complexity,
- Integrating models of taxpayer burden with models of compliance and systemic complexity;
- Extending prior research in taxpayer and tax intermediary motivation,
- Increasing the understanding of taxpayer burden, including the impact of notices and other written communication;

- Understanding effects of unique tax events and situations on taxpayer behavior and compliance; and
- Understanding the role of tax system complexity in the interactions among taxpayers, tax intermediaries, and tax administrators.

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

The IRS Oversight Board supports the five enforcement initiatives that are contained in the President’s budget and are listed in Table 5.

Table 5. Enforcement Initiatives Recommended by the IRS Oversight Board and the President in the FY2011 IRS Budget (dollars in thousands)

Initiative	Board	President
Address Business and Individual International Compliance	121,086	121,086
Reduce the Reporting Compliance Tax Gap	77,679	77,679
Reduce the Nonfiling & Underpayment Tax Gap	38,181	38,181
Support for Increased Enforcement Activities	5,000	5,000
Maintain Recovery Act Standards	5,500	5,500
<i>Subtotal</i>	247,446	247,446

The Oversight Board supports the initiatives in the President’s budget and believes the increases in the Enforcement account for the past three fiscal years have enabled the realistic and steady growth in enforcement resources that the Board has consistently recommended. This gradual growth in enforcement resources has allowed the IRS to increase its enforcement presence among both business and individual taxpayers.

The Oversight Board believes that opportunities for tax evasion have increased as the economy has become more global in scope, and the IRS has been particularly successful in expanding its global enforcement presence with both business and individual taxpayers. The August 2009 agreement with the Swiss government regarding bank secrecy and the G-20 agreement to act in unity against tax jurisdictions that impede legitimate tax enforcement are only two examples of the IRS increased focus on international tax compliance.

Thus, the Board is pleased that approximately half the initiatives requested for enforcement program increases are allocated to increasing the IRS’ international compliance efforts.

Strategic Foundations: Invest for High Performance in People and Technology

Strategic Foundations comprise two accounts in the IRS budget: Business Systems Operations and Operations Support. The Oversight Board’s recommendations for each account are described in the following sections.

Business Systems Modernization (BSM)

The Board supports the President’s budget which requests a \$122.1 million initiative for BSM to bring the appropriated funding for this account to \$386.9 million. This funding level represents a

growth of 46.6 percent over the FY2010 funding level, and brings BSM program funding in line with prior Oversight Board recommendations. This funding level reflects the high importance the Oversight Board has placed on modernizing the IRS’ major (IT) systems, which it has identified as a serious weakness in the tax administration system.

The recommended level of funding is especially important now that the IRS has restructured the Customer Account Data Engine (CADE) program so that the IRS will be able to update tax accounts on a daily basis by 2012. Moreover, with increased demands on the IRS to administer new and expanded tax provisions, the Board is pleased that the need to modernize IRS systems has received the attention and resources it deserves.

Operations Support

The most significant gap between the budget recommended by the Oversight Board and the President’s budget request occurs in the Operations Support account. The Board recommends this account be funded at a level of \$4.337 billion instead of the \$4.108 billion requested in the President’s budget, a difference of \$229.0 million. Table 6 identifies the four initiatives recommended by the Oversight Board. The President’s budget has no initiatives for this account.

Table 6. Infrastructure Initiatives Recommended by the IRS Oversight Board and the President in the FY2011 IRS Budget (dollars in thousands)

Initiative	Board	President
Refresh/Sustain Infrastructure	37,500	0
Develop Converged Telecomm Networks	62,202	0
Enhance Business Productivity	75,000	0
Integrated Financial Systems (IFS)	45,000	0
<i>Subtotal</i>	219,702	0

The BSM program makes necessary—and critical—contributions to the modernization of the IRS by developing new systems that manage the IRS central database, accept electronic returns, and manage taxpayer accounts. However, the BSM program, by itself, cannot modernize the IRS. Modernizing the IRS IT technology also requires upgrading an aging IT infrastructure. Nearly half the Operations Support budget is used to fund operation, maintenance, and on-going development of the vast majority of IRS legacy IT systems, such as its mainframe computers, servers, telecommunication networks, security systems, laptops, and application programs that fall outside of the BSM program. Thus, the Operations Support budget funds nearly five times more of the IRS’ overall IT equipment and staffing needs than does the BSM budget.

The IRS IT infrastructure underpins all taxpayer service and enforcement programs and is the critical link that can enable the agency to do its job quickly and efficiently. Taxpayers and IRS employees rely heavily on vital IT telecommunication services, including the toll-free system used by millions of Americans to access tax information. The IRS IT systems are also crucial to effectively planning IRS operations, processing tax and information returns, properly accounting for tax revenues collected, issuing refunds, sending out tax bills, and screening tax returns for computational accuracy, potential underreporting and non-filing, and outright fraud. However, the portion of the Operations Support budget that is used to support the existing IRS IT infrastructure is inadequate to effectively “refresh” equipment and continues to saddle the agency with outdated technology that reduces the level of service taxpayers might otherwise receive,

limits the productivity IRS employees might otherwise deliver, and increases the risks to taxpayer data that might otherwise be prevented.

The Administration's FY 2011 budget includes no initiatives to address the on-going problem of outdated technology within the existing IRS IT infrastructure. The Board believes additional funding must be made in this area because IT infrastructure investments are crucial to enabling the IRS to work smarter and more productively. As result, the Board recommends that an additional \$219.7 million be added to the IRS Operations Support budget in FY 2011 for IT infrastructure to fund the following four initiatives:

- a \$75 million initiative to implement innovative IT tools to improve certain IRS taxpayer service and enforcement programs such as the processing of taxpayer remittances and the development and selection of compliance casework.
- a \$62.2 million initiative to fund the first year of a 5-year plan to leverage the Treasury Network (TNet). This initiative will enable the IRS to move into a modern era of telecommunications, based on TNet, in which a converged network supports the transport of data, voice, video, and messaging across a single, more secure, network. The initiative also avoids the higher maintenance costs associated with sustaining/replacing, in a piecemeal fashion, the aged and multiple network systems currently in use.
- A \$37.5 million initiative to reduce the backlog of aged IT hardware, such as laptop computers and telecommunications equipment, to bring it in line with current business standards and help ensure front line employees have the equipment needed to maintain productivity. The Board considers such a refresh to be an investment in avoiding costly downstream maintenance problems.
- A \$45 million initiative to fund the first part of a 2-year effort to upgrade the IRS' financial management system so as to bring it into compliance with Office of Management and Budget requirements and other federal accounting standards, and to improve IRS' project management capabilities.

Summary

Although the Board's budget recommendations and the President's request only differ by 2.2 percent, and affect only two budget accounts, the Board's recommendations focus on two key areas that need improvement: taxpayer service and infrastructure.

Improvements in taxpayer service are needed to provide taxpayers with the help they need to make compliance easier. The Board believes the immediate benefits will outweigh the additional costs. Improvements in infrastructure are needed to provide a long-term investment in the IRS' ability to transform itself into a more data-driven enterprise. Such a transformation will make the IRS more effective and efficient, lessen taxpayer burden, and provide the country a stronger tax administration system better able to adapt to change. The additional investment needed to achieve this capability will be a bargain.