

Internal Revenue Service

FY 2014

President's Budget

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Internal Revenue Service

Section 1 – Purpose

1A - Mission Statement

Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

1.1 – Appropriation Detail Table by Appropriation and Budget Activity

Dollars in thousands

Internal Revenue Service Resources	FY 2012 Enacted ¹		FY 2013 Annualized CR Rate		FY 2014 Request		\$ Change FY 2012 to FY 2014		% Change FY 2012 to FY 2014	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Taxpayer Services	30,290	\$2,239,703	30,402	\$2,253,510	32,575	\$2,412,576	2,285	\$172,873	7.54%	7.72%
Pre-Filing Taxpayer Assistance and Education	5,925	625,189	5,656	632,514	5,808	660,197	(117)	35,008	-1.97%	5.60%
Filing and Account Services	24,365	1,614,514	24,746	1,620,996	26,767	1,752,379	2,402	137,865	9.86%	8.54%
Enforcement	48,297	\$5,299,367	46,702	\$5,331,000	49,987	\$5,666,787	1,690	\$367,420	3.50%	6.93%
Investigations	4,354	636,386	3,791	611,233	4,048	661,631	(306)	25,245	-7.03%	3.97%
Exam and Collections	42,791	4,504,885	41,725	4,565,257	44,706	4,842,007	1,915	337,122	4.48%	7.48%
Regulatory	1,152	158,096	1,186	154,510	1,233	163,149	81	5,053	7.03%	3.20%
Operations Support	12,454	\$3,947,416	12,240	\$3,971,000	13,143	\$4,480,843	689	\$533,427	5.53%	13.51%
Infrastructure		929,634		916,269		939,182		9,548		1.03%
Shared Services and Support	5,879	1,214,514	5,774	1,239,929	5,759	1,305,701	(120)	91,187	-2.04%	7.51%
Information Services	6,575	1,803,268	6,466	1,814,802	7,384	2,235,960	809	432,692	12.30%	23.99%
Business Systems Modernization	605	\$330,210	513	\$332,231	513	\$300,827	(92)	(\$29,383)	-15.21%	-8.90%
Subtotal New Appropriated Resources	91,646	\$11,816,696	89,857	\$11,887,741	96,218	\$12,861,033	4,572	\$1,044,337	4.99%	8.84%
Other Resources:										
Reimbursables	723	122,451	712	109,193	712	110,627	(11)	(11,824)	-1.52%	-9.66%
User Fees	760	326,251	965	511,425	360	277,582	(400)	(48,669)	-52.63%	-14.92%
Recovery from Prior Years		3,235		439				(3,235)		-100.00%
Unobligated Balances from Prior Years		243,266		283,892		113,765		(129,501)		-53.23%
Transfers In/Out ²		193				(5,000)		(5,193)		
Resources from Other Accounts ²	668		21		21		(647)		-96.86%	
Subtotal Other Resources	2,151	\$695,396	1,698	\$904,949	1,093	\$496,974	(1,058)	(\$198,422)	-49.19%	-28.53%
Total Budgetary Resources	93,797	\$12,512,092	91,555	\$12,792,690	97,311	\$13,358,007	3,514	\$845,915	3.75%	6.76%

¹ FY 2012 Enacted represents the approved FY 2012 Operating Plan.

² Resources from Transfers In/Out include a FY 2012 transfer in from the Office of National Drug Control Policy (ONDCP) High Intensity Drug Trafficking Area (HIDTA) Program (\$193K) and a FY 2014 transfer out to the Alcohol and Tobacco Tax and Trade Bureau (TTB) (\$5M).

³ Resources from Other Accounts include Other Direct FTE funded from the Department of Health and Human Services (664 FTE for FY 2012), the Federal Highway Administration (4 FTE in FY 2012 and 5 FTE projected for FY 2013 and FY 2014), and Therapeutic Discovery Program Grants and Administration (16 FTE projected in FY 2013 and FY 2014).

1B – Vision, Priorities and Context

The Internal Revenue Service (IRS) Strategic Plan guides program and budget decisions and supports the Department of the Treasury Strategic Plan and Agency Priority Goals, including Increase Voluntary Tax Compliance. The current IRS Strategic Plan recognizes the increasing complexity of tax laws, changing business models, expanding use of electronic data and related security risks, accelerating growth in international tax activities, and growing human capital challenges. The current IRS Strategic Plan goals and objectives are:

IRS Strategic Goals

Improve Service to Make Voluntary Compliance Easier

Enforce the Law to Ensure Everyone Meets Their Obligation to Pay Taxes

The strategic objectives to meet the goal to improve service and make voluntary compliance easier are:

- Incorporate taxpayer perspectives to improve all service interactions;
- Expedite and improve issue resolution across all interactions with taxpayers, making it easier to navigate the IRS;
- Provide taxpayers with targeted, timely guidance and outreach; and
- Strengthen partnerships with tax practitioners, tax preparers, and other third parties to ensure effective tax administration.

The strategic objectives to meet the goal to ensure everyone meets their obligations to pay taxes are:

- Enforce the law proactively in a timely manner while respecting taxpayer rights and minimizing taxpayer burden;
- Expand enforcement approaches and tools;
- Meet the challenges of international tax administration;
- Allocate compliance resources using a data-driven approach to address existing and emerging high-risk areas;
- Continue focused oversight of the tax-exempt sector; and
- Ensure that all tax practitioners, tax preparers, and other third parties in the tax system adhere to professional standards and follow the law.

To achieve the service and enforcement goals, the IRS has a strategic foundation supporting the objectives to:

- Build and deploy advanced information technology systems, processes, and tools that further improve IRS efficiency and productivity;
- Ensure the privacy and security of data and the safety and security of employees;
- Use data and research across the organization to make more informed decisions and appropriately allocate resources; and
- Make the IRS the best place to work in Government.

Treasury Strategic and Priority Goals

The IRS President's Budget Request also supports the following Department of the Treasury Strategic and Agency Priority Goals.

Strategic Goal: Pursue Comprehensive Tax and Fiscal Reform

Agency Priority Goal: Increase Voluntary Tax Compliance

- Make progress against the tax gap through improved service and enhanced enforcement of the tax laws:
 - Achieve 4.3 million document matching closures in FY 2014. Where the IRS information does not match taxpayer-reported information, the IRS will contact the taxpayer to resolve the discrepancy. A document matching closure occurs when the discrepancy is resolved; and
 - Achieve 50 percent daily processing for individual refund returns in FY 2014, which will provide faster refunds for millions of individual taxpayers.
- Assist Americans in voluntarily meeting their tax obligations:
 - Achieve individual income tax filers' American Customer Satisfaction Index score of 72 percent in FY 2014; and
 - Deliver a telephone Level of Service (LOS) of 79 percent in FY 2014. LOS is a measure of services provided to taxpayers who call the IRS for live customer service representative assistance.

Strategic Goal: Manage the Government's Finances in a Fiscally Responsible Manner

Agency Priority Goal: Increase the Number of Electronic Transactions with the Public to Improve Service, Prevent Fraud, and Reduce Costs

- Achieve individual e-File rate of 81 percent in FY 2014.

FY 2014 Priorities

The IRS collects the revenue that funds the Government and administers the nation's tax laws. During FY 2012, the IRS processed 239 million tax returns and collected \$2.524 trillion in taxes (gross receipts before tax refunds), 92 percent of Federal Government receipts. Through both taxpayer service and enforcement programs that protect the flow of revenue to the Government, the IRS remains committed to making the tax law easier to access and understand and to improving voluntary compliance and reducing the tax gap, the difference between taxes owed and taxes paid on time. The taxpayer service agenda supports and protects the trillions of dollars in revenue that come into the Treasury each year voluntarily from taxpayers by helping taxpayers understand their obligations under the tax law. The enforcement agenda vigorously pursues those who evade their responsibility to pay the taxes they owe. The IRS collected \$50.2 billion in revenue in FY 2012.

In the FY 2014 request, the IRS seeks funding for:

- **Taxpayer Service** to improve customer telephone level of service to meet taxpayer demand and assist taxpayers in understanding Affordable Care Act (ACA) issues;
- **Enforcement** to implement enacted legislation; address offshore tax evasion; protect revenue by identifying fraud and preventing the issuance of questionable refunds, including identity theft; enforce return preparer compliance; and partially restore appropriate and balanced audit coverage rates across taxpayers with expanding coverage of high-wealth individuals and enterprises and partnership entities;
- **Infrastructure** to continue investments to implement the Affordable Care Act (ACA) funded by the Department of Health and Human Services in FY 2012, develop new online capabilities, expand virtual taxpayer service delivery, and leverage telecommunication technology to reduce costs and enhance employee collaboration; and
- **Business Systems Modernization** to build on the momentum of implementing new daily processing during the calendar year 2012 filing season and the delivery of a new database for individual account data by continuing to progress toward Transition State 2 for CADE 2.

FY 2014 Budget Request

The IRS FY 2014 President's Budget request is \$12,861 million, \$1,044.3 million, 8.8 percent more than the FY 2012 Enacted Budget of \$11,816.7 million.

The \$1,044.3 million increase consists of:

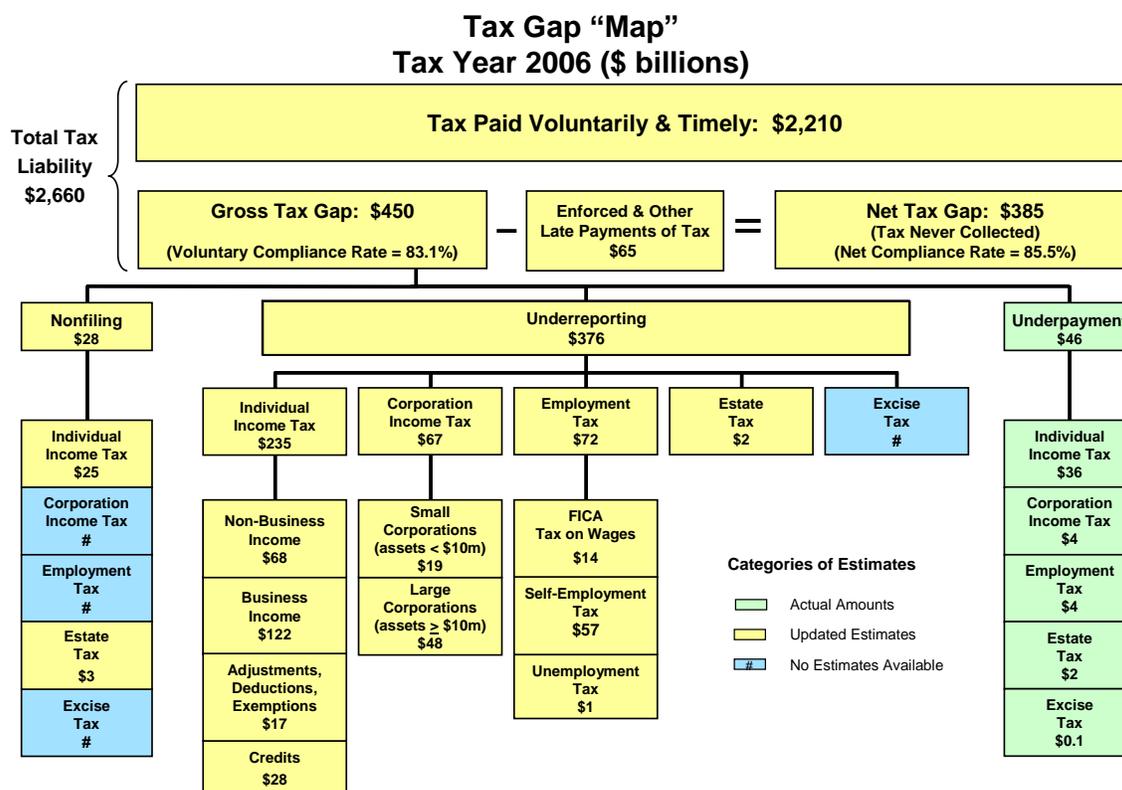
- -\$162.7 million net decrease to the base:
 - -\$71 million to non-recur the CR Increase;
 - +\$125.6 million to fund the pay raise and non-pay inflation adjustment;
 - -\$254.8 million for efficiency savings; and
 - +\$37.5 million for a reinvestment needed to achieve the space optimization savings.
- +\$1,136 million for program changes:
 - +\$177 million to improve customer level of service to meet taxpayer demand and assist taxpayers in understanding ACA tax issues;
 - +\$605.3 million to implement enacted legislation, protect revenue by identifying fraud and preventing issuance of questionable refunds including tax-related identity theft, increase compliance by addressing offshore tax evasion, make use of new information reporting requirements to reduce underreporting, strengthen examination and collection programs, expand enforcement efforts on noncompliance among corporate and high-wealth taxpayers, and strengthen return preparer compliance;
 - +\$348.7 million to implement IT changes to deliver tax credits and other requirements, meet ongoing demand for online and self-assistance services, and leverage telecommunications technology; and
 - +\$5 million to transfer to the Alcohol and Tobacco Tax and Trade Bureau (TTB) for high return on investment (ROI) tax enforcement program integrity activities.

Reducing the Tax Gap

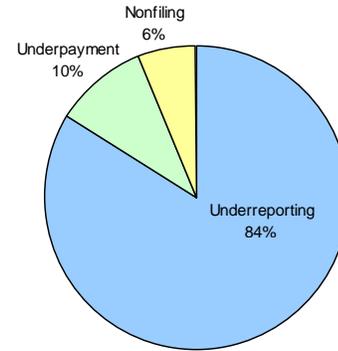
Investments in IRS enforcement programs have yielded significant increases in enforcement revenue. Enforcement revenue was \$50.2 billion in FY 2012 for a total IRS-wide ROI of \$4.2 to \$1. The ROI estimate does not include the revenue effect of the deterrence value of these investments and other IRS enforcement programs, which is conservatively estimated to be at least three times the direct revenue impact.

In FY 2012, the IRS released updated estimates of the difference between taxes owed and taxes paid on a timely basis – the “tax gap.” The IRS estimated that taxpayers underpaid by \$385 billion in 2006, net of late payments and IRS enforcement activities (see *Tax Gap Map for Tax Year 2006* shown below). The voluntary compliance rate—the percentage of total tax revenue paid on time—for tax year 2006 was 83.1 percent. This rate is statistically unchanged from tax year 2001. The three components of the tax gap are:

- **Underreporting** – Not reporting the full tax liability on a timely-filed return;
- **Nonfiling** – Not filing required returns on time; and
- **Underpayment** – Not timely paying the full amount of tax reported on a timely-filed return.



Underreporting tax liability (\$376 billion) comprises 84 percent of the gross tax gap (\$450 billion). The remainder is almost evenly divided between nonfiling (\$28 billion, 6 percent) and underpaying (\$46 billion, 10 percent). The IRS remains committed to finding ways to increase compliance and reduce the tax gap, while minimizing the burden on the vast majority of taxpayers who pay their taxes accurately and on time.



Taxpayer Service and Enforcement Programs Complement Each Other

The IRS serves individuals, businesses, and tax-exempt entities. It processed 239 million tax returns in 2012. The system of voluntary tax compliance is most effective when the IRS is able to provide excellent taxpayer service for those who are trying to meet their obligations under the law and provide a robust and fair enforcement program for those who dodge their responsibilities to their fellow citizens. Most taxpayers comply with the law by filing returns and paying their taxes on time, but some do not comply because they do not understand their obligations under the complex tax laws. Noncompliance can stem from a wide range of causes, including lack of knowledge.

Taxpayer Service

By assisting taxpayers with their tax questions before they file their returns, the IRS helps prevent inadvertent noncompliance and reduces burdensome post-filing notices and other correspondence from the IRS. Accordingly, the IRS provides year-round assistance to millions of taxpayers through many sources, including outreach and education programs, issuance of tax forms and publications, rulings and regulations, toll-free call centers, IRS.gov, Taxpayer Assistance Centers (TAC), Volunteer Income Tax Assistance (VITA) sites, and Tax Counseling for the Elderly (TCE) sites.

The IRS delivered a successful filing season by:

- Initiating and revising more than 700 tax products;
- Receiving more than 147.6 million individual returns and issuing more than 121.6 million refunds totaling \$333 billion;
- Responding accurately to 93.2 percent of tax law questions and 95.6 percent of account questions;
- Processing more than 3.1 million free file returns;
- Direct-depositing more than 82.8 million refunds compared to 78.9 million in 2011, an increase of 4.9 percent; and
- Receiving 80.5 percent of individual returns electronically, an increase of 4.7 percent.

The IRS received more than 118.9 million individual tax returns electronically. Filing season electronic results increased compared to 2011. This included:

- Business returns electronically filed up 15 percent to 36.7 percent;
- Home-computer filing up 9.8 percent to 43.5 million tax returns; and
- Tax professional use of e-File up 5.4 percent, to 75.6 million returns.

The IRS continued to provide alternative service options by increasing the amount of tax information and services available to taxpayers through IRS.gov. Taxpayers viewed IRS.gov web pages more than 1.7 billion times as they used the website to:

- **Get forms and publications.** More than 347 million tax products were downloaded, an increase of 51 percent from FY 2011.
- **Link to the Electronic Federal Tax Payment System (EFTPS).** EFTPS processed more than 132.4 million electronic tax payments totaling \$2.1 trillion.
- **Get answers.** Taxpayers made more than 1.1 million visits to the Interactive Tax Assistant introduction page where taxpayers can receive answers to tax law questions.
- **Check on their refunds.** Taxpayers used *Where's My Refund?* more than 132.3 million times to check on the status of their tax refunds.

The IRS is increasing communications with taxpayers who do not get their information from traditional sources, such as newspapers and broadcast and cable news. By employing social and new media, such as YouTube, Twitter, and iTunes, the IRS reaches these taxpayers and provides important service and compliance messages. In FY 2012, the IRS videos on the YouTube channel reached a milestone by topping 3.6 million total taxpayer views, making it the Federal Government's fourth most-viewed YouTube channel.

Other notable accomplishments in FY 2012 include:

- Releasing an updated version of the IRS2GO Smartphone application with new features that let taxpayers interact with the IRS using their mobile device and resulted in more than 6.2 million applications launched;
- Posting a "When Will I Get My Refund?" video on YouTube, attracting approximately 713,000 views; and
- Administering a Facebook page directed at educating and informing return preparers, which currently has approximately 16,000 regular followers.

The IRS enhanced its outreach and educational services by collaborating with State taxing authorities, volunteer groups, and other organizations to address taxpayer needs. By supporting more than 3,900 local partners and a combined 13,143 Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites, the IRS provided free tax assistance to the elderly, disabled, and limited English proficient individuals and families.

In FY 2012, nearly 99,000 volunteers prepared almost 3.3 million Federal returns and more than 2.5 million State returns, which represent increases over FY 2011 of 2.4 percent and 5.9 percent, respectively. In addition, 95 percent of the Federal returns were filed electronically.

Enforcement

Return on Investment for FY 2014 Enforcement Initiatives

FY 2014 Revenue-Producing Initiatives

Vigorous enforcement efforts encourage voluntary compliance for those taxpayers who seek to avoid meeting their tax obligations under the law, further increasing revenue. Resources for traditional revenue-producing compliance programs yield direct, measurable results through high ROI enforcement activities such as examination and collection.

The FY 2014 President’s Budget includes \$129.9 million to implement enacted legislation and \$101.1 million to protect revenue, and \$412 million for IRS initiatives funded through a program integrity cap adjustment that will reduce the deficit through above-base funding for high ROI tax enforcement and compliance programs, of which \$5 million will be transferred to TTB. The \$407 million in IRS program integrity cap adjustment funding includes \$322.6 million for traditional enforcement initiatives, \$41.4 million for a revenue-enhancing enforcement initiative (excludes the \$10.3 Taxpayer Services portion), and \$43.1 million for other compliance program initiatives in the Operations Support account (see Section 4.10, Summary of Program Integrity Cap Adjustment).

The FY 2014 traditional revenue-producing initiatives, not included in the program integrity cap adjustment, will generate \$562.2 million in additional annual enforcement revenue by implementing enacted legislation, achieving a return on investment (ROI) of \$4.8 to \$1.

Return on Investment for IRS FY 2014 Enforcement Initiatives to Implement Enacted Legislation

Dollars in Millions

	First Year (FY 2014)			Full Performance (FY 2016)		
	Cost	Revenue	ROI	Cost	Revenue	ROI
Revenue-Producing Enforcement Initiatives to Implement Enacted Legislation	\$129.9	\$238.3	1.8	\$117.9	\$562.2	4.8
Implement Foreign Account Tax Compliance Act (FATCA)	35.2	49.6	1.4	31.5	115.4	3.7
Implement Merchant Card and Basis Matching	50.3	152.4	3.0	42.5	362.9	8.5
Address Impact of Affordable Care Act (ACA) Statutory Requirements	44.4	36.3	0.8	43.9	83.9	1.9

The \$323 million requested for the IRS FY 2014 traditional enforcement initiatives funded through the **program integrity cap adjustment** will generate more than \$1.6 billion in additional annual enforcement revenue, achieving a FY 2016 ROI of \$6.0 to \$1.

Return on Investment for IRS FY 2014 Cap Adjustment Enforcement Initiatives

Dollars in Millions						
	First Year (FY 2014)			Full Performance (FY 2016)		
	Cost	Revenue	ROI	Cost	Revenue	ROI
Cap Adjustment Revenue-Producing Enforcement Initiatives	\$322.6	\$776.2	2.4	\$273.2	\$1,646.6	6.0
Immediate and Directly Measurable Revenue-Producing Initiatives	\$299.7	\$776.2	2.6	\$254.1	\$1,646.6	6.5
Address International and Offshore Compliance Issues	49.3	86.2	1.7	42.4	192.8	4.5
Increase Audit Coverage to Address Tax Compliance Issues	110.9	155.9	1.4	92.8	295.6	3.2
Increase Collection Coverage	60.5	221.5	3.7	53.3	496.3	9.3
Expand Coverage of High-Wealth Individuals and Enterprises	34.0	176.3	5.2	27.6	368.9	13.4
Improve Coverage of Controlled Partnerships and Flow-Through Entities	45.0	136.3	3.0	38.0	293.0	7.7
Strategic Revenue-Producing Initiatives (which does not have immediately measurable ROI, but clear long-term revenue effects)	\$22.9	\$0.0	0.0	\$19.1	\$0.0	0.0
Build Out Tax Return Preparer Compliance Activities	18.3	0.0	0.0	14.6	0.0	0.0
Leverage Digital Evidence for Criminal Investigation (CI)	4.6	0.0	0.0	4.5	0.0	0.0

FY 2014 Revenue-Protecting Initiative

In addition to the traditional revenue-producing initiatives, IRS activities to prevent the issuance of fraudulent returns related to identify theft allow the IRS to identify and resolve issues prior to issuing a taxpayer's refund. While this number is not currently included in the IRS's traditional ROI calculations, investment in these activities is projected to protect \$1.3 billion in revenue at a lower cost than the downstream enforcement actions, and achieve a revenue protection of \$14.4 to \$1.

FY 2014 Revenue-Protecting Initiative

Dollars in Millions						
	First Year (FY 2014)			Full Performance (FY 2016)		
	Cost	Revenue	ROI	Cost	Revenue	ROI
Revenue Protecting Initiative (which protects taxpayer information, prevents identity theft, and results in long-term revenue protection)	\$101.1	\$631.0	6.2	\$87.7	\$1,261.0	14.4
Improve Identification and Prevention of Refund Fraud including Identity Theft	101.1	631.0	6.2	87.7	1,261.0	14.4

FY 2014 Revenue-Enhancing Initiative

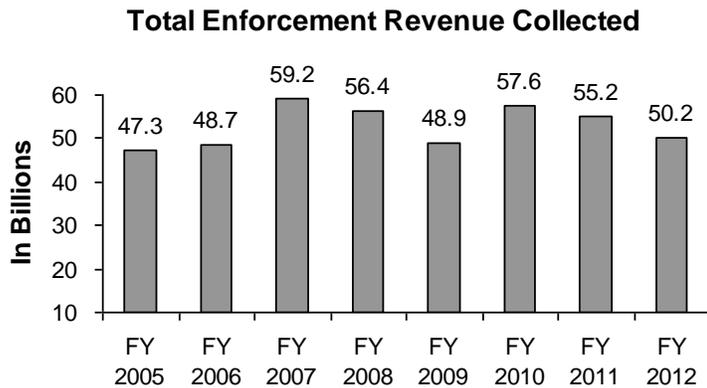
Improved technology also increases revenue collection by providing better case selection, issue identification, and enforcement case treatment. This technology allows the IRS to adapt quickly to changing taxpayer behavior and tax code misuse. While this number is not currently included in the IRS's traditional ROI calculations, the FY 2014 revenue-enhancing initiatives will increase revenue by \$75.7 million from technology investments that will analyze compliance data more efficiently and provide better case selection, issue identification, and treatment selection, achieving a revenue enhancement of \$1.5 to \$1.

FY 2014 Revenue-Enhancing Initiative

Dollars in Millions						
	First Year (FY 2014)			Full Performance (FY 2016)		
	Cost	Revenue	ROI	Cost	Revenue	ROI
Revenue Enhancing Initiatives (which leverages technology to improve case selection and analysis)	\$51.7	\$0.0	0.0	\$50.0	\$75.7	1.5
Leverage Data to Improve Case Selection	51.7	0.0	0.0	50.0	75.7	1.5

In addition to the new FY 2014 enforcement initiatives, the President’s Budget also proposes new tax enforcement and compliance initiatives for IRS and TTB funded via cap adjustments through 2018, with additional cap adjustments to sustain these initiatives from FY 2018 through 2023. In total, the proposal entails 10 years of cap adjustments costing \$13.8 billion while saving \$46.5 billion, for a net savings of \$32.7 billion.

Enforcement of the tax law is an integral part of the IRS effort to enhance voluntary compliance. IRS enforcement activities, such as examination and collection, remain a high priority. In FY 2012, the IRS maintained its international enforcement presence, continued efforts to engage with the tax return preparer community, and made refund fraud and identity theft a top priority. In FY 2012,



collections related to all enforcement activities exceeded \$50 billion for the third consecutive year. Although enforcement collections declined in FY 2012, it should be noted that IRS funding was reduced by roughly \$300 million compared to FY 2011.

The IRS has shown progress in several key enforcement programs and, as compared with FY 2011, the IRS increased:

- High income audits (income greater than \$200,000) by 2.6 percent;
- Small Business audits (assets less than \$10 million) by 19.5 percent;
- Large corporate audits by 5.0 percent; and
- Criminal investigations by 5.1 percent.

The IRS enhanced international compliance efforts by implementing new legislation and programs such as the Offshore Voluntary Disclosure Program (OVDP). In January 2012 the IRS reopened the OVDP indefinitely with tightened eligibility requirements in response to strong interest from taxpayers and tax practitioners. Since the program was established in 2009, through the end of FY 2012, the OVDP has resulted in more than 38,000 disclosures of underpaid or unpaid taxes and the collection of more than \$5 billion in back taxes, interest, and penalties.

In addition, the IRS is working closely with businesses and foreign governments to implement the Foreign Account Tax Compliance Act (FATCA). This legislation strengthens offshore compliance efforts by creating new information reporting requirements on foreign financial institutions (FFIs) with respect to U.S. accounts, and establishing new withholding, documentation, and reporting requirements for payments made to certain foreign entities.

The IRS continued to implement its Return Preparer Program begun in FY 2011. The foundation of this program is mandatory registration for all paid tax return preparers. Through September 2012, more than 860,000 preparers have requested Preparer Tax Identification Numbers (PTINs) using the online application system. This PTIN requirement provides an important and improved view of the return preparer community from which the IRS can leverage information to improve communications, analyze trends, spot anomalies, and detect potential fraud, including the refund fraud associated with the Earned Income Tax Credit (EITC) and identity theft. As a result of these efforts, the IRS initiated several hundred criminal investigations into return preparers and achieved a 97.3 percent conviction rate. The IRS also leveraged real time data during the 2012 filing season to improve the compliance of more than 1,400 preparers with high numbers of EITC errors.

In FY 2012, the IRS expanded the Fresh Start initiative to assist struggling taxpayers with meeting their tax obligations. Changes included:

- Increasing the dollar threshold and repayment period for individual installment agreements;
- Providing more financial analysis flexibility for installment agreements and Offer in Compromise programs;
- Issuing new guidance to address unsecured debts such as student loans, credit cards, and State/local taxes;
- Providing a six-month grace period on failure-to-pay penalties to certain wage earners and self-employed individuals; and
- Extending help to taxpayers eligible for Innocent Spouse Program by eliminating the two-year timeframe for consideration of certain innocent spouse claims.

In FY 2012 the IRS identified and stopped fraudulent return filings and refunds through the Accounts Management Taxpayer Assurance Program (AMTAP) and Questionable Refund Program (QRP). The FY 2012 results included:

- Using the electronic fraud detection system (EFDS), AMTAP stopped more than 2.6 million fraudulent returns and more than \$19.2 billion in fraudulent refunds;
- Identifying 1,708 QRP schemes comprising 2,045,080 individual returns;
- Detecting and preventing \$12.3 billion in fraudulent QRP refunds;
- Achieving a 97.8 percent conviction rate, an 85.5 percent incarceration rate, and an 88.5 percent publicity rate on adjudicated QRP cases; and
- Recovering \$787 million from financial institutions returning fraudulent refunds to the IRS.

Business System Modernization

After 18 years, in February 2013, the GAO removed the IRS's Business Systems Modernization program from its High-Risk List. GAO concluded that the IRS had made substantial progress in addressing weaknesses over the past several years and had

demonstrated a commitment to sustained progress. The IRS has in place about 80 percent of the practices needed for an effective investment management process, including all of the processes needed for effective project oversight. In addition, the IRS improved its software development practices using the Carnegie Mellon University Software Engineering Institute's Capability Maturity Model Integration (CMMI), which calls for disciplined software development and acquisition practices, which are considered industry best practices. In September 2012, the IRS's application development organization reached CMMI maturity level 3, which the GAO acknowledges represents a high achievement by industry standards. IRS modernization efforts focus on building and deploying advanced information technology systems, processes, and tools to improve efficiency and productivity. FY 2012 successes included:

- Customer Account Data Engine 2 (CADE 2). After more than 50 years of weekly posting of returns, payments, and other transactions, CADE 2 Transition State 1 successfully deployed its daily processing functionality in January 2012. Daily processing and posting of individual taxpayer accounts enabled faster refunds for more taxpayers, more timely account updates, better information for customer service representatives, and faster issuance of taxpayer notices.
- Modernized e-File (MeF). Modernized e-File (MeF) Release 7 became operational for the FY 2012 filing season. The IRS completed the three-year migration of the 1040 form family from the original e-file system to the MeF system. With this capability, plus significant performance improvements to support the anticipated volumes, the IRS will process all electronically enabled 1040 forms and schedules through MeF during filing season 2013. The IRS processed nearly 107 million individual Federal and State returns, and more than 14.3 million Business Master File returns through MeF, totaling 121 million in FY 2012.

The IRS President's Budget request for FY 2014 is \$12,861,033,000 in direct appropriations and 96,218 FTE. This is an increase of \$1,044,337,000 or 8.84 percent and 4,572 FTE more than the FY 2012 Enacted Budget of \$11,816,696,000 and 91,646 FTE.

Section 2 – Budget Adjustments – Internal Revenue Service

2.1 – Budget Adjustments Table

Dollars in Thousands

Internal Revenue Service	FTE	Amount
FY 2012 Enacted ¹	91,646	\$11,816,696
FY 2013 Annualized CR Rate	89,857	\$11,887,741
FY 2014 Changes to Base:		
Non-Recur CR Increase:		(\$71,045)
Maintaining Current Levels (MCLs):		\$125,674
Pay Inflation Adjustment		79,673
Non-Pay Inflation Adjustment		46,001
Efficiencies/Savings:	(857)	(\$254,864)
Increase e-File Savings	(101)	(5,040)
Business Systems Modernization (BSM) Savings		(30,000)
Reduce Information Technology (IT) Infrastructure		(57,500)
Implement Human Capital Administrative Efficiencies	(73)	(7,858)
Targeted Personnel Savings	(683)	(77,766)
Savings from Space Optimization		(76,700)
Reinvestment:		\$37,500
Implement Space Optimization to Achieve Savings		37,500
Subtotal FY 2014 Changes to Base	(857)	(\$162,735)
FY 2014 Current Services (Base)	89,000	\$11,725,006
Program Changes:		
Program Increases:		
Taxpayer Service Initiative:		
Improve Taxpayer Service and Meet Increased Demand	1,935	177,057
Subtotal Taxpayer Service Initiative	1,935	\$177,057
Enforcement Initiatives:		
Implement Foreign Account Tax Compliance Act (FATCA)	233	35,190
Address International and Offshore Compliance Issues	329	49,354
Implement Merchant Card and Basis Matching	536	50,279
Address Impact of Affordable Care Act (ACA) Statutory Requirements	283	44,420
Improve Identification and Prevention of Refund Fraud and Identity Theft	850	101,098
Increase Audit Coverage to Address Tax Compliance Issues	797	110,935
Increase Collection Coverage	573	60,474
Expand Coverage of High-Wealth Individuals and Enterprises	242	33,965
Improve Coverage of Partnerships and Flow-Through Entities	320	45,013
Build Out Tax Return Preparer Compliance Activities	124	18,315
Leverage Data to Improve Case Selection	227	51,701
Leverage Digital Evidence for Criminal Investigation (CI)	8	4,539
Subtotal Enforcement Initiatives	4,522	\$605,283
Infrastructure Initiatives:		
Implement IT Changes to Deliver Tax Credits and Other Requirements	722	305,645
Develop New Online Services	37	24,059
Develop Converged Telecommunication Networks		15,000
Expand Virtual Services Delivery (VSD)	2	3,983
Subtotal Infrastructure Initiatives	761	\$348,687
Alcohol and Tobacco Tax and Trade Bureau Program Integrity Transfer:		
Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities		5,000
Subtotal Alcohol and Tobacco Tax and Trade Bureau Program Integrity Transfer		\$5,000
Subtotal FY 2014 Program Changes	7,218	\$1,136,027
Total FY 2014 Budget Request	96,218	\$12,861,033

¹ FY 2012 Enacted represents the approved FY 2012 Operating Plan.

2A – Budget Increases and Decreases Description

Initiative Costing Methodology

The IRS uses a variety of methods to cost its initiatives. Costs for initiatives that require labor funding are calculated by converting the workload to the number and type of staff (e.g., Revenue Agents, Revenue Officers, or Special Agents) needed to deliver targeted performance goals. Once the number and type of staff are determined, along with the corresponding full-time equivalents (FTE), the full-year cost of the FTE is estimated using a Unit Cost Rate (UCR) calculator to project FTE salary and non-salary support cost and/or savings. The UCR calculator fully costs the salary, benefits, and support costs needed for each new FTE.

Total Changes to Base

-\$162,735,000 / -857 FTE

Non-Recur CR Increase

-\$71,045,000 / 0 FTE

The full year equivalent of the across-the-board 0.612 percent increase provided in the CR through March 27, 2013, is non-recurred.

Maintaining Current Levels (MCLs)

+\$125,674,000 / 0 FTE

Pay Inflation Adjustment +\$79,673,000 / 0 FTE

The President's Budget proposes a one percent pay raise for Federal employees in 2014.

Non-Pay Inflation Adjustment +\$46,001,000 / 0 FTE

Funds are requested for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies, and equipment.

IRS Overarching Strategy to Identify Operational Efficiencies and Savings

The IRS strives to maintain the most fair and effective system of voluntary tax compliance in the world. The environment in which the IRS operates is complex and constantly changing, and the IRS must change with it. The IRS is committed to being as efficient as possible and to spending taxpayer dollars wisely, by identifying savings while continuing to invest in strategic priorities that allow the IRS to improve taxpayer service and voluntary compliance.

Over the last several years, the IRS senior leadership has driven a “savings culture” across the IRS. Since FY 2009, budget requests have reflected strategic investments in the IRS that serve to reduce the deficit, along with achieving more than \$1.1 billion in budget savings, efficiencies and other targeted reductions. These savings and efficiencies reflect an

across-the-board commitment to finding better and more efficient ways to administer the tax system. To identify savings and efficiencies the IRS has:

- Established task forces and working groups to restructure and streamline operations;
- Identified ways of leveraging technology to improve service to taxpayers, productivity, and communications;
- Conducted budget reviews of administrative and other non-labor expenses to further reduce or reinvest in mission-critical priorities; and
- Encouraged and offered incentives to employees to look at existing operations and submit ideas on how to reduce costs without sacrificing performance.

In FY 2012, the IRS enacted budget was \$11,816.7 million, \$305.1 million less than the FY 2011 enacted budget of \$12,121.8 million. Most of the FY 2012 reductions were in the Enforcement and Operations Support appropriations. The IRS absorbed these reductions by focusing on spending reductions in areas that would minimize the impact on front-line taxpayer-facing activities:

- Decreasing full-time equivalents (FTEs) by more than 3.4 percent from FY 2011 through targeted buyouts of more than 1,000 support functions and the use of attrition hiring freezes;
- Reducing travel costs through increased use of telework and video conferencing and using innovative ways to deliver training remotely; and
- Reducing the use of consulting services.

To achieve the efficiencies and savings already realized, the IRS made upfront investments in activities that have generated savings without affecting performance, such as:

- *Where's My Refund?* – IRS.gov online application that reduces the need for taxpayers to call the IRS;
- Server Virtualization – Technology that provides server space for applications without the need to purchase or maintain a physical server for each application, which translates into smaller physical data center space requirements and fewer systems administrators supporting fewer physical servers;
- Network Convergence – Consolidated telecommunication infrastructure that lowers telecommunication maintenance requirements and increases telework capability through the use of softphone technology;
- WiFi – Technology that allows the use of publicly available Internet access, which reduces or eliminates air card requirements;
- Electronic IRS Forms and Publications – IRS.gov online availability of tax forms and publications that reduces printing and mailing costs; and
- Telework – Alternative to traditional work environment that reduces office space needs, improves employee morale, reduces employee commuting costs, and helps employees balance home and work responsibilities.

The IRS will continue to maintain a savings culture to meet future challenges with fewer resources. In addition to reducing the overall resources needed to provide service effectively to taxpayers and to administer the tax laws, the IRS will continue to look for opportunities to reinvest base savings to:

- Address the significant increase in refund fraud schemes in general and schemes involving identity theft in particular;
- Manage responsibilities in an increasingly global environment;
- Implement new legislative mandates and last-minute tax changes; and
- Continue to leverage technology to create more efficient work processes, improve case selection, utilize data analytics for decision making, increase employee collaboration, and reduce costs.

Efficiencies and Savings

-\$254,864,000 / -857 FTE

Increase e-File Savings

-\$5,040,000 / -101 FTE

These savings are a result of reduced paper returns. The IRS projects taxpayers will file 1,587,800 fewer paper returns (666,200 individual and 921,600 business) and instead choose to e-file. As a result, the IRS would need 101 fewer FTE in submission processing, generating a savings of \$5,040,000.

Business Systems Modernization (BSM) Savings
-\$30,000,000 / 0 FTE

This reduction provides an FY 2014 funding level of \$300.8 million and 513 FTE that is required for the IRS to continue modernization of critical information technology systems that support the nation’s revenue base. The IRS FY 2014 BSM request funds the projects listed in the table below.

Dollars in Thousands

Business Systems Modernization	FY 2012 Enacted	FY 2013 Annualized CR Rate	FY 2014 President's Budget Request
CADE 2 (Taxpayer Account Database) In FY 2014, the IRS will continue the design and development of applications that will modernize core tax processing application architecture, address financial material weaknesses and expand capabilities in leveraging the CADE 2 relational database.	\$139,500	\$134,000	\$129,000
Modernized e-File (MeF) In FY 2014, MeF will complete the deployment of Release 9 (Form 94X - Employment/ Unemployment Tax and Form 1041 - U.S. Income Tax Return for Estates and Trusts), continue the development of Release 10 (1040X - Amended U.S. Individual Income Tax Return) and begin design of Release 11 (implementation of an assortment of forms).	23,900	40,700	28,000
Core Infrastructure Provide services in architecture, engineering, and deployment of standardized, consolidated, virtual, and secure modernized Development, Integration, and Testing Environments (DITE) and shared infrastructure components (Employee User Portal, Registered User Portal, and Security) of the production environments.	37,700	37,750	34,000
Architecture, Integration, and Management (AI&M) Provide system engineering management capabilities, including systems strategy, architecture, and engineering capabilities, across IT Infrastructure, Business Applications, Data Management, and IT Security. Provide portfolio control and management processes and tools, including governance, enterprise lifecycle support, tiered program management, business rules and requirements, transition management, cost estimation, configuration/change management, and risk management.	27,645	29,385	26,000
Management Reserve	7,780	6,307	4,000
Subtotal Capital Investments	\$236,525	\$248,142	\$221,000
BSM Labor¹	93,685	84,089	79,827
Total BSM	\$330,210	\$332,231	\$300,827

¹BSM FY 2014 Labor includes \$617,000 of inflation costs.

Customer Account Data Engine 2 (CADE 2) (\$129.0 million)

In FY 2013, the IRS will continue to build on Transition State 1 (TS 1) momentum by strategically investing in state-of-the-art capabilities, such as online taxpayer services, which will utilize the CADE 2 daily processing capabilities and the CADE 2 modernized relational database infrastructure put in place in 2012. In FY 2014, the IRS will focus effort on preparing the CADE 2 modernized relational database so that it can be placed into full filing season production in 2014. The IRS also will make progress on the second phase of the CADE 2 initiative, which addresses the risks associated with the continued legacy of antiquated systems and programming languages in the current IRS environment. This next phase, known as Transition State 2 (TS 2), will ensure the long-term viability of the modernized IRS tax processing systems.

In FY 2014, the IRS requests funds to design and develop applications that expand the capabilities of the CADE 2 relational database, while addressing current financial material weakness. Among other things, these funds will:

- Complete programming and deploy the Common Code Penalty and Interest Module to ensure all systems use the same computations to calculate penalty and interest, reducing errors through the elimination of manual calculations.
- Deliver programming to expand the Individual Master File database structure to capture data and populate the CADE 2 database with Integrated Data Retrieval System (IDRS) status history, such as taxpayer notices, collection status updates, and installment agreements.
- Conduct planning for enhancements needed for financial tracking, which will allow association of specific payments and credits with individual assessments.
- Continue development of analytical tools to replace the existing Master File extracts that feed numerous downstream systems.
- Conduct a proof of concept to test whether business rules and requirements for the relational database can be developed by retrieving computer code from the IRS's Individual Master File of taxpayer data, rather than asking Subject Matter Experts to write the business rules and requirements for the relational database into computer code, a more time consuming and expensive process.
- Conduct a proof of concept to test the Data Access Layer, to develop a data distribution framework to define the standard sets of data CADE 2 will produce and determine how those standard sets of data will be provided to downstream systems. Proving the Data Access Layer works is an important piece of replacing the Individual Master File and moving to the CADE 2 database as the single source of authoritative data for downstream tax processing systems.

Modernized e-File (MeF) (\$28.0 million)

The first phase of the implementation of Form 1040, *U.S. Individual Income Tax Return*, onto the MeF platform took place in January 2010. In FY 2011, the IRS implemented the second phase by providing enhanced disaster recovery capabilities to ensure appropriate management of operational risk and the optimization code necessary to support the anticipated volume of returns in 2012. The third and final phase was the migration of the 125 remaining 1040 forms and schedules, including Forms 1040A, *U.S. Individual Income Tax Return*, and 1040EZ, *Income Tax Return for Single and Joint Filers With No Dependents*. This phase took place in January 2012, expanding the reach of MeF to all of the individual e-file population, or approximately 98.3 million filers.

MeF Release 8 deployed as planned in January 2013. The release improved system performance by implementing storage management, added stability by segregating tasks, and improved monitoring by significantly increasing the performance and operational metrics captured. These changes will ensure MeF can support the projected Filing Season 2013 volume of e-filed returns.

The FY 2014 request for MeF will:

Complete Milestone 5 (Deployment) of Release 9, which will include Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*; Form 941, *Employer's Quarterly Federal Tax Return*; Form 943, *Employer's Annual Federal Tax Return for Agricultural Employees*; Form 944, *Employer's Annual Federal Tax Return*; Form 945, *Annual Return of Withheld Federal Income Tax*; and Form 1041, *U.S. Income Tax Return for Estates and Trusts*. The FY 2014 request will fund the physical design, development, and deployment of Release 10 and the implementation of Form 1040X, *Amended U.S. Individual Income Tax Return*. Further, the FY 2014 request will fund requirements gathering and the logical design of assorted forms to be determined later.

By adding Form 94X, Form 1041, and Form 1040X to the MeF platform, taxpayers will realize the following benefits:

- Extensive error checking to improve the accuracy of the tax return;
- Sophisticated math error validation checking, which increases the likelihood that the tax return will be successfully processed;
- Ability to attach all necessary documents supporting the data on the tax returns;
- Capability to provide a justification to the taxpayer/trading partner when the IRS rejects the tax return; and
- Form receipt acknowledgments provided to transmitters within minutes during non-peak days (within 2 hours during peak days), instead of 24-48 hours under the legacy system;
- Expanded availability of electronic filing, beyond the traditional legacy e-file shutdown dates;
- Ability to e-file the current and two prior tax years; and
- Ability to e-file a balance due return, and, at the same time, authorize an electronic funds withdrawal from the taxpayer's bank account.

Productivity and IRS efficiency gains include:

- Improving Customer Service – Once MeF processes forms 941, 1041, and 1040X, the IRS Customer Service Representatives (CSRs) will have access to all of the information included on each form. This will allow the CSRs to provide faster responses to taxpayers by viewing the most current 94X, 1041, and 1040X data online, eliminating the need for back-end rekeying and data entry.
- Enhancing Compliance and Enforcement Operations – Online capabilities and 100 percent data access to 94X, 1041, and 1040X forms will enhance compliance and enforcement activities by allowing access to taxpayer data in a timely and accurate manner.
- Retiring the Legacy 94X and 1041 e-File system – Adding 94X and 1041 to MeF will allow the IRS to retire the legacy Electronic Management System (EMS) and reduce

future operations and maintenance budgets. The EMS cannot be retired until MeF can support these forms.

- Implementing Modernized Data Standards – MeF uses the widely accepted, industry-standard Extensible Markup Language (XML) format for identifying, storing, and transmitting data. XML provides improved data accuracy and protection of taxpayer information. MeF provides more information to correct taxpayers' returns, including expanded error code explanations that pinpoint the location of errors.

Core Infrastructure (\$34.0 million)

The Core Infrastructure program provides mission-critical services for designing, engineering, testing, and deploying standardized, consolidated, virtual, and secure modernized development and production environments for use by BSM projects.

The IRS is modernizing taxpayer applications to take advantage of web-based technologies that allow taxpayers to communicate with the IRS through the Internet using commercially available technology. The modernized infrastructure provides a complete environment (hardware, software, processes, and management) for developing, testing, deploying, operating, and monitoring both customer and internal applications in support of business practices. This includes continuing to update the web portal environment and standardizing services, security, and operations management.

This approach facilitates the IRS's ability to develop a shared infrastructure and common business service solutions that are usable across multiple BSM projects. The core infrastructure consists of two primary program elements – Infrastructure Shared Services (ISS) and the Development, Integration and Testing Environment (DITE). In FY 2014, the IRS will continue to invest in:

- ISS to provide capacity planning and performance engineering services for BSM projects. This includes additional unit, integration, and testing support to increase the reliability of deployed systems.
- DITE to engineer, install, maintain, and support the development and test environments needed for each BSM project through deployment and acceptance in the production environment.

Architecture, Integration and Management (AI&M) (\$26.0 million)

In FY 2014, AI&M will continue to support BSM projects. The AI&M program provides engineering management capabilities essential to delivering a program of the magnitude and complexity of BSM. It also delivers essential IRS systems strategy, architecture, and engineering capabilities to the major modernization projects across all technology platforms: IT Infrastructure, Business Applications, Data Management, and IT Security. The AI&M program translates enterprise and project objectives into targeted, actionable investments to provide the necessary framework and direction for a cohesive, successful modernization.

Management Reserve (\$4.0 million)

The IRS request provides funds for the management reserve to cover unanticipated cost adjustments.

Labor (\$79.8 million / 513 FTE)

The IRS requests \$79.8 million to provide the Government labor costs associated with the development of projects within the BSM portfolio. This includes \$0.617 million for the one percent pay increase.

*Reduce Information Technology (IT) Infrastructure
-\$57,500,000 / 0 FTE*

In FY 2014, IRS IT will continue to implement industry best practices to shape the future of information technology development and ongoing operational support to provide a more robust foundation for expanding IT capabilities in the future. In FY 2014, reductions to IT resources will be managed through streamlining operational requirements with efforts to standardize, consolidate, and virtualize the infrastructure and application portfolio by employing technology to accomplish tasks in a more resource-efficient manner. By adopting common technologies, managing demand, and strategic procurement opportunities the IRS will make more efficient use of its resources. Projects include:

- Extending the laptop and desktop computer replacement timeframe from three to four years;
- Providing data storage as a service rather than a commodity – this approach allows for efficient and effective management of IT servers;
- Virtualizing servers instead of purchasing a server for each application;
- Adopting common platforms for technology development;
- Standardizing the technical expertise required; and
- Adopting an efficient telecommunications infrastructure that will allow the replacement of outdated communications capabilities.

Implement Human Capital Administrative Efficiencies
-\$7,858,000 / -73 FTE

The IRS will achieve human capital administrative efficiencies by reducing costs and streamlining operations. The IRS will:

- Partner with Treasury to eliminate the redundant costs of collecting duplicate HR reporting data from the National Finance Center;
- Implement improvements in the Human Capital employment program;
- Redesign manager and employee training programs to generate staff, contract services, and travel savings; and
- Streamline existing human resources processes by using technology and eliminating redundancy.

Targeted Personnel Savings
-\$77,766,000 / -683 FTE

Although the budget requests increased staffing resources to support a number of strategic priorities, at the same time, the IRS has been very focused on managing personnel costs and reducing staffing across many operational areas. These personnel savings are the result of the annualization of FY 2013 attrition savings. To achieve these reductions, the IRS reduced overall staffing by:

- Filling critical vacancies only;
- Streamlining the workforce by reducing administrative, analyst, and other support positions;
- Realigning mission-critical occupations by eliminating positions vacated by employees with outdated skills and hiring employees who have the background and skills to support the IRS in meeting its strategic goals, objectives and priorities; and
- Decreasing non-labor costs, such as travel, office supplies, and training services, associated with targeted personnel savings.

Savings from Space Optimization
-\$76,700,000 / 0 FTE

The IRS has 648 offices throughout the U.S. and, during peak filing season, more than 101,000 employees (full-time and seasonal), not including contract employees. In an effort to promote more efficient use of the Government's real estate assets and to generate savings, the IRS plans to close, consolidate, and reduce the IRS's space inventory.

IRS office closures, consolidations, and space reductions fall into the following three primary categories:

- Small posts-of-duty (offices with 25 or fewer employees). The IRS considers such factors as distance to the next closest post-of-duty, number of employees affected,

square feet per employee, timing of lease, alteration costs, and ease of accommodating relocated staff. Of the 43 small posts-of-duty selected for closure in FY 2012, many of the employees in these posts-of-duty were reassigned to posts-of-duty within the commuting area, or, where no other IRS office exists in the commuting area, will be offered a new option to work “Home as post-of-duty” to avoid reassignment to a post-of-duty outside of the commuting area.

- Mid-size and large posts-of-duty (those typically exceeding 40,000 square feet). To reduce space in these locations, the IRS considered those posts-of-duty where there were a high percentage of vacant workstations and/or a high number of field-based employees. Currently, 22 space reduction projects fall into this category.
- Space reduction projects. These projects will be initiated because of lease expirations, relocations, review of training space needs, and other miscellaneous reasons. The IRS has identified an additional 58 space reduction projects.

Reinvestment

Implement Space Optimization to Achieve Savings
+\$37,500,000 / 0 FTE

To achieve the space optimization savings identified above, the IRS will require a one-time reinvestment of \$37.5 million to implement rent reduction and mid-size post-of-duty closure projects in FY 2014 and reduce future annual rent costs by \$76.7 million from the FY 2012 actual rent expenditures. These resources will be used to build out new and consolidated space and relocate employees.

Program Increases

+\$1,136,027,000 / +7,218 FTE

Improve Taxpayer Service and Meet Increased Demand

+\$177,057,000 / +1,935 FTE

Funding to Improve Taxpayer Service and Meet Increased Demand will provide resources to the IRS to meet the expected demand increase for taxpayer services and will increase the Customer Service Representative (CSR) Level of Service (LOS) in FY 2014 from the 67.6 percent LOS achieved in FY 2012 to a projected 79 percent. Resources are needed to address the projected growth in demand for traditional taxpayer services such as answering tax law questions and resolving accounts as well as \$89.5 million to enhance taxpayer assistance and outreach to individuals, businesses, and third parties affected by the implementation of the Affordable Care Act (ACA) (Public Law 111-148) tax provisions (including provisions related to health insurance exchanges). It also expands use of community-based partners to assist taxpayers in applying for advanced tax credits in FY 2014 and provides resources for reducing paper correspondence inventories and developing new technologies to improve service to taxpayers.

Position Type/Other Costs	FTE	\$000
Meet Increased Taxpayer Service and Outreach Demand	1,810	\$156,143
Increase Level of Service (LOS)	861	66,625
Customer Service Representatives	510	43,248
Customer Service Representative - Seasonal	351	23,377
Assist Taxpayers Understanding ACA Issues	949	89,518
Customer Service Representative - Seasonal	237	17,481
Customer Service Representatives Support Staff	438	40,252
Individual Taxpayer Advisory Specialists Analysts	52	5,158
Individual Taxpayer Advisory Specialists Analysts - Seasonal	27	2,268
ACA Grant Funds		6,000
Data Transcribers	120	7,752
Other Support	75	10,607
Reduce Correspondence Inventories	94	\$7,971
Customer Service Representatives	94	7,971
IT Projects	31	\$12,943
Authentication Retention (AR)	15	8,676
Computer Telephone Integration (CTI)	16	4,267
Total	1,935	\$177,057

Meet Increased Taxpayer Service and Outreach Demand (+\$156.1 million / +1,810 FTE)

Providing taxpayers with access to quality customer service is one of the IRS's most important responsibilities and is one of the cornerstones of voluntary compliance. Taxpayers need access to effective services to help them understand their tax obligations and pay their taxes on time. As wait times increase and CSR LOS decreases, callback attempts from taxpayers increase the demand for services and further erode telephone accessibility.

Significantly, more taxpayers are calling the IRS to resolve tax account issues and to request installment payment agreements. Assisting these taxpayers earlier in the tax administration process through taxpayer service venues, rather than through more costly compliance activities, allows the IRS to resolve customer inquiries more quickly and cost-effectively. In FY 2014, the IRS expects to answer an estimated 35.5 million non-ACA related telephone calls and deliver a 79 percent level of service.

Telephone-based customer service provides critical support for IRS enforcement activities. In FY 2012, the IRS:

- Mailed more than 162.5 million notices to taxpayers;
- Established more than 1.7 million installment agreements for \$5.3 billion;
- Adjusted more than 10.2 million post-filing tax accounts through assisted service, including processing 4.0 million amended returns; and
- Answered 30.8 million phone calls, with individual "balance due" calls alone exceeding 4.0 million.

Many tax enforcement actions result in downstream IRS service activities, including account adjustments, amended returns, and installment agreement preparation. Inadequate staffing of taxpayer service is costly and results in reduced revenue collected, increased interest paid, and delays for taxpayers attempting to resolve enforcement issues.

In 2014, several significant tax law provisions related to the ACA will become effective, including the new premium tax credit. Based on the Congressional Budget Office (CBO) estimate for subsidized individuals in 2014, the IRS expects to answer approximately 7.7 million ACA-related telephone calls, with 4.7 million calls answered using automated services and about 3.0 million calls answered by telephone customer service representatives. This initiative provides staffing to ensure proper management and administration of ACA implementation and will allow the IRS to:

- Respond to tax-related questions anticipated during the enrollment and initial reporting processes from individuals, businesses and third parties (including State exchanges and Navigators);
- Provide outreach efforts to inform taxpayers and associated third parties about ACA tax filing requirements for filing season 2015;
- Initiate operational readiness preparation necessary for a successful 2015 filing season;
- Process current and new non-exchange forms and handle non-exchange related inquiries; and
- Develop training materials, tactical plans and business rules for ACA processes both at filing and for related downstream compliance.

This initiative also requests \$6 million to expand the Community Volunteer Income Tax Assistance (VITA) matching grant program from \$12 million to \$18 million to allow the IRS to prepare community and volunteer-based organizations to assist taxpayers with their filing requirements under ACA.

Reduce Correspondence Inventories (+\$8.0 million / +94 FTE)

Additional resources are needed to timely address taxpayer claims and inquiries submitted through paper correspondence requests, while maintaining a 79 percent telephone level of service.

Telephone services and paper correspondence compete for resources and during FY 2012 paper correspondence inventory level increased to more than 1.02 million. Taxpayers generally submit anywhere from 10 to 16 million pieces of correspondence each year. Increased volumes and complexity of written requests can result in further delays in inventory processing.

Customer satisfaction surveys indicate that taxpayers consider minimizing the length of time to resolve their tax issues a high priority. These additional resources would allow the IRS to expedite resolution of taxpayer correspondence issues and result in improved customer satisfaction. In FY 2012, the IRS adjusted more than 10.2 million post-filing tax accounts through correspondence assistance, including processing 4.0 million amended returns.

IT Projects (+\$12.9 million / +31 FTE)

The following IT projects related to customer service will enhance the experience of taxpayers by minimizing the length of time it takes to resolve their tax issues:

- **Authentication Retention (AR)**

This technology will allow taxpayers to provide identifying information to the IRS only once per call to authenticate or verify their identity, while still protecting taxpayer privacy. Decreasing the number of times an agent has to authenticate callers will reduce taxpayer burden and the risk of identity theft and fraud, and improve efficiency. AR technology creates a seamless taxpayer experience during interactions with assistors and is estimated to affect more than 31 million callers annually. AR technology will allow the IRS to resolve the Treasury Inspector General Tax Administration (TIGTA) finding that telephone authentication practices need improvement to prevent unauthorized disclosures.

- **Computer Telephone Integration (CTI)**

This technology provides online screen displays of taxpayer account-related data. CTI, which is dependent upon AR implementation, performs basic taxpayer-related research to provide the CSR with current account information to improve response time for taxpayer inquiries.

Other Direct Costs

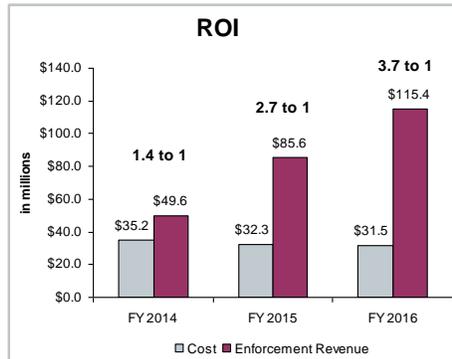
There are no other direct costs associated with this initiative.

Implement Foreign Account Tax Compliance Act (FATCA)
 +\$35,190,000 / +233 FTE

Funding to Implement Foreign Account Tax Compliance Act (FATCA) will provide the resources for the IRS to implement changes required by enactment of FATCA included in the Hiring Incentives to Restore Employment (HIRE) Act of 2010 (Public Law 111-147).

Position Type/Other Costs	FTE	\$000
Withholding of Tax on Nonresident Aliens and Foreign Corporations, and Reporting Requirements of Foreign Financial Institutions	204	\$23,472
Revenue Agent	59	10,896
Tax Examiner	130	11,242
Support Staff	15	1,334
Information Technology Costs	29	\$11,718
IT Specialist	29	4,583
Training		15
Contractual Services		6,260
Equipment		860
Total	233	\$35,190

New reporting, disclosure, and withholding requirements are expected to produce additional annual enforcement revenue of \$115.4 million once the new hires reach full potential in FY 2016, an ROI of \$3.7 to \$1.



Major Activities	Projected Revenue \$M	Individual Returns	Specialty Returns
Withholding of Tax on Nonresident Aliens and Foreign Corporations, Reporting Requirements of Foreign Financial Institutions	115.4	2,800	117
Total	\$115.4	2,800	117

Withholding of Tax on Nonresident Aliens and Foreign Corporations, and Reporting Requirements of Foreign Financial Institutions (+\$23.5 million / +204 FTE)

This initiative will allow the IRS to address foreign withholding compliance and expand coverage of international tax return filings. The Foreign Account Tax Compliance Act (FATCA) seeks to improve offshore compliance by imposing new information reporting requirements on foreign financial institutions (FFIs) with respect to U.S. accounts and new withholding, documentation, and reporting requirements for payments made to certain foreign entities.

FATCA seeks to improve offshore compliance by imposing a 30 percent withholding tax on U.S. source payments to foreign financial institutions unless the institution agrees to disclose information on U.S. account holders or certifies that it does not have any U.S. customers. All FFIs that report U.S. source income must enter into an agreement with the Treasury to report to the IRS all accounts of U.S. persons or the withholding tax penalty will apply. Since foreign investment information is difficult to come by as investment flows may pass through chains of foreign intermediaries, the U.S. Qualified Intermediary program works to enforce compliance with U.S. source-based taxation laws.

FATCA creates new information reporting requirements and imposes tax-withholding penalties on FFIs that do not disclose holdings by U.S. individuals or firms. To avoid the withholding requirements, the FFIs must enter into an agreement with the Department of the Treasury to identify all U.S. accounts held by it or its affiliates and report annually to the Treasury on each account. Further, the FFI must comply with requests by the Treasury for additional information regarding each U.S. account and must attempt to obtain from each holder of a U.S. account a waiver of any bank secrecy law that would otherwise prevent such a report. If a waiver cannot be obtained from each holder of a U.S. account, the account will be closed. This initiative funds enforcement of these reporting requirements.

Additional resources also will provide new coverage for discrepancies identified through third party data matching and will enhance and centralize coverage for non-filer taxpayers and for those with withholding-related issues. The funding also will allow the IRS to handle the calls/communications resulting from notices sent to taxpayers. The IRS will compile data and reports that will provide more complete background information during the initial set up of related audit case files.

Further, these resources will help the IRS address potential under withholding of U.S. source income flowing to undisclosed jurisdictions and unknown recipients offshore. The initiative will involve a systematic analysis of the process surrounding the Form 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding*, to better target compliance and enforcement activities.

Development and Improvement of IT Systems and Specialized Tools (+\$11.7 million / +29 FTE)

These resources fund the staffing and support of the ongoing information technology (IT) implementation costs related to FATCA. These resources will be used to develop the first

iteration of technology systems required to make use of information returns filed by FFIs for compliance risk analysis.

Other Direct Costs

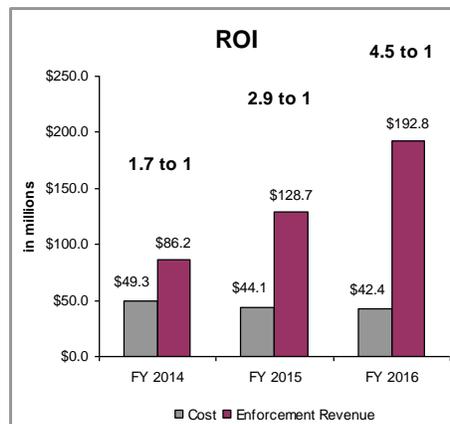
There are no other direct costs associated with this initiative.

Address International and Offshore Compliance Issues
 +\$49,354,000 / +329 FTE

Funding to Address International and Offshore Compliance Issues will strengthen enforcement activities to address offshore tax evasion and expand the IRS's global presence and pursuit of international tax and financial crimes.

The IRS continues to address tax-avoidance schemes involving offshore activity. This request will address the significant growth in international activities in the global tax environment and produce additional annual enforcement revenue of \$192.8 million once the new hires reach full potential in FY 2016, an ROI of \$4.5 to \$1.

Position Type/Other Costs	FTE	\$000
Strengthen Coverage of Offshore Compliance	191	\$24,973
Revenue Agent	122	18,697
Tax Examiner	26	2,329
Tax Compliance Officer	19	1,988
Manager and Analyst	24	1,959
Expand Offshore Criminal Investigation	78	\$12,368
Special Agent	22	5,739
IT Specialist	19	2,561
Computer Operations Administrator (COA)	4	540
Analyst	33	3,528
Other Direct Costs	60	\$12,013
Appeals Officer	11	1,956
Attorney	49	10,057
Total	329	\$49,354



Major Activities	Projected Revenue \$M	Individual Returns	Investigations Completed
Strengthen Coverage of Offshore Compliance			
Increased Coverage of Offshore Individual and Business Compliance Issues	23.6	1,180	
Maintain the Offshore Voluntary Disclosure Program (OVDP)	169.2	4,000	
Expand Offshore Criminal Investigations			28
Total	\$192.8	5,180	28

Strengthen Coverage of Offshore Compliance (+\$25.0 million / +191 FTE)

- Increased Coverage of Offshore Individual and Business Compliance Issues

With the increased mobility of people and transactions, offshore and cross-border tax issues affect a growing number of taxpayers. The additional resources in this initiative will allow the IRS to:

- Ensure proper application of treaty benefits, foreign tax credits and foreign earned income exclusion;
- Verify withholding before the release of refund requests;
- Increase pre-refund audit coverage;
- Establish centralized classification and case building unit; and
- Increase use of soft letters to promote voluntary compliance.

- Maintain the Offshore Voluntary Disclosure Program (OVDP)

In 2009 and 2011, the IRS implemented OVDP to encourage taxpayers with hidden offshore assets and income to come back into the tax system voluntarily. Building on these successes, in 2012, the IRS reopened the OVDP for an indefinite period.

The additional resources will allow the IRS to:

- Reinforce ongoing efforts with the Justice Department to pursue criminal prosecution of international tax evasion;
- Provide taxpayers an open-ended opportunity to voluntarily come back into compliance with U.S. tax law; and
- Continue raising awareness related to tax filing obligations and educating all taxpayers so that they understand their U.S. tax responsibilities.

Without this funding, the IRS will be unable to maintain audit coverage in other tax gap categories and the number of Examination closures will decrease. The IRS needs more resources for international cases because of the additional time and expertise required compared to other categories of work.

Expand Offshore Criminal Investigations (+\$12.3 million / +78 FTE)

These funds will provide resources to expand Criminal Investigation's (CI) pursuit of international tax and financial crimes to include:

- Supporting additional workload from the international law enforcement community
CI's International Operations has seen substantial growth in the number of international assistance requests from the field and international law enforcement agencies. This initiative will support the IRS's commitment to provide training and comply with investigative requests received from the international law enforcement community.

- Expanding CI's overseas enforcement presence

To fight transnational crime, CI must expand its presence in overseas locations to meet the growing demand for criminal investigative cooperation and information sharing. Building CI's overseas enforcement presence will facilitate an influx of international leads that will result in greater case development, prosecutions, and more publicity to deter those taxpayers who evade their U.S. tax obligations.

Other Direct Costs (+\$12.0 million / +60 FTE)

Dollars in Millions

IRS Activity	Cost	FTE	Explanation
Appeals	\$2.0	11	Support examination efforts on key compliance areas focused on improving offshore voluntary compliance.
Chief Counsel	\$10.0	49	Litigate those cases that are not resolved at the audit or appeals stages.
Total	\$12.0	60	

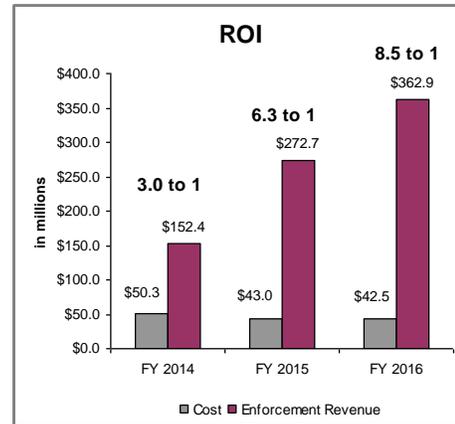
*Implement Merchant Card and Basis Matching
+\$50,279,000 / +536 FTE*

This initiative requests the necessary funding to allow the IRS to take advantage of the reporting provisions for merchant payment card and third party reimbursements enacted in the Housing and Economic Recovery Act of 2008 (Public Law 110-289); and basis reporting on security sales enacted in the Emergency Economic Stabilization Act of 2008 (Public Law 110-343). These efforts will ensure that the IRS will be able to:

- Expand new compliance programs to ensure business and individual taxpayers meet their tax obligations;
- Investigate cases related to payment card and securities basis reporting issues and address discrepancies not suitable for resolution through the document matching verification process;
- Address fraud and criminal violations that will be uncovered as the IRS establishes broader compliance programs; and
- Leverage technology through the increased development and deployment of workforce tools, issue management systems, and management information systems.

This initiative is expected to produce additional annual enforcement revenue of \$362.9 million, once the new hires reach full potential in FY 2016, an ROI of \$8.5 to \$1.

Position Type/Other Costs	FTE	\$000
Document Analysis	268	\$18,854
Tax Examiner	140	10,526
Seasonal	108	6,415
Manager and Analyst	2	196
Support Staff	18	1,717
Conduct Additional Examinations	150	\$13,893
Tax Examiner	89	7,104
Revenue Agent	40	4,679
Tax Compliance Officer	18	1,863
Support Staff	3	247
Criminal Investigation	40	\$8,328
Special Agent	40	8,328
IT Project - Business Master File Case Creation Nonfile Identification Process (BMF CCNIP)	13	\$3,191
IT Specialist	13	3,053
Contractual Services		138
Other Direct Costs	65	\$6,013
Tax Examiner	2	171
Revenue Agent	1	119
Appeals Officer	3	412
Paralegal	3	276
Seasonal	34	2,264
Attorney	8	1,310
Taxpayer Advocate Specialist	14	1,461
Total	536	\$50,279



Major Activities	Projected Revenue \$M	Closures	Investigations Completed
Document Analysis	140.5	170,633	
Additional Examination Resources	222.4	104,742	
Criminal Investigation			74
Total	\$362.9	275,375	74

Document Analysis (+\$18.9 million / +268 FTE)

The IRS is modifying existing systems to perform new types of analysis related to merchant card payment transactions. Underreporting of gross receipts significantly contributes to the tax gap. The enacted legislation allows the IRS to identify businesses with a high likelihood of underreported gross receipts through analysis of their payment card receipts and network transactions as reported by payment card processors and third party settlement organizations.

The legislation requiring information reporting on merchant card and third party reimbursements will help reduce the tax gap in three ways:

- Provide businesses with an official year-end statement of merchant card payments and third party network transactions to avoid underreporting of income they may have overlooked;
- Provide the IRS information to perform business income validation through document analysis; and
- Provide the IRS information to identify a business that evades its tax obligations by not filing or understating its income.

This investment is projected to produce an additional 170,633 closures once new hires reach full potential in FY 2016.

Conduct Additional Examinations (+\$13.9 million / +150 FTE)

Some underreporting discrepancies involving payment cards may require an examination of the return. These resources will increase the ability of the IRS to ensure that complicated transactions are properly reported for tax purposes and allow the IRS to address complex financial transactions with a specific focus on difficult accounting and tax law issues.

This initiative requests resources to conduct additional correspondence, field, and nonfiler examinations.

- Correspondence Examinations
These funds will allow the Correspondence Exam program to investigate less complicated cases involving payment card and securities basis reporting issues and address discrepancies that cannot be reconciled in a verification process. These resources will ensure transactions are reported properly for tax purposes and will help maintain adequate examination coverage of individuals and small businesses by closing 21,160 more cases once new hires reach full potential in FY 2016.
- Field Examination
The improved data from filings allows the IRS to assess risks in taxpayer returns and deliver the returns to the field more quickly for compliance action where warranted. The improved information will enhance the IRS's ability to allocate resources and better assess the necessary scope and depth of the audits or other compliance actions.

These resources will produce approximately 1,972 additional closures per year once new hires reach full potential in FY 2016.

- Nonfiler Examination

The additional information reporting will enhance the IRS’s ability to detect business non-filers. The resources requested are estimated to produce 81,610 closures once new hires reach full potential in FY 2016.

Criminal Investigation (+\$8.3 million / +40 FTE)

Special agents in Criminal Investigation address fraud and criminal violations that will be uncovered as the IRS establishes broader compliance programs related to the Merchant Card and Securities Basis Reporting legislation. IRS special agents will identify and investigate individuals and business entities with indications of fraud.

IT Project – Business Master File Case Creation Nonfiler Identification Process (BMF CCNIP) (+\$3.2 million / +13 FTE)

This initiative requests resources to upgrade the BMF CCNIP program to target more nonfilers of business returns more efficiently, including previously unidentified nonfilers who may be delinquent in filing their required tax returns. The upgrade to the BMF CCNIP system will provide new capability by extending and enhancing the algorithms and datasets currently in use, including available State return data. This program will become the system where cases are created, prioritized, selected, and maintained. The enhanced system will increase the number of taxpayers that meet filing obligations by detecting a higher number of nonfilers and assigning employees to the best cases, thereby reducing the no-change rate for these cases.

Other Costs (+\$6.0 million / +65 FTE)

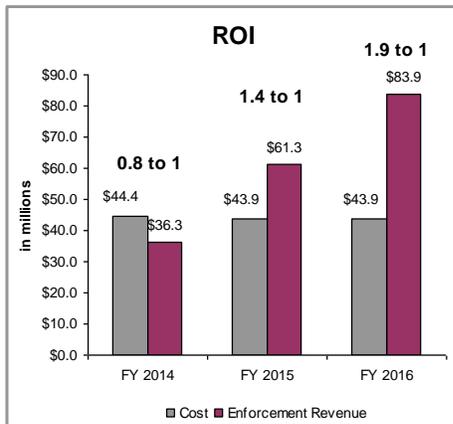
Dollars in Millions

IRS Activity	Cost	FTE	Explanation
Appeals	\$0.7	6	Support examination efforts on key compliance areas focused on improving voluntary compliance.
Chief Counsel	\$1.8	14	Provide advice to revenue agents, revenue officers and the Department of Justice for District Court cases, review Notices of Deficiencies and litigate cases in the Tax Court.
Taxpayer Advocate Service	\$1.2	11	Handle taxpayer issues that arise from new compliance programs.
Wage & Investment	\$2.3	34	Support examination efforts by ensuring staffing to handle downstream affect on collection, accounts management, and submission processing operations.
Total	\$6.0	65	

Address Impact of Affordable Care Act (ACA) Statutory Requirements
 +\$44,420,000 / +283 FTE

As the tax law changes, the IRS must implement programs to ensure that taxpayers understand the new laws and that the IRS can address noncompliance. Funding for this initiative will promote compliance activities related to new provisions included in the ACA, such as new requirements for tax-exempt hospitals, a new fee on manufacturers and importers of branded prescription drugs, the excise tax on indoor tanning, and address new compliance responsibilities from the non-exchange related tax law changes.

These resources are expected to produce additional annual enforcement revenue of \$83.9 million once the new hires reach full potential in FY 2016, an ROI of \$1.9 to \$1.



Position Type/Other Costs	FTE	\$000
Address Impact of ACA Legislative Requirements	212	\$31,846
Administer New Fees on Drug Manufacturers and Health Insurers	9	\$1,281
Revenue Agent	7	1,105
Manager and Analyst	2	176
Strengthen Oversight of Exempt Hospitals	44	\$5,804
Revenue Agent	18	2,635
Tax Law Specialist	7	1,113
Tax Technician	14	1,361
Manager and Analyst	4	629
Support Staff	1	66
Promoting Compliance with Other New Provisions	125	\$14,441
Revenue Agent	50	6,426
Revenue Officer	1	127
Tax Examiner	27	2,442
Tax Technician	5	718
Customer Service Representative (CSR)	20	1,761
Manager and Analyst	22	2,967
Program Management Office (PMO)	34	\$10,320
Manager and Analyst	34	5,950
Contractual Services		4,370
Implement Statutorily-Mandated Data Protection	13	\$3,440
Program Analyst	13	2,151
Contractor Services		1,289
Other Direct Costs	58	\$9,134
Attorney	27	4,933
Appeals Officer	20	3,048
Manager and Analyst	3	383
Taxpayer Advocate Specialist	1	164
Support Staff	7	606
Total	283	\$44,420

Major Activities	Projected Revenue	Individual	Business	Community	
	\$M	Audits	Audits	Benefit Reviews	Closures
Administering New Fees on Drug Manufacturers and Health Insurers			225		
Strengthen Oversight of Exempt Hospitals			1,200	1,400	
Promoting Compliance with Other New Provisions	83.9	900	525		1,425
Total	\$83.9	900	1,950	1,400	1,425

Affordable Care Act (ACA) Tax Law Changes (+\$31.9 million / +212 FTE)

This funding will allow the IRS to address compliance issues and new responsibilities arising from the recent tax law changes included in the ACA. In FY 2014 the ACA Program Management Office (PMO) will continue to analyze and address compliance issues and new responsibilities for the non-exchange tax law changes and to prepare the IRS for 2014 and 2015 exchange-related activities including compliance. These tax code changes include:

- Administer New Fees on Drug Manufacturers and Health Insurers

The IRS must continue to administer a new aggregate annual fee on businesses engaged in manufacturing and importing branded prescription drugs sold to specified Government programs. The fee, set at \$3.0 billion for 2014, represents a significant new source of revenue. The IRS will receive and process information from manufacturers/importers and specific Government programs (Veterans Affairs, Medicare Parts D and B, Medicaid, Department of Defense, and TriCare) to determine each manufacturer's fee assessment. Continuing administration includes IRS collection of data, computation of each entity's fee amount, and notification of payment due. In addition, the IRS must administer a new annual fee on health insurance policies and self-insured health plans based on the average number of covered lives, which is effective for policy years ending after September 30, 2012. That fee is expected to raise more than \$2.6 billion in the years 2013 to 2019 to fund the new Patient Centered Outcomes Research Institute. Further, the IRS must also establish the systems and processes needed to administer a new aggregate annual fee based on net premiums written by health insurance providers, set at \$8 billion for 2014.

- Strengthen Oversight of Exempt Hospitals

The ACA establishes new requirements for tax-exempt hospitals, which include a majority of the hospitals in the United States. IRS submission processing operations will need additional staff to process the newly required reports. In addition, the IRS is required to review at least once every three years the community benefit activities of tax-exempt hospital organizations to which new Section 501(r) applies (estimated at more than 3,300 hospital organizations, many with multiple facilities). The first cycle of community benefits activities reviews is scheduled for completion by December 2013. Additionally, the IRS (in consultation with the HHS) must develop and deliver a new annual report to the Congress on levels of charity care in the hospital sector.

- Enhance Compliance with Other New Provisions

The IRS must implement several new provisions that take effect during FY 2013. For example, beginning in January 2013 the IRS must administer a new tax on net investment income for taxpayers with an adjusted gross income over certain thresholds (\$200,000 for individual taxpayers, \$250,000 for married filing joint). A second provision establishes an additional Medicare Tax on wages above the same thresholds, for which employers must implement new withholding. Existing individual and employer compliance processes must be modified to support implementation.

In addition, the IRS must continue to promote compliance with previously implemented provisions of the ACA, including modifying processes in response to filing and compliance trends in the initial processing years. This initiative provides resources for additional tax examiners to detect fraud and identify and examine returns with the highest compliance risk. The examiners will focus on provisions already in effect, such as the Small Business Health Tax Credit (SBHTC) and the excise tax on indoor tanning services that will reach the compliance stage in 2014.

Implement Statutorily-Mandated Data Protection (+\$3.4 million / +13 FTE)

This funding will allow the IRS to provide oversight and outreach to ACA agencies, insurance exchanges and State and Federal agencies. It will ensure that the ACA agencies and insurance exchanges receiving Federal tax information are appropriately protecting Federal tax information and that the State and Federal agencies that are new to receiving Federal tax information subject to safeguard have completed the statutorily required documentation and are protecting the Federal tax information within their control, as required.

Disclosure of certain tax return information is necessary as part of the eligibility determination process for enrollment in a Qualified Health Plan (QHP) through an exchange (either a State-based or Federally-facilitated exchange). The IRS will continue to administer Internal Revenue Code 6103, Safeguarding Federal Tax Information, passed to non-IRS recipients, which will require advance inspections, data sharing agreements, and monitoring by the IRS.

Other Direct Costs (+\$9.1 million / +58 FTE)

Dollars in Millions

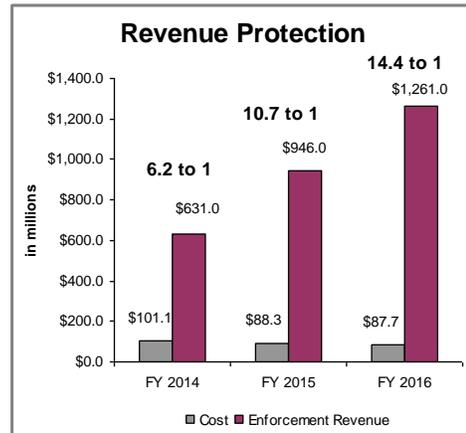
IRS Activity	Cost	FTE	Explanation
Appeals	\$3.0	20	Appeals case receipts will increase because of new Collection closures that will require adjudication in the appeals process.
Chief Counsel	\$5.5	34	Counsel will provide legal advice to identify pockets of noncompliance and equitable resolutions.
Taxpayer Advocate Service	\$0.2	1	Staffing will handle additional case receipts.
Human Capital Office	\$0.4	3	Handle increased workload to hire and support staff.
Total	\$9.1	58	

Improve Identification and Prevention of Refund Fraud and Identity Theft
 +\$101,098,000 / +850 FTE

Funding for the Improve Identification and Prevention of Refund Fraud and Identity Theft initiative supports the IRS's efforts to prevent identity-related refund fraud, protect taxpayers' identities and assist victims of identity theft, and enhance the revenue protection strategy implemented in FY 2012. It will support the development and implementation of technology enhancements to identify noncompliant returns before refunds are issued; manage and track workload and case results; send notification letters to taxpayers; and allow third party data to be used earlier in the filing season. This will both improve the detection of fraudulent returns and reduce delays of legitimate refunds due to pre-refund compliance activities.

While this initiative is not included in the IRS's traditional ROI calculations, investment in these activities is projected to protect \$1.3 billion in revenue, once the new hires reach full potential in FY 2016, a protected revenue ROI of \$14.4 to \$1.

Position Type/Other Costs	FTE	\$000
Prevent Identity-Related Refund Fraud	622	\$63,791
Revenue Agent	14	1,592
Customer Service Representative (CSR)	52	4,139
CSR - Seasonal	55	3,637
Special Agent	70	14,574
Tax Examiner	307	25,827
Tax Examiner - Seasonal	60	3,564
Program Analyst	16	1,967
Investigative Analyst	9	1,213
IT Specialist	30	4,044
Manager and Support Staff	8	741
Tax Law Specialist	1	172
Training and Travel		253
Contractual Services		2,068
Enhance Revenue Protection Strategy	44	\$7,318
Tax Examiner	20	1,550
Manager, Analyst, and Support Staff	24	3,168
Contractual Services		2,600
IT Projects	61	\$16,613
Electronic Check Processing (ECP) and Dishonored Check Processing (DCP)	20	7,207
Improved Access to SSA Data	16	4,016
Electronic Fraud	8	2,195
Integrated Automated Technology (IAT) Tools	17	3,195
Other Direct Costs	123	\$13,376
Taxpayer Advocate Specialist	100	10,950
Attorney	9	1,341
Paralegal	2	184
Seasonal	9	572
Support Staff	3	329
Total	850	\$101,098



Major Activities	Projected Revenue \$M	Individual Pre-Refund Fraud Reviews	Investigations Completed
Prevent Identity-Related Refund Fraud	1,261.0	326,145	158
Total	\$1,261.0	326,145	158

Prevent Identity-Related Refund Fraud (+\$63.8 million / +622 FTE)

These resources will allow the IRS to establish fraud technical advisors at IRS campuses, acquire new software tools and advanced analytics to expedite determination of the legitimate return on a suspected identity case, and expand programs to prevent identity-related refund fraud, protect taxpayer identities, and assist victims of identity theft. This initiative provides funding for the following programs:

- Expand Identity Protection Specialized Unit (IPSU)

The IPSU's inventory grew from 217,000 cases in FY 2010 to more than 959,000 cases in FY 2012. In response to the growing number of identity theft cases, in FY 2011, the IRS increased the number of internal reviews to identify false tax returns before issuing tax refunds. This increased focus on detection helped victims of identity theft refund schemes and has encouraged taxpayers to self-identify as identity theft victims. The resources requested in FY 2014 will allow the IRS to answer 64,000 more identity theft-related telephone calls and adjust 50,000 more tax accounts for victims or potential victims of identity theft.

- Complete Additional Manual Reviews of Tax Returns to Protect Identity Theft Victims

The IRS has expanded the use of the Identity Protection Personal Identification Number (IP PIN) to protect victims of identity theft and prevent perpetrators from repeatedly victimizing the same taxpayers. The IRS also has implemented a new proactive processing indicator to identify and reroute fraudulent returns submitted by potential identity thieves for further review when it appears social security numbers (SSNs) of deceased taxpayers are being misused. The additional resources will allow the IRS to complete an additional 250,000 required manual reviews of tax returns with IP PIN or decedent issues.

- Expand Taxpayer Protection Unit

In FY 2012, the IRS implemented a set of filters to identify, before posting, returns that have a high likelihood of being identity theft returns and established an organization to address these returns. These resources will expand staffing for the Taxpayer Protection Unit. Tax returns determined to be identity theft returns will not post, avoiding the need for adjustments and preventing delay when the true taxpayer files later. The data on these returns will be archived so that if the IRS determines that the return was set aside in error, it will be able to process the return without delay. This will prevent 88,000 identity theft returns from posting, reduce post-processing adjustments, and protect \$500 million in revenue.

- Address Identity Theft Case Backlog

The prevention and resolution of identity theft cases is one of the highest priorities for the IRS. The rapid growth of tax-related identity theft has resulted in a backlog of more than 228,000 cases. To address this backlog and future cases, the IRS requests resources to increase the specialized teams dedicated to resolving identity theft cases. These teams will ensure that taxpayers affected by identity theft have their issues resolved timely and will not be burdened with the same issues from year to year.

The specialized teams will address identity theft by:

- Researching thousands of taxpayer social security numbers received through enforcement actions to detect false tax returns;
 - Resolving incidents identified through the normal process of filing tax returns;
 - Improving case resolution tracking; and
 - Supporting the Identity Protection PIN program to help past identity theft victims avoid subsequent filing issues.
- Establish an Identity Theft Clearinghouse

The IRS also will establish a specialized Identity Theft Clearinghouse in the Criminal Investigation (CI) Division to process, analyze, and evaluate all identity theft leads received from special agents in the field, other IRS organizations, and external sources. This unit will monitor emerging identity theft refund schemes and track activity using compromised identifying information to assist in preventing the release of fraudulent refunds. The unit also will combat organized and complex identity theft schemes where fraudulently obtained refunds are used to finance other illegal activities including narcotics trafficking.

These resources will allow the IRS to increase its participation in multi-agency task forces dedicated to tax administration and cooperation with State and local law enforcement agencies in jurisdictions where prosecutorial actions would have the greatest influence. The task forces will obtain information about criminal activity involving Federal and State tax refunds to expedite prosecution by the Department of Justice while the criminal activity is still ongoing. These teams will target larger-scale crime rings for maximum compliance results and publicity. In addition, special agents will extend outreach efforts to practitioners from filing season only to year-round to provide information and address return preparer concerns.

- Protect Federal Tax and Other Sensitive Information

Recent legislation and data sharing agreements have added multiple State and Federal agencies and exchanges that are new to receiving Federal tax information. These agencies must complete the statutorily required documentation and protect Federal tax information within their control. Additional staff are critically needed to safeguard and effectively manage IRS documentation.

Additional resources also will improve IRS operations to protect sensitive information of taxpayers and IRS employees. The IRS will continue to eliminate SSNs from notices, evaluate unencrypted information leaving the IRS for vulnerabilities, and increase employee awareness of the importance of protecting personally identifiable information (PII). As part of an effort to eliminate and reduce the display of taxpayer SSNs on IRS notices, the IRS will continue to replace the printed SSN on notices with a two-dimensional barcode. The IRS also has requested \$7.9 million in FY 2014 to provide IT resources for the third phase of this multiyear effort (see the *Increase Collection Coverage* initiative).

The IRS will use a cybersecurity tool to analyze outgoing e-mail and identify those that contain sensitive information that is not properly encrypted. Use of this tool will

increase the confidence that data leaving the IRS is properly encrypted, enhance protection of taxpayer information, and reduce the opportunity for identity theft and harm to taxpayers. The oversight of unencrypted PII leaving the IRS will allow timely assessment of identity theft risk or other potential harm to taxpayers.

In addition, the IRS will utilize updated dynamic communication to educate employees on the protection of PII information. This will increase employee accountability for protecting PII, reduce the number of Unauthorized Accesses (UNAX) to taxpayer information, and decrease the number of data loss incidents.

Enhance Revenue Protection Strategy (+\$7.3 million / +44 FTE)

These resources will prevent fraud and abuse of refundable credits and modify the Return Review Program (RRP) system.

- Revenue Protection

The IRS continues to improve its capabilities related to preventing fraud and abuse of refundable credits. The IRS requests additional resources to develop alternative streamlined processes that will prevent the issuance of erroneous refund payments. The new staff will identify trends, coordinate and follow leads from banks and other sources, and develop recommendations on how to address the findings (i.e., issue taxpayer notices, modify existing systems, etc.). They also will conduct case reviews to validate the potential areas of abuse and pilot the new recommended procedures. In addition, these resources will allow the IRS to expand and expedite access to third party income and withholding information during the filing season.

- Business Support to Optimize Use of Return Review Program

The business support component of this initiative will ensure that the new RRP system meets the needs of both the compliance and criminal investigation programs. The new RRP supports a cross-functional approach to coordinating and addressing criminal and civil tax noncompliance. The RRP allows analysis and support of case processing needs in criminal prosecution, revenue protection, accounts management, and taxpayer communications. This support will ensure that RRP's new capabilities to protect revenue can be used by affected IRS organizations.

IT Projects (+\$16.6 million / +61 FTE)

- Electronic Check Processing (ECP) and Dishonored Check Processing (DCP)

These resources will leverage technology, such as Electronic Check Processing (ECP) (formerly Campus Bulk Remittance Processing) and Dishonored Check Processing (DCP), to improve protection of taxpayer information, enhance efficiency, and reduce erroneous refunds.

ECP is a proposed system for bulk processing of paper checks in the IRS submission processing centers. ECP will convert current paper processing methods to electronic processing using high-speed scanners, modernized data capture, and imaging technology. Most paper checks will no longer need to be shipped to banks via couriers, which will ensure taxpayer PII is protected.

ECP also supports efforts by the Fiscal Service Bureau (FSB) to modernize cash management practices through the use of Electronic Fund Transfer (EFT) for all collections. FSB is required by law (United States Code, Title 31, Money and Finance, Section 37 Claims) to charge agencies for the cost of payment delays. FSB has a provision to collect an inefficiency charge of \$1.00 per transaction not converted to EFT. Converting IRS payment processing to ECP would not only improve efficiency, but also allow the IRS to avoid potential FMS charges.

Once the electronic check image is presented to the bank using Electronic Check Presentment (ECP) technology and the bank determines there are insufficient funds in the account to pay the check, the bank will return the electronic check image to the IRS. The Dishonored Check Processing (DCP) technology will allow the IRS to use the electronic check image to automatically post the insufficient funds debit to the taxpayer's account with no manual process involved. Currently, this is a manual process in which the banks mail the checks back to the IRS, taxpayer accounts are posted manually, and the cases are assigned to Tax Examiners to research. The Remittance Strategy for Paper Check Conversion (RS-PCC) system technology will be leveraged to provide a fast, systemic transfer of insufficient fund information to the IRS Dishonored Check File (DCF). The use of DCP will greatly improve the IRS's ability to efficiently process dishonored checks and prevent erroneous refunds caused by invalid payments.

- Improved Access to Social Security Administration (SSA) Data

These resources will fund additional IT equipment and programming support to allow the IRS to get SSA Form W-2, *Wage and Tax Statement*, and SSA Form W-3, *Transmittal of Wage and Tax Statement* data more quickly. Getting the data more quickly will accelerate the verification of wages and withholding on potentially fraudulent tax returns and shorten the processing time for legitimate refunds.

- Electronic Fraud

This component will allow programming to flag upfront electronically filed refund claims that show a higher likelihood of being fraudulent identity theft claims. This new programming capability is expected to result in \$780 million in revenue protected per year.

- Integrated Automated Technology (IAT) Tools

IAT tools are desktop productivity-enhancing tools that automate certain taxpayer account processing activities. Funding for IAT technical resources supports the design, development, and deployment of additional software tools to support anti-identity theft activities throughout the IRS.

IAT-developed software programs are needed to match wage and withholding information, automate additional taxpayer correspondence, and identify potential identity theft cases. These additional resources will increase IAT's capacity for technology development by approximately three software programs per year.

Other Direct Costs (+\$13.4 million / +123 FTE)

Dollars in Millions

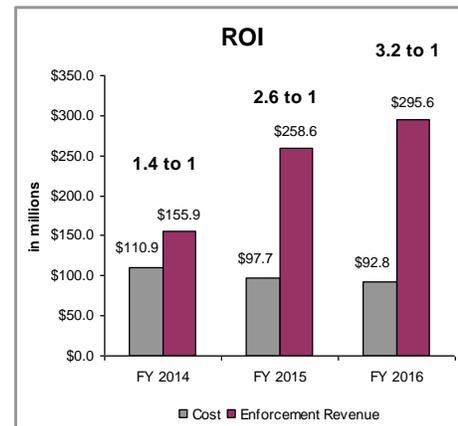
IRS Activity	Cost	FTE	Explanation
Chief Counsel	\$1.6	11	Provide legal assistance and analysis, respond to legal issues arising from implementation of strategies, support campus operations, and aid in the investigation and proving of refund fraud.
Taxpayer Advocate Service	\$11.2	103	Handle additional case receipts.
Wage & Investment	\$0.6	9	Support examination efforts by ensuring staffing to handle downstream affect on collection, accounts management, and submission processing operations.
Total	\$13.4	123	

Increase Audit Coverage to Address Tax Compliance Issues
 +\$110,935,000 / +797 FTE

Funding to Increase Audit Coverage to Address Tax Compliance Issues will ensure the IRS maintains individual examination coverage and that critical noncompliance issues are addressed effectively and partially restores enforcement resources to levels found several years ago prior to large budget cuts. Apart from detecting noncompliance directly, maintaining examination coverage also promotes voluntary compliance both by increasing the likelihood that intentional noncompliance will be detected and reassuring compliant taxpayers of the fairness of the tax administration system.

This initiative will allow the IRS to increase staffing levels in traditional field examination programs to ensure consistent audit coverage; expand the IRS correspondence examination program to provide focused attention on refundable credits; expand voluntary compliance of tax exempt organizations; and address increasing Appeals workload. This initiative will produce annual enforcement revenue of \$295.6 million, an ROI of \$3.2 to \$1.

Position Type/Other Costs	FTE	\$000
Expand Correspondence Examinations of Refundable Credits	314	\$30,439
Revenue Agent	4	551
Tax Compliance Officer	33	3,965
Tax Examiner	225	19,715
Manager	30	4,201
Support Staff	22	2,007
Field Examination	305	\$35,062
Revenue Agent	192	23,013
Tax Compliance Officer	113	12,049
Strengthen Voluntary Compliance for Tax Exempt and Government Entities	61	\$9,006
Revenue Agent	23	3,737
Tax Compliance Officer	22	2,421
General Attorney, Technical	5	1,120
Tax Law Specialist	8	1,446
Support Staff	3	282
Address Appeals Workload	66	\$8,929
Settlement Officer	46	6,100
Appeals Officer	20	2,829
IT Projects	24	\$23,508
2D Barcoding	6	8,603
Document Imaging	13	9,717
Examination Technology Enhancements	5	5,188
Other Direct Costs	27	\$3,991
Appeals Officer	13	1,856
Attorney	9	1,646
Paralegal	3	311
Support Staff	2	178
Total	797	\$110,935



Major Activities	Projected Revenue \$M	Protected Revenue \$M	Individual Audits	Pre-Refund & Post Refund Closures	Voluntary Compliance Closures	Voluntary Correction Follow-up Exams	Cases Completed
Expand Correspondence Examinations of Refundable Credits	146.6	146.6		79,500			
Field Examination	130.7		16,587				
Expand Voluntary Compliance Opportunities	18.3				2,875	105	
Address Appeals Workload							10,600
Total	\$295.6	\$146.6	16,587	79,500	2,875	105	10,600

Expand Correspondence Examinations of Refundable Credits
(+\$30.4 million / +314 FTE)

This component will provide additional campus examination resources to conduct correspondence examinations of refundable credit issues. When certain tax credits exceed the total tax liability, the excess is refundable and the Government incurs an outlay in the form of a refundable tax credit. To maximize the effectiveness of its refund compliance programs, the IRS established a new Return Integrity function to develop a comprehensive and integrated compliance strategy to administer refundable credits, improve filters to identify questionable credits and rapidly address refund schemes.

Establishing an office dedicated to refundable credit work will allow the IRS to address noncompliance and fraud trends that emerge from existing and future refundable credits. Once the new hires reach full performance in 2016, the IRS will complete 39,750 more post-refund audits, generating annual enforcement revenue of \$146.6 million. The additional 39,750 pre-refund audits will protect an additional \$146.6 million in revenue.

The additional staffing will allow the IRS to maintain broad exam coverage by meeting the challenges of administering new credits without reducing coverage of existing issues. The IRS will work both individual and small business cases related to refundable credits.

The initiative funding:

- Expedites pre-refund credit review and processing;
- Reduces the time to notify taxpayers of their eligibility for the credit; and
- Increases the number of post-refund audits.

Field Examination (+\$35.1 million / +305 FTE)

Additional Field Examination resources (192 revenue agents and 113 tax compliance officers) will allow the IRS to maintain balanced coverage across taxpayer segments with a focus on effectively addressing the individual taxpayer portion of the tax gap. Revenue agents will continue to concentrate on priority areas of underreporting compliance for individual taxpayers. These resources will ensure that the IRS can maintain broad-based coverage of the individual filing population.

Once the new hires reach full performance in FY 2016, this investment will produce an additional 16,587 closures annually.

Strengthen Voluntary Compliance for Tax Exempt and Government Entities
(+\$9.0 million / +61 FTE)

Tax-exempt organizations, employee retirement plans, and government entities account for a significant share of the U.S. economy (controlling approximately \$8 trillion in assets). While not subject to income tax, these entities are responsible for employment and excise taxes and must satisfy a complex set of other legal requirements. To efficiently promote compliance within this segment, the IRS has created a number of voluntary correction

programs. These programs provide opportunities for taxpayers to voluntarily self-report and correct compliance failures. They allow these taxpayers to comply with Federal tax and reporting requirements with less burden and at less cost to the IRS than an examination. This request will support employment tax compliance by these entities, improve compliance within retirement plans, and address compliance issues resulting from the restructuring of tax exempt bond debts by distressed State and local governments.

This initiative will provide opportunities for:

- Employers to voluntarily correct employment tax issues and reclassify their workers as employees so that their income and employment taxes are reported and withheld correctly;
- Sponsors of retirement plans to voluntarily correct governmental retirement plan failures, prohibited transactions within retirement plans, and compliance failures in both Individual Retirement Arrangements (IRA) and Tax Sheltered Annuity Plans (also known as 403(b) retirement plans); and
- State and local governments to voluntarily correct compliance failures resulting from the restructuring of their tax exempt bond debt obligations, including failures relating to the inadvertent reissuance of tax-advantaged bonds.

This initiative will benefit IRS taxpayers including the 6.1 million employers who pay \$1.7 trillion in employment taxes annually, participants in retirement plans that hold nearly \$7.8 trillion in retirement plan assets, and residents of financially distressed states and localities.

In addition to protecting the retirement benefits of participants and helping State and local governments decrease their tax liabilities, this request will provide additional annual revenue of \$18.3 million and will allow the IRS to complete 2,875 additional voluntary compliance closures and 105 additional examinations once the new hires reach full potential in FY 2016.

Address Appeals Workload (+\$8.9 million / +66 FTE)

The Appeals function at the IRS is a critical outlet for taxpayers to get an independent, second review of examination decisions without burdening the court system. Appeals' workload has grown significantly over the last five years, up 32 percent from FY 2007 to FY 2012. The IRS requests additional staff to effectively manage the increasing inventory and case receipts. This request will result in closure of an additional 10,600 cases in FY 2016.

IT Projects (+\$23.5 million / +24 FTE)

- Two Dimensional (2D) Barcode project

The 2D Barcode, Campus Bulk Remittance Processing and Modernized e-File enhancement projects, implemented in conjunction with increased data capture, will allow the IRS to:

- Provide the means to convert data from paper tax returns into electronic formats more efficiently by adding coded information to computer-generated paper returns, allowing the IRS to capture the information on the return more accurately;
- Scan barcodes on computer-generated tax returns for a faster and less labor-intensive process than current manual data entry, which will result in fewer transcription errors;
- Process paper payments electronically; and
- Allow the IRS to accept and store individual amended returns electronically.

Increased data capture and faster, more accurate processing will improve audit effectiveness by ensuring examination programs have the most recent and most complete return data available. This additional data will support improved case selection approaches, improve the quality of data available to tax examiners and revenue agents, and expedite the examination process by reducing reliance on paper files.

- Implement Document Imaging

Document Imaging (DI) will allow all of the IRS business units to share a common, modernized infrastructure for scanning, imaging, and managing documents. DI also will allow IRS employees to collaborate and resolve compliance cases more efficiently. It will establish a common document and imaging infrastructure that can support many projects simultaneously and improve customer support. Projects that will benefit from the common document imaging infrastructure include:

- Content Management & Collaboration (CMC) – A web-based tool used by audit teams to facilitate collaboration by integrating document management, forums, calendars, and other interpersonal communication and productivity tools;
- Taxpayer Advocate Service Integrated Systems (TASIS) – A Taxpayer Advocate case management system that uses document imaging to facilitate collaboration within the IRS so that cases can be resolved faster for taxpayers experiencing financial hardship or burden; and
- Correspondence Imaging for Compliance (CIC) – An imaging solution that provides a central repository for imaged correspondence and stored images used by legacy compliance systems.

Further, this resource will improve the efficacy of search queries across applications, indices, and database servers by sharing server content. DI significantly reduces the time, complexity, and costs of current document management and imaging processes, and contributes to improved customer service.

- Examination Technology Enhancements

The Partnership Control System (PCS) replacement system will increase productivity by supporting electronic processing, and the processing of larger Global High-Wealth and High Income High-Wealth cases by providing enhanced functionality to a wider range of users. Electronic processing has many advantages including:

- Improving staff efficiency by not having to physically transfer work between sites;
- Providing the capability to create and generate ad hoc reports allowing management to monitor inventory;
- Reducing the cost to maintain the new system; and
- Reducing printing costs by adding the capability of storing electronic copies of correspondence instead of generating paper copies.

Additionally, the IRS will invest in software tools to improve the efficiency of examinations and reduce the need for traditional paper records.

Other Direct Costs (+\$4.0 million / +27 FTE)

Dollars in Millions

IRS Activity	Cost	FTE	Explanation
Appeals	\$1.9	13	Appeals case receipts will increase by new examination closures completed by initiative hires that will require adjudication in the appeals process.
Chief Counsel	\$2.1	14	Counsel will litigate cases, provide technical guidance, address the use of trusts and aggressive estate planning techniques, and resolve issues involving employment taxes to partners and employees of pass-through entities.
Total	\$4.0	27	

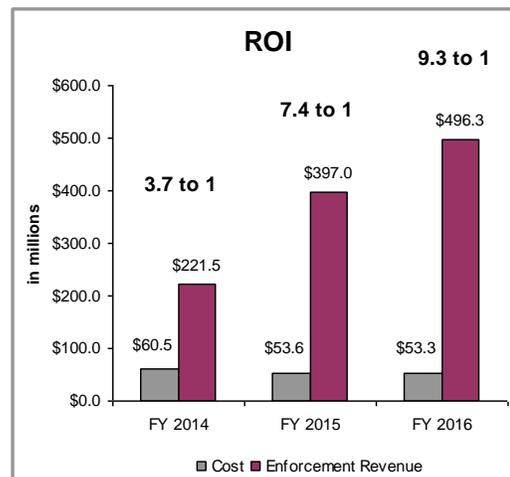
Increase Collection Coverage
 +\$60,474,000 / +573 FTE

Funding to Increase Collection Coverage will ensure that the IRS has sufficient resources to work the collection inventory to bring taxpayers who fail to pay their tax debt into compliance and partially restores enforcement resources to levels found several years ago prior to large budget cuts. This initiative includes staffing to address:

- Growing collection case inventories and incoming call volumes in the Automated Collection Systems (ACS);
- Balance due correspondence and phone work and installment agreement calls in the Compliance Services Collection Operation (CSCO) Program; and
- Increased workload in the Offers in Compromise (OIC) Program, which helps taxpayers experiencing economic hardship resolve their tax liabilities.

This initiative will produce additional annual enforcement revenue of \$496.3 million, an ROI of \$9.3 to \$1.

Position Type/Other Costs	FTE	\$000
Automated Collection Systems Operations	257	\$20,356
Tax Examiner	29	2,440
Customer Service Representative	225	17,577
Support Staff	3	339
Compliance Services Collection Operations	150	\$14,467
Tax Examiner	128	12,356
Support Staff	22	2,111
Centralized Offers in Compromise	154	\$13,023
Tax Examiner	116	9,610
Support Staff	38	3,413
IT Projects		\$10,968
Compliance Data Warehouse		3,868
Eliminate SSN from Taxpayer Mailings		7,100
Other Direct Costs	12	\$1,660
Attorney	2	371
Revenue Officer	9	1,199
Support Staff	1	90
Total	573	\$60,474



Major Activities	Projected Revenue \$M	TDA Closures	TDI Closures	Calls Answered	Closures
Compliance Service Collection Operation	429.3	120,670	19,587	422,500	21,664
Centralized Offers in Compromise	67.0				15,352
Total	\$496.3	120,670	19,587	422,500	37,016

Automated Collection Systems (ACS) Operations (+\$20.4 million / +257 FTE)

These funds will allow the IRS to address growing collection case inventories and call volumes by expanding the ACS program to address the underpayment and non-filing portions of the tax gap, estimated at \$74 billion.

The ACS is a call site operation and is the most productive IRS program for revenue collection. The ACS inventory has increased 7 percent from FY 2011 to FY 2012. These ACS resources will address the growing workload generated by increased balance due and delinquent return notices and the expansion of the international examination program. Additional resources also will allow ACS to address the increased volume of correspondence from taxpayers seeking alternative resolutions to their accounts, reducing processing delays that generate additional taxpayer calls and rework.

In FY 2016, this investment is projected to address an additional 120,670 tax delinquent accounts (TDA) and 19,587 tax delinquent investigations (TDI).

Compliance Services Collection Operations (CSCO) (+\$14.5 million / +150 FTE)

These funds will allow the IRS to expand CSCO to address non-filing and underpayment of taxes in the notice process by addressing the increased balance due work and expanding the following programs:

- Withholding Compliance Program (WHC) – This automated program brings taxpayers with serious under-withholding problems into compliance by correcting their Federal income tax withholding and prevents them from becoming delinquent on the payment of future taxes by issuing a letter requiring the employer to withhold a specific, appropriate amount from the taxpayer's pay. During a five-year period from Tax Year 2006 to 2010, the number of balance due returns from taxpayers in the current WHC program decreased 64 percent and returns with a zero balance or refund increased 246 percent. These resources will allow the IRS to add an additional 90,000 taxpayers to the WHC program.
- Non-Streamlined Installment Agreement (NSIA) Phones – By increasing the number of balance due calls answered by CSCO, particularly in the case of NSIA calls, the IRS will resolve taxpayer tax matters more efficiently. The NSIA phone line, worked by CSCO employees, replaces a paperwork handoff from Accounts Management to CSCO with a telephone process that evaluates taxpayer Currently-Not-Collectible and NSIA requests sooner. By eliminating the handoff and processing delays, time-sensitive collections can begin sooner. With these resources, by FY 2016, the IRS will answer an estimated 422,500 NSIA calls.

Centralized Offers in Compromise (OIC) (+\$13.0 million / +154 FTE)

The Offers in Compromise (OIC) program processes taxpayer requests to reduce or eliminate their tax liabilities because of extreme circumstances or hardship. In addition to changes made to the offer process in 2009, the IRS continues to focus on assistance to unemployed taxpayers, understanding their struggle to pay past and present liabilities in which has

contributed to the continued increase in COIC requests. COIC receipts have increased 30 percent since FY 2008 while staffing has declined slightly. As a result, the percentage of cases closed within six months has decreased from 92 percent in December 2008, to 62 percent in December 2011. Further enhancements to the offer program will encourage more unemployed taxpayers to file a COIC in an effort to settle their tax debts. These resources will allow the IRS to help taxpayers experiencing hardship resolve their tax liabilities.

IT Projects (+\$11.0 million / 0 FTE)

- Compliance Data Warehouse

These funds will allow the IRS to purchase hardware and storage capacity to expand the data available from the Compliance Data Warehouse. The purpose of the Compliance Data Warehouse is to provide high-quality data and information services to the IRS Research community in support of projects, analyses, and studies related to tax administration, enforcement, and customer service, including analysis of the collection stream to improve effectiveness, treatment selection, and segmentation of the delinquent taxpayer population. This additional data will facilitate new studies to improve the effectiveness and productivity of IRS service and enforcement programs.

- Eliminate Social Security Number (SSN) from Taxpayer Mailings

These funds will provide resources for the third phase of a multiyear effort to implement the social security number (SSN) Elimination and Reduction 2D Barcoding project. This project consists of the creation and application of a 2D barcode on outgoing individual taxpayer notices and the elimination and reduction of the SSN. Funding will provide resources for software, infrastructure, and other related support.

This project is being implemented in three phases. Phases I and II will reduce the display of social security numbers (SSNs) on notices. Phase III will reduce the display of SSNs on notices requesting a payment from the taxpayer, print barcodes on additional outgoing notices, and will create a system that reads 2D barcodes in the payment processing systems. In addition, the third phase will reduce the use of SSNs on 85 notice types, eliminating the use of SSNs on notices to 74.1 million taxpayers. Overall, this project will reduce the use of SSNs on 155 notice types, eliminating the use of SSNs on notices mailed to 106.6 million taxpayers.

The IRS is required to eliminate unnecessary collection, use, and display of SSNs within systems, programs, notices, letters, and forms to comply with the Office of Management and Budget (OMB) mandate as described in OMB M-07-16, *Safeguarding Against and Responding to the Breach of Personally Identifiable Information*. Safeguarding Personally Identifiable Information (PII) in the possession of the Government is essential to ensure that the Government retains the trust and confidence of the American public.

Other Direct Costs (+\$1.6 million / +12 FTE)

Dollars in Millions

IRS Activity	Cost	FTE	Explanation
Appeals	\$1.2	9	Appeals case receipts will increase because of new Collection closures that will require adjudication in the appeals process.
Chief Counsel	\$0.4	3	Counsel will provide legal advice to identify pockets of noncompliance and equitable resolutions.
Total	\$1.6	12	

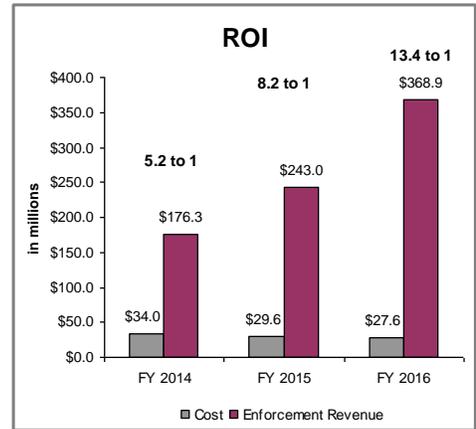
Expand Coverage of High-Wealth Individuals and Enterprises
 +\$33,965,000 / +242 FTE

Funding to Expand Coverage of High-Wealth Individuals and Enterprises continues the IRS’s efforts to focus on high-wealth taxpayers by increasing risk identification, case building, and examination capabilities. High-wealth individuals frequently operate complex enterprises consisting of multiple, interrelated businesses and flow-through entities that often have international components. The IRS takes a unified look at the entire web of business entities controlled by high-wealth individuals to better assess the risks of noncompliance.

Position Type/Other Costs	FTE	\$000
Global High-Wealth	242	\$33,965
Revenue Agent	172	28,089
Tax Examiner	32	2,451
Program Analyst	38	3,425
Total	242	\$33,965

This initiative allows the IRS to:

- Conduct examinations of high-wealth individuals and related entities;
- Refine a risk assessment process for global high-wealth enterprises;
- Examine highly complex returns to address the noncompliant entities; and
- Address noncompliance stemming from multi-jurisdictional tax evasion schemes.



This initiative will produce additional annual enforcement revenue of \$368.9 million once the new hires reach full potential in FY 2016, an ROI of \$13.4 to \$1.

Major Activities	Projected Revenue \$M	Individual Audits	Business Audits
Global High-Wealth	368.9	126	177
Total	\$368.9	126	177

This request will increase coverage of the global high-wealth (GHW) taxpayer population. The IRS takes a multifaceted approach to address the high-income, high-wealth population to understand better the entire economic picture of the enterprise controlled by the wealthy individual and assess tax compliance. This initiative will:

- Improve identification of the GHW population;
- Enhance understanding of the complex strategies used by the GHW population;
- Increase coverage of high-income, high-wealth individuals;

- Increase coverage of flow-through entities (including partnerships, trusts and subchapter S corporations), individuals engaged in multinational transactions, foundations, and other related entities;
- Expand issue identification and coverage of international structures and cross-border transactions;
- Improve compliance with Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) procedures;
- Increase specialized expertise in conducting enterprise examinations;
- Improve identification of issues involving enterprise structures; and
- Improve coverage of international transactions involving offshore accounts and entities.

Other Direct Costs

There are no other direct costs associated with this initiative.

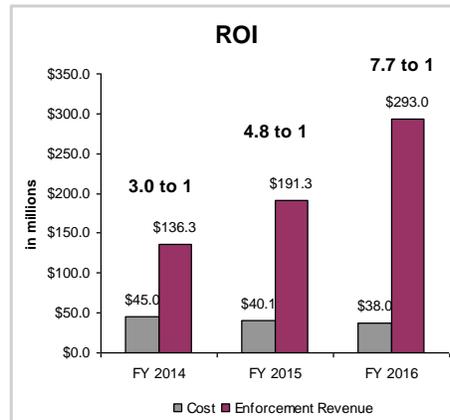
Improve Coverage of Partnerships and Flow-Through Entities
 +\$45,013,000 / +320 FTE

Partnership businesses continue to be the fastest growing segment of all tax returns filed. Funding to Improve Coverage of Partnerships and Flow-Through Entities will increase identification and audit coverage of partnerships and flow-through entities. This initiative will:

- Increase identification and coverage of controlled partnerships and related entities;
- Increase the number of auditors with specialized knowledge in partnership law; and
- Strengthen enforcement activities relating to flow-through entities and improve compliance by enhancing Tax Equity and Fiscal Responsibility (TEFRA) procedures.

Position Type/Other Costs	FTE	\$000
Improve Identification and Coverage of Partnerships and Flow-Through Entities	161	\$28,708
Revenue Agent	139	26,292
General Attorney, Technical	5	1,003
Tax Examiner	4	306
Program and Management Analyst	6	552
Management Assistant and Support Staff	7	555
Strengthen Enforcement Activities Related to TEFRA Workload	107	\$9,165
Revenue Agent	8	1,134
Tax Examiner	71	5,594
Tax Technician, Tax Compliance Officer	1	116
Manager	2	199
Support Staff	25	2,122
Other Direct Costs	52	\$7,140
Appeals Officer	21	2,881
Attorney	13	2,419
Revenue Agent	8	952
Tax Examiner	5	428
Paralegal	2	207
Counsel, Support Staff	3	253
Total	320	\$45,013

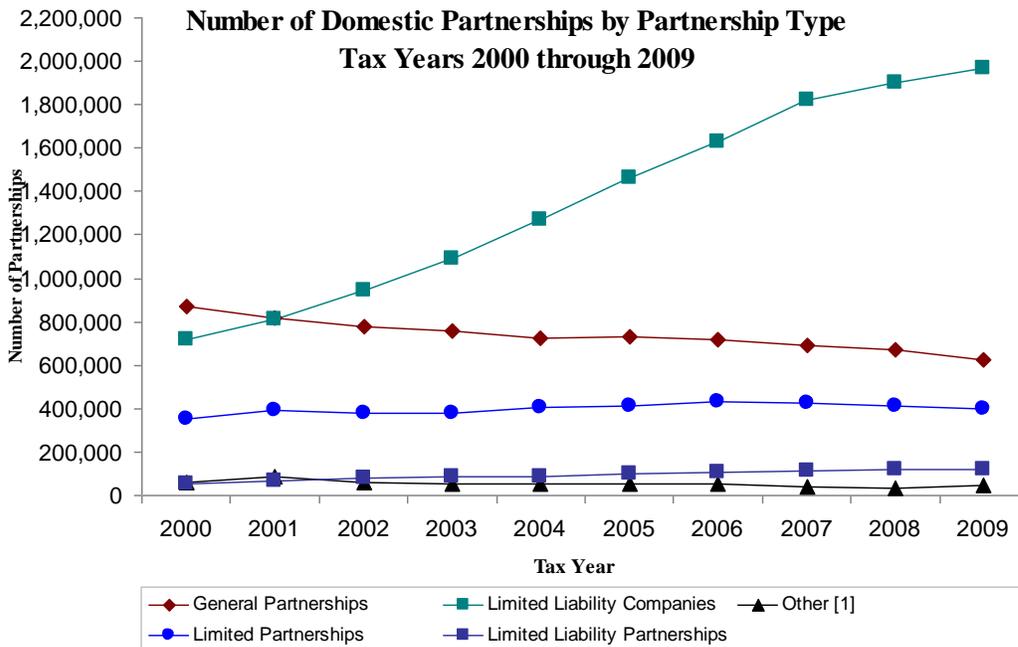
This initiative will produce additional annual enforcement revenue of \$293.0 million, once the new hires reach full potential in FY 2016, an ROI of 7.7 to \$1.



Major Activities	Projected Revenue \$M	Individual Closures	Flow Through Closures
Improve Coverage of Partnerships and Flow-Through Entities	293.0	691	1,597
Total	\$293.0	691	1,597

There is a wide variety of business organizations operating in the United States and abroad with different filing requirements. These organizations include businesses, including sole proprietors, corporations, partnerships, and S-corporations, as well as trusts and non-profits. Partnership businesses continue to be the fastest growing segment of all tax returns filed. In calendar year (CY) 2011, approximately 3.5 million partnership returns were filed, an increase of 2 percent from CY 2010. This growth is projected to continue at an average rate of 2.2 percent per year, reaching 3.9 million by CY 2016.

The most significant factor affecting the growth in partnerships is the rise of limited liability companies (LLCs) filing as partnerships. Over the last 20 years, the number of pass-through LLCs rose from virtually zero to more than 600,000 in 2000 and almost 2.0 million by 2009. Over the same period, business receipts reported by LLCs as a portion of all business receipts increased from zero to 8.2 percent. This increase corresponds to an ongoing decline in the business activity of corporations, some of which has shifted to partnerships they control.



[1] Data for "Other" partnerships include foreign partnerships, as well as partnerships which checked the "Other" box, Form 1065, Schedule B, line 1, Type of Entity, or did not check a box.

While the number and complexity of partnership filings have increased significantly since 2000, audit coverage for this segment has remained flat. The IRS has examined an average of 0.34 percent of all partnership returns annually since 2000. With few exceptions, the percentage of partnership returns examined each year has been lower than other types of tax returns. This initiative provides resources to increase coverage of partnership returns.

Improve Identification and Coverage of Partnerships and Flow-Through Entities
(+\$28.7 million / +161 FTE)

This initiative funds additional revenue agents to be devoted solely to working partnership cases, and as appropriate, other flow-through returns that are part of this network of returns. This will allow the IRS to increase the number of revenue agents with specialized knowledge in partnerships, and to address the inherent complexity associated with partnership tax law and administrative procedures.

Multiple layers of partnerships have increased the complexity of flow-through examinations. Subchapter K of the Internal Revenue Code provides specific rules applicable to the tax treatment of partnerships and partners. Because of the controlled networks of partnership enterprises, it creates a significant challenge for the IRS to understand, recognize and address risk, and treat noncompliance. For partnerships filed in 2007, 72.1 percent were members, partners or shareholders of pass-through entities or had partners that were pass-through entities.

This complexity requires a disproportionate amount of time and effort for a revenue agent to understand – even one who is sophisticated in tax matters with many years of experience in the tax field. It also provides an opportunity for taxpayers who pursue tax-sheltering activities and has inspired many of the most abusive transactions in recent history. In addition to the complexities associated with Subchapter K, revenue agents also must deal with procedural complexity and difficulties associated with complex networks of related partnerships. This IRS-wide effort to address noncompliance by controlled partnerships will allow the IRS to:

- Enhance IRS-wide collaboration leading to efficiency and effectiveness in addressing compliance by controlled partnerships and related persons and entities;
- Identify high-risk workload for examination by developing processes that allow the scoring and risk assessment of partnerships controlled by corporations and related individuals; and
- Improve taxpayer compliance in high-risk related return structures comprised of multi-tiered controlled partnerships through issue-focused examinations by expert partnership examiners.

Strengthen Enforcement Activities Related to TEFRA Workload (+\$9.2 million / +107 FTE)

The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) established unified audit rules applicable to all but certain small partnerships. The TEFRA audit rules add an entire subchapter to the Internal Revenue Code and consist of thirteen intertwined sections and extensive accompanying Treasury regulations.

Revenue agents handling partnership cases must understand both the TEFRA partnership audit rules and the normal audit rules that apply outside the partnership context. It is not always clear when TEFRA rules apply and when they do not. Tax shelter promoters have been known to take advantage of the complex TEFRA rules through the use of a combination of trusts, S corporations, limited liability companies, partnerships and other entities, often

arranged in complex networks, for the tax benefit of a single investor or a small group of investors. This deliberate addition of complexity can hamper IRS efforts to pursue investors in abusive transactions. While the IRS has made progress in training examiners in the TEFRA rules, maintaining TEFRA proficiency among non-specialist revenue agents is an ongoing challenge.

This initiative strengthens enforcement activities pertaining to flow-through entities and improves compliance by enhancing procedures. The additional resources will provide administrative assistance to the field examiners to identify the interrelated and tiered entities and provide notice requirements to investors within timeframes.

Other Direct Costs (+\$7.1 million / +52 FTE)

Dollars in Millions

IRS Activity	Cost	FTE	Explanation
Appeals	\$4.2	34	Support examination efforts on key compliance areas focused on improving voluntary compliance.
Chief Counsel	\$2.9	18	Provide advice to revenue agents, revenue officers and the Department of Justice for District Court cases, review Notices of Deficiencies and litigate cases in the Tax Court.
Total	\$7.1	52	

Build Out Tax Return Preparer Compliance Activities
 +\$18,315,000 / +124 FTE

Funding to Build Out Tax Return Preparer Compliance Activities will improve taxpayer compliance and the accuracy of returns filed by tax professionals; protect taxpayers by establishing a registered community of tax professionals; and foster a stakeholder-driven culture that encourages voluntary compliance. With this request, the IRS will ensure uniform, high ethical standards of conduct for tax preparers by enforcing preparer compliance with IRS rules, increasing preparer examinations, and monitoring and pursuing preparers engaged in fraudulent activities, including noncompliant Earned Income Tax Credit (EITC) return preparers. This initiative is core to the IRS tax gap strategy and will ensure the IRS’s ability to deliver high-priority, preparer-related enforcement activities.

Position Type/Other Costs	FTE	\$000
Enforce Tax Return Preparer Compliance	79	\$10,765
Revenue Agent	60	8,946
Tax Examiner	6	460
Tax Compliance Officer	4	410
Revenue Officer	2	226
Analyst	1	147
Manager	1	201
Support Staff	5	375
Pursue Tax Return Preparer Fraudulent Activity	25	\$5,096
Special Agent	24	4,997
Analyst	1	99
Enforce Ethical Standards of Conduct for Practitioners	20	\$2,454
Analyst	20	2,454
Total	124	\$18,315

Key activities and deliverables of this initiative include deploying a coordinated return compliance strategy by:

- Developing techniques to detect return preparer errors;
- Coordinating return preparer enforcement actions;
- Prioritizing activities through a return preparer enforcement work plan;
- Updating detection tools and selection logic; and
- Determining effective measurement strategies.

Major Activities	Preparer Visits	Investigations Completed
Enforce Tax Return Preparer Compliance	2,000	
Pursue Tax Return Preparer Fraudulent Activity		44
Total	2,000	44

Enforce Tax Return Preparer Compliance (+\$10.8 million / +79 FTE)

Given the important role that tax return preparers play in federal tax administration, the IRS has a significant interest in identifying tax return preparers and monitoring their tax return preparation activities. These funds allow the IRS to deploy a coordinated return preparer compliance strategy by conducting on-site visits and investigating suspicious activity, especially of abusive return preparers.

The IRS identifies preparer cases through programs and referrals from field staff, taxpayers, and Criminal Investigation (CI). Revenue agents and special agents conduct preparer audits and visits. Specific planned program activities are:

- **Coordinated Compliance Strategy**

IRS field revenue agents and CI special agents will conduct visits to return preparers where there are compliance-related concerns. Providing adequate resources will ensure that these visits can be conducted without pulling resources from other high-value compliance activities.

- **Dedicated Return Preparer Campus Groups**

Where the IRS has identified noncompliance among return preparers, administrative resources are needed to review the returns of the clients of those preparers and determine the appropriate penalty amounts.

Pursue Tax Return Preparer Fraudulent Activity (+\$5.1 million / +25 FTE)

These funds provide resources for CI to form multi-agency taskforces dedicated to tax administration by seeking prosecution at the State and Federal levels to prevent fraudulently obtained refunds (refundable credits are a large percentage) from financing and supporting criminal activity in some areas of the country. Special agents will conduct outreach efforts that address return preparer concerns while working with State taxing agencies to leverage resources and seek prosecution at both the Federal and State levels as appropriate. These teams will target larger-scale crime rings for maximum compliance results and publicity.

Enforce Ethical Standards of Conduct for Practitioners (+\$2.4 million / +20 FTE)

This initiative addresses the growth in the population of practitioners who will become subject to the ethical standards contained in Circular 230 as a result of expanding the definition of practice to include return preparation. This additional staffing will handle conduct cases and the associated appeals, conferences, allegations, negotiations, administrative hearing preparation, and support the return preparer regulatory recommendations.

Other Direct Costs

There are no other direct costs associated with this initiative.

Leverage Data to Improve Case Selection
 +\$51,701,000 / +227 FTE

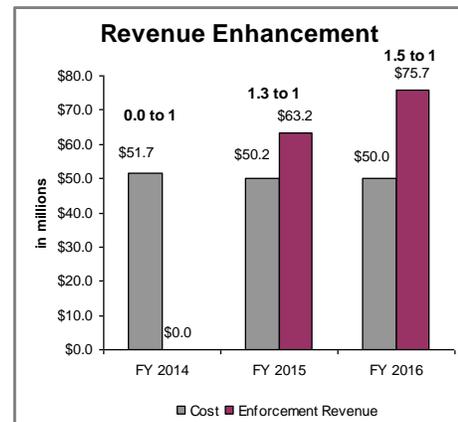
Funding Leverage Data to Improve Case Selection will provide the resources to leverage technology to improve data accessibility and usability for better case selection, issue identification, and treatment assignment. Taxpayer behavior, including noncompliant behavior, is constantly changing. The IRS must adapt quickly to changing taxpayer behavior to prevent fraud and tax code misuse.

This initiative will:

- Significantly increase the digital availability of tax return information;
- Create an analytical computing and data testing environment to allow the IRS to identify taxpayer behavioral changes more quickly and test compliance responses promptly; and
- Optimize compliance case identification and treatment assignment to increase effectiveness while reducing risk and costs.

Improved use of analytics will increase revenue collection and, while this is not included in the IRS's traditional ROI calculations, this initiative is projected to increase revenue by \$75.7 million in FY 2016, an ROI of \$1.5 to \$1.

Position Type/Other Costs	FTE	\$000
Improve Data Availability	199	\$24,750
IT Specialist	35	5,480
Data Transcriber	164	9,742
Contractual Services		9,528
Design and Pilot New Ways to Identify & Prioritize Cases	13	\$10,149
Data Analyst	10	1,624
IT Specialist	3	525
Hardware & Software Acquisition		5,000
Contractual Services		3,000
Optimize Case Selection and Assignment to Appropriate Treatment Streams	15	\$16,802
IT Specialist	15	2,302
Hardware & Software Acquisition		9,000
Contractual Services		5,500
Total	227	\$51,701



Improve Data Availability (+\$24.8 million / +199 FTE)

These resources allow the IRS to increase the data available for research and analysis by funding the following three projects:

- Enhance Electronic Data Capture

While the rate of electronic filing continues to increase, the IRS will continue to receive some tax returns on paper. These resources provide staffing to transcribe data as well as programming enhancements to allow existing systems to accept the additional transcribed data. The additional data transcription will include form types and data that will generate the greatest return on investment.

- Allow Electronic Filing of Three Employee Retirement Income Security Act (ERISA) Information Returns

Currently, taxpayers must use different means and go to different Government agencies to file employee plan returns depending on the type of form they are filing, placing an undue burden on taxpayers. Unlike other Form 5500 series returns, which are filed electronically with the Department of Labor (DOL), Form 5500-EZ, *Annual Return of One-Participant Retirement Plan*, is filed with IRS either on paper or through the IRS Filing Information Returns Electronically (FIRE) system. These resources will consolidate electronic filing of Form 5500-EZ and two other retirement plan-related forms on DOL's EFAST2 platform. Allowing retirement plan-related forms to be filed in one, electronic location will improve taxpayer service, improve case selection, and reduce processing and transcription errors.

- Expand the Compliance Data Environment (CDE) and the Modernized Taxpayer Return Database (MTRDB) to include all e-filed data and make it accessible for research and identification of emerging trends

Analysis of e-filed data will allow the IRS to develop appropriate compliance strategies. The MTRDB is a database of all tax returns used for case selection purposes. The MTRDB improvements will make all e-File return data available and accessible. Campus and field personnel will be able to replicate complete copies of e-filed returns as needed, relieving taxpayers who e-file from the burden of providing copies of prior-year returns for an examination.

Design and Pilot New Ways to Identify and Prioritize Cases (+\$10.1 million / +13 FTE)

This initiative provides resources to develop an analytical computing and data-testing environment that will allow the IRS to rapidly analyze and apply data extracts and third party data to evolving compliance programs. To do this, the IRS must develop an analytical computing environment to test this technology before full implementation and deployment. Once completed, this technology will enhance the IRS's ability to study the most difficult tax administration challenges. Experiments conducted in this analytical computing environment will assist the IRS in quantifying proposed changes to processes and policies.

Taxpayer behavior, including noncompliant behavior, is constantly changing. These resources will allow the IRS to identify changing taxpayer behavior quickly to prevent fraud and tax code misuse. Currently much of the IRS's data analysis takes place several years after the returns are filed. Analyzing data that is more current would increase awareness of emerging fraudulent behaviors.

The IRS will conduct pilot testing of new case selection methods. Pilot tests as part of carefully designed studies allow the IRS to test new hypotheses, processes, and procedures under rigorous methods designed to measure and assess the results. The results of the pilots will provide the data to determine the benefits from tested changes and allow leadership to make informed decisions about implementing new concepts.

Optimize Case Selection and Assignment to Appropriate Treatment Streams
 (+\$16.8 million / +15 FTE)

This initiative will provide the flexibility to redirect casework to functions that can handle it most effectively or to functions with available capacity. Developing new business rules will allow the most efficient selection and distribution of cases into the most effective enforcement activity. Once cases complete their cycle, data visualization will allow for comparison of the effectiveness of the treatment streams.

The ability to adapt to the changing compliance environment and to address a changing noncompliant population depends on new business and technology models for case selection, issue identification and case treatment/assignment. The new business and technology models will support the organization across individual business units. Currently, IRS compliance tools are focused on individual business units with inadequate linkage across the operating boundaries of the organization. Moving to these new models requires integration and development of common business services. This investment in business tools (e.g., rules-based engines, statistical analysis packages and data visualization) will enhance secure data access across the IRS organization and provide a common process by which to identify cases in production.

Other Direct Costs

There are no other direct costs associated with this initiative.

Leverage Digital Evidence for Criminal Investigation (CI)
 +\$4,539,000 / +8 FTE

Funding to Leverage Digital Evidence for Criminal Investigation (CI) will automate current CI processes by implementing a virtual digital evidence processing environment. This will allow the IRS to expedite and enhance the analysis of electronic data by special agents, computer investigative specialists, and other investigative staff assigned to an investigation.

Position Type/Other Costs	FTE	\$000
Leverage Digital Evidence for Criminal Investigation	8	\$4,539
Analyst	7	944
IT Specialist	1	156
Rent, Communications and Utilities		3,143
Contractual Services		296
Total	8	\$4,539

By using these virtual machines, agents will be able to analyze and sanitize contaminated or unknown third party data more efficiently before moving it to the CI network. This new secure workspace also will allow agents to call in support from forensic specialists or other remote agents without incurring travel costs.

In FY 2013, the IRS has a limited production virtual digital evidence-processing environment. A number of CI cases are currently housed on the environment being monitored by the e-Crimes Lab in Alexandria, Virginia. CI case agents and computer investigative specialists access the system to review electronically seized digital information. The funding for FY 2014 will allow the IRS to expand this environment to all agents nationwide and provide a computer forensic analysis platform for IRS.

Other Direct Costs

There are no other direct costs associated with this initiative.

Implement IT Changes to Deliver Tax Credits and Other Requirements
+\$305,645,000 / +722 FTE

Funding to Implement IT Changes to Deliver Tax Credits and Other Requirements will allow the IRS to implement the new tax law provisions contained in the Affordable Care Act (ACA) (Public Law 111-148). While the Department of Health and Human Services is responsible for the health care policy and insurance provisions in the legislation, the IRS administers the various provisions related to tax administration. There are more than 45 specific tax provisions and numerous cross-agency sections. Many of these involve new technology systems or modifications to existing operational systems. Funding will support investments in new technology (infrastructure and applications) and major modifications to existing IRS tax administration systems.

Position Type/Other Costs	FTE	\$000
Implement IT Changes to Deliver Tax Credits and Other Requirements	722	\$305,645
IT Specialists	722	105,361
Contractor Services		200,284
Total	722	\$305,645

The IRS IT organization is currently supporting five major releases scheduled for implementation over the next several years. Some provisions are highly complex and require multiple projects and systems to address them. Some of the work these project teams are doing includes building and implementing systems infrastructure; developing new IT systems and applications; implementing security accreditation; testing and evaluating applications; working integration components; modifying existing systems; and maintaining systems in operations and maintenance mode once production activities are complete.

This effort requires implementing new technologies and complex systems changes to current operational systems. This IT initiative will support implementation of the following:

- New premium assistance tax credit claimed on individual tax returns filed in 2015;
- New penalties related to individual and employer responsibility provisions;
- New Insurance Provider Fees;
- New information reporting requirements for Federal and State exchanges, certain large employers, and insurance issuers; and
- Changes to the rules for small business tax credit for employers.

Much of the IRS IT work will support the new Health Exchange system. This IT initiative will support the following:

- An exchange eligibility process for financial assistance by providing income and family size information from recent tax returns;
- Ensuring the safeguarding of Federal tax information provided to non-IRS entities;

- Processing tax returns claiming premium tax credits and reconciling advance payments;
- Administering the individual and employer coverage responsibility provisions; and
- Administering information reporting requirements for exchanges, insurers, and large employers.

The IRS will implement requirements through development of new systems and changes to approximately 80 current production systems across all submission, fraud, and compliance tax administration process areas to receive, validate, and process individual and business tax returns. These efforts will facilitate prompt and accurate application of the premium tax credit to eligible citizens while protecting against erroneous and potentially fraudulent tax credit claims. Components of the investment include:

- Building and maintaining a tax data repository (database) to store data about household-level income that will help determine eligibility for and reconciliation of the premium tax credit. Also, the database will store periodic data received from the Federal and State exchanges which will be used to validate individual claims for premium tax credit, and ACA-related information returns data.
- Building and maintaining new IT systems and infrastructure components to validate household income, conduct consistency checks, calculate estimated penalties and payments, and determine the amount of advance payments of premium tax credit a recipient should receive during the coverage year and before taxes are filed.
- Building and maintaining new IT systems and infrastructure to take in and process new forms and schedules (information reports) from Federal and State exchanges, insurance providers, and employers.
- Updating existing IT systems to indicate employers who are eligible to claim the small business health care credit as well as updating existing IT systems, such as Account Management Services, to maintain/access account information and provide notices and letters to taxpayers as required by law, and providing customer service through telephone and self-service applications.
- Integrating new information reporting into current IT systems to allow data to be processed effectively and posted to the Information Returns Master File.
- Modifying and updating tax account systems to assess and collect penalties and fees, such as the Individual and Employer Responsibility Requirement Payment.
- Expanding tax account and case management systems to respond to taxpayer inquiries.
- Modifying compliance systems to detect potential fraud and noncompliance activities associated with the refundable credits.

This initiative will fund the significant revisions to existing tax administration systems and invest in building and maintaining the new technology necessary to implement new tax law provisions contained in the ACA.

Other Direct Costs

There are no other direct costs associated with the initiative.

Develop New Online Services
+\$24,059,000 / +37 FTE

Funding to Develop New Online Services will deliver new online products and services on IRS.gov, which will simplify the taxpayer online experience, facilitate self-service transactions, and meet increasing taxpayer demands for more online and self-service applications. To keep up with the ever-changing state of web technology, the IRS must develop online capabilities and deliver new online services to taxpayers, tax practitioners, and internal IRS stakeholders. These funds will improve IRS infrastructure and capabilities while delivering new services. This initiative will provide a number of strategic and operational benefits such as:

Position Type/Other Costs	FTE	\$000
Develop a New Suite of Online Self-Service Options on IRS.gov	24	\$17,913
Program Analyst	24	3,180
Contractual Services		14,733
Develop a New Suite of Online Self-Service Options for Practitioners	13	\$6,146
Program Analyst	5	740
IT Specialist	8	947
Contractual Services		4,459
Total	37	\$24,059

- Protection and prevention of improper access to taxpayer information (Fraud/Identity Theft);
- Self-service applications for the taxpayer that do not exist today including applications related to Power of Attorney (PoA), Online Payment Agreements/Installment Agreements, viewable eTranscripts, and/or Automated Underreporter (AUR) tools;
- Redirect live assistance to resolving more complex taxpayer issues by deflecting potential callers with simpler issues to an expanded suite of online self-service tools; and
- Efficiencies for IRS operations in paper handling (e.g., Collaborative Browsing/Web Chat, the availability of more online self-service tools and the ability for authorized practitioners to reduce or eliminate rejected e-filed returns by verifying business names through the use of a four-digit identifier).

By providing information and transactional applications on the web, the IRS will promote voluntary compliance, reduce taxpayer burden, and improve overall taxpayer satisfaction. Online service initiatives are categorized across five taxpayer “touch points,” including:

- Get Tax Information;
- Access Account;
- File/Submit Forms;
- Get Refund/Make Payment; and
- Correspond/Interact.

Certain online applications are already available but are limited in scope to specific taxpayer segments. The focus of the online service efforts is to expand these services to a broader audience and create new online services, as appropriate.

Successful delivery of new online services requires the IRS to fully staff critical IT functions that include product management, user experience design, information architecture, content development, and editorial content.

Develop a New Suite of Online Self-Service Options on IRS.gov
(+\$17.9 million / +24 FTE)

The creation of new online options on IRS.gov consists of two main efforts:

- A simplified online experience; and
- Self-service transactional web applications.

The IRS has the challenge of providing informative, timely, and innovative online services in an environment of limited budget resources. In FY 2013, the IRS will deploy eAuthentication to authenticate taxpayer identities to ensure a secure online taxpayer experience. In FY 2014, the IRS requests resources to continue improvements to its infrastructure and develop additional capabilities, such as:

- *eTranscripts Viewing Phase 2* – Expands the web-based request tool to allow viewing of transcripts online. Individual taxpayer account-related calls comprise a significant portion of Customer Service Representative (CSR) assistor calls and include account adjustments, refund allocation questions, backup withholding, credits, payments, and refunds. Providing taxpayers with the ability to view transcripts (or portions thereof) could resolve many of these calls.
- *Online Payment Agreement/Installment Agreement* – Allows taxpayers to submit a request for a streamlined installment agreement with the IRS. This capability makes it easier for taxpayers and the IRS to interact, exchange information, and establish or reinstate installment agreements online by integrating with the Voice Balance Due call center application. Currently, taxpayers can request an installment agreement online but cannot enter into an installment agreement without using offline paper-based and/or telephone services to complete the process.
- *Automated Underreporter (AUR) Online* – Allows taxpayers to view and verify income information in response to AUR or Automated Substitute for Return (ASFR) notices. Online review and verification of documents reduces the time required to resolve cases.

Develop a New Suite of Online Self-Service Options for Practitioners
(+\$6.2 million / +13 FTE)

Through better tools and online experiences, the IRS intends to generate awareness of IRS.gov as a viable channel for practitioners who wish to conduct tax administration business. As more and more practitioners move to the web in their interactions with the IRS, they will

have access to more information in a timely manner and consequently practitioners will be able to relay important compliance information to their individual clients.

The IRS intends to develop a simpler online experience with more transactional tools for the practitioner community. This includes:

- *Power of Attorney (POA) and Tax Information Authorization (TIA) Online* – Improves current capability by providing practitioners with a secure method to submit forms and revoke privileges online and will reduce the amount of paper requests submitted annually.
- *Business Account Features – Name Control* – Allows authorized representatives to input an Employer Identification Number (EIN) and retrieve the associated name control. The application will significantly reduce the number of e-filed returns rejected at first transmission and substantially reduce the volume of telephone calls to the IRS eHelp desk and/or Customer Service Representatives (CSR).

Other Direct Costs

There are no other direct costs associated with this initiative.

Develop Converged Telecommunication Networks
 +\$15,000,000 / 0 FTE

Funding to Develop Converged Telecommunication Networks will allow the IRS to complete the replacement of failing infrastructure with converged telecommunication networks. The IRS is 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.

Position Type/Other Costs	FTE	\$000
Develop Converged Telecommunications Networks		\$15,000
Contractual Services		3,970
IT Equipment		8,600
Telecommunications		2,430
Total		\$15,000

Converged networks will allow the organization to manage all employee collaboration on a single data network. Employees will:

- Make and receive phone calls from their laptops anywhere;
- Retrieve voice mail messages directly from their laptops;
- Use a single common number accessible to any communication device (laptop and phone – e.g., desk, home, cell, Smartphone); and
- Have a single click dial-back capability from their laptop.

Converged networks reduce the IRS’s exposure to future maintenance and repair costs. This technology will provide cost savings by reducing the risk of phone service failure; lessening

network provider costs for long distance and video transmission; and decreasing voice-network infrastructure costs and complexity by centralizing calling using Internet Protocol (IP) voice services. In addition, the IRS will achieve operational service enhancements by consolidating multiple contracts and vendor services; and improving the overall monitoring, capacity planning and telecommunication cost management through centralized monitoring and capacity management of voice, data, and video services and elimination of underutilized distributed telecommunication circuits.

Converged networks will:

- Provide all employees, especially those in geographically-dispersed locations, with a highly collaborative and mobile workplace;
- Leverage the next generation of advanced telecommunication technologies (i.e., mobile broadband, wireless, commercial Internet Service Providers (ISPs) and Enterprise Remote Access Program (ERAP) to increase employee efficiency);
- Reduce employee travel;
- Standardize employee skill sets and training;
- Centralize management and licensing of the infrastructure;
- Eliminate end of life-cycle infrastructure;
- Increase enterprise system uptime; and
- Support all new IT initiatives for all business lines.

This investment will produce an estimated cost avoidance of \$37 million over the next three years. Without the requested resources for network convergence, the current practice of operating and replacing obsolete telecommunication equipment would cost \$191 million over those three years. The cost avoidance estimate was based on lower capital costs and transition costs for convergence in the three-year period compared to the one-for-one replacement of aged infrastructure.

Other Direct Costs

There are no other direct costs associated with this initiative.

Expand Virtual Services Delivery (VSD)
 +\$3,983,000 / +2 FTE

Funding to Expand Virtual Services Delivery (VSD) will facilitate the deployment of 100 new video technology units. These VSD units allow face-to-face contact between IRS employees and taxpayers at remote sites through two-way video conferencing. By placing VSD units in understaffed and unstaffed at Taxpayer Assistance Centers (TACs), Taxpayer Advocate Service (TAS) sites,

Position Type/Other Costs	FTE	\$000
Virtual Services Delivery	2	\$3,983
IT Specialist	2	298
Contractual Services		474
VSD Workstation Installation		125
IT Equipment		2,938
Software		148
Total	2	\$3,983

and Low Income Tax Clinic (LITC) locations, the IRS will be able to resolve taxpayer issues virtually. VSD video technology also will allow the IRS to explore conducting virtual tax examinations and other interactions with taxpayers. The use of this technology is expected to save a considerable amount of time and travel costs for employees and taxpayers.

The VSD technology aligns with the Agency Priority Goal of *Increasing Voluntary Compliance* by improving service to make voluntary compliance easier for taxpayers. It will enhance the taxpayer experience in the following areas:

Virtual TACs

The IRS conducted a VSD pilot program from October 2011 to May 2012 to test this alternative service delivery in TACs and partner locations. The pilot program included providing virtual face-to-face contact with taxpayers using video communication technology. IRS currently has 26 VSD sites (19 Taxpayer Assistance Centers and 7 partner locations) offering tax and accounts services to taxpayers. VSD has proven to be a viable and practical service delivery vehicle that integrates technology, leverages resources to reach more taxpayers, and provides more face-to-face services. Focus group feedback received through the end of the pilot program noted that 91 percent of taxpayers indicated they would use video assistance again during a future visit.

Some TACs are not permanently staffed, which requires the IRS to provide coverage by circuit-riding (employees travel from their posts-of-duty to the unstaffed locations) and then reimbursing employees for their travel expenses. Additionally, some TACs are not sufficiently staffed to handle taxpayer demand, resulting in long wait times for taxpayers. Placing VSD in strategically selected TACs, as an alternative to “live” face-to-face service, will help address these staffing issues and maximize IRS resources.

Virtual TAS Sites

Using VSD technology to establish virtual TAS sites supports the National Taxpayer Advocate’s goal of increasing taxpayer opportunities for face-to-face service options. TAS is required to have local taxpayer advocates in each State to assist taxpayers in resolving issues with the IRS, to identify areas in which taxpayers have problems dealing with the IRS and, to the extent possible, to propose changes in the administrative practices of the IRS to mitigate the problems identified. TAS currently maintains 65 geographic locations nationwide for face-to-face interaction with taxpayers and taxpayer representatives, as well as 10 campus locations.

In FY 2012, TAS connected its Jacksonville, Florida office to a TAC in Tampa, Florida, where it does not maintain a physical presence, to provide service to taxpayers through VSD. An expansion of VSD will further help TAS meet its obligations under the law and benefit taxpayers by increasing their opportunities for personal interaction.

Virtual LITCs

In FY 2012, VSD sites connected clients of two LITCs in Washington and Tennessee with Appeals offices in the Fresno and Memphis Campuses to conduct Collection Due Process

hearings. Resources for Virtual LITCs will provide VSD capability in more locations and increase the types of issues worked virtually by LITCs.

Virtual Tax Examinations

The IRS also is exploring the use of VSD technology in the tax examination process. The IRS will test the delivery of tax examinations virtually by deploying VSD in geographic areas with high value work and limited staff. To ensure the success of virtually delivered audits, the IRS needs additional resources to expand functionality to allow the two-way exchange of documents, online scheduling of taxpayer appointments, and printing capability at the taxpayer’s location.

VSD technology provides the capability to achieve the future vision of face-to-face video interaction delivered through a web-based framework. This framework provides an integration of multiple service channels (e.g., video, phone, live chat) allowing taxpayers to choose how, when, and where they want to interact with the IRS. VSD technology has the potential to expand from the point-to-point configuration described in this initiative to integration of video with other channels, including access to the contact center environment and transferring to the next available agent to improve issue resolution. A transition from a private video network to an IRS network will allow devices to provide document sharing and capture and route electronic survey results. In addition, the design of self-contained kiosks may provide increased privacy and the opportunity to implement VSD in non-traditional sites.

Other Direct Costs

There are no other direct costs associated with this initiative.

*Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities
+\$5,000,000 / 0 FTE*

Funding for Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities will transfer \$5 million to Alcohol and Tobacco Tax and Trade Bureau (TTB) for those high-ROI tax enforcement activities that produce additional revenue through program activities designated to narrow the Federal excise tax gap on alcohol and tobacco commodities. More detailed information can be found in the TTB FY 2014 Congressional Justification.

Position Type/Other Costs	FTE	\$000
Alcohol and Tobacco Tax and Trade Bureau Program Integrity Transfer		\$5,000
Special Agent		2,699
Training		220
Training Service Contracts		2,041
Support Supplies		8
Equipment		32
Total		\$5,000

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Internal Revenue Service	FY 2012 Actuals	FY 2013 Annualized CR Rate	FY 2014 Request
FTE	91,003	91,534	97,290
Object Classification:			
11.1 Full-Time Permanent Positions	\$6,300,099	\$6,436,177	\$6,790,226
11.3 Other than Full-Time Permanent Positions	96,800	101,373	101,717
11.5 Other Personnel Compensation	292,290	287,774	302,428
11.8 Special Personal Services Payments	16,070	18,386	18,515
11.9 Personnel Compensation (Total)	\$6,705,259	\$6,843,710	\$7,212,886
12.0 Personnel Benefits	2,091,601	2,147,280	2,277,477
13.0 Benefits to Former Personnel	94,055	49,097	49,385
21.0 Travel	139,490	198,431	231,003
22.0 Transportation of Things	20,797	24,735	25,869
23.1 Rental Payments to GSA	662,644	649,550	645,641
23.2 Rent Payments to Others	13,589	14,139	14,377
23.3 Communications, Utilities, & Misc	391,883	393,785	376,692
24.0 Printing & Reproduction	35,015	36,089	39,782
25.1 Advisory & Assistance Services	862,370	948,617	822,598
25.2 Other Services	164,504	245,556	295,959
25.3 Purchase of Goods & Services from Govt. Accounts	170,473	163,759	175,655
25.4 Operation & Maintenance of Facilities	168,363	177,262	179,613
25.5 Research & Development Contracts	4,008	3,041	3,089
25.6 Medical Care	13,933	14,408	16,081
25.7 Operation & Maintenance of Equipment	87,603	124,521	119,798
25.8 Subsistence & Support of Persons	1,447	3,791	5,019
26.0 Supplies and Materials	63,892	71,107	76,391
31.0 Equipment	405,858	465,858	462,959
32.0 Lands and Structures	40,011	59,605	49,339
33.0 Investments & Loans	1,609	0	0
41.0 Grants, Subsidies	30,175	27,893	33,893
42.0 Insurance Claims & Indemn	3,855	3,325	3,381
43.0 Interest and Dividends	0	0	0
44.0 Refunds	0	18	18
91.0 Unvouchered	9,426	12,878	3,049
Total Budget Resources	\$12,181,860	\$12,678,455	\$13,119,954
Appropriations:			
Taxpayer Services	\$2,435,806	\$2,473,216	\$2,585,178
Enforcement	5,365,778	5,438,489	5,745,754
Operations Support	4,029,276	4,441,504	4,481,762
Business Systems Modernization	351,000	325,246	307,260
Total Budget Resources	\$12,181,860	\$12,678,455	\$13,119,954

2B – Appropriation Language and Explanation of Changes

Appropriations Language	Explanation of Changes
<p style="text-align: center;">DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE</p> <p style="text-align: center;">TAXPAYER SERVICES</p> <p><i>For necessary expenses of the Internal Revenue Service to provide taxpayer services, including pre-filing assistance and education, filing and account services, taxpayer advocacy services, and other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, and to administer the tax credit in title II of division A of the Trade Act of 2002 (Public Law 107-210), \$2,412,576,000, of which not less than \$5,600,000 shall be for the Tax Counseling for the Elderly Program, of which not less than \$9,750,000 shall be available for low-income taxpayer clinic grants, of which not less than \$18,000,000, to remain available until September 30, 2015, shall be available for a Community Volunteer Income Tax Assistance matching grants program for tax return preparation assistance.</i></p>	<p>The Budget Request includes additional resources for the Community Volunteer Tax Assistance matching grants program to leverage and educate community-based partnerships on the tax provisions to support ACA health coverage enrollment and tax filing seasons.</p>
<p style="text-align: center;">ENFORCEMENT</p> <p><i>For necessary expenses for tax enforcement activities of the Internal Revenue Service to determine and collect owed taxes, to provide legal and litigation support, to conduct criminal investigations, to enforce criminal statutes related to violations of internal revenue laws and other financial crimes, to purchase (for police-type use, not to exceed 850) and hire passenger motor vehicles (31 U.S.C. 1343(b)), and to provide other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, \$5,666,787,000, of which not less than \$60,257,000 shall be for the Interagency Crime and Drug Enforcement program: Provided, That, of the amounts provided under this heading, not less than \$245,904,000, of which \$5,000,000 shall be transferred to the Alcohol and Tobacco Tax and Trade Bureau, shall be for an additional appropriation for tax activities, including tax compliance to address the Federal tax gap, as specified for purposes of Section 251(b)(2) of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended.</i></p>	<p>The Budget Request includes \$5,000,000 under the program integrity cap adjustment to fund the Alcohol and Tobacco Tax and Trade Bureau (TTB) tax enforcement activities. This language will allow the IRS to transfer these funds to TTB.</p> <p>The Budget Request for the Enforcement account is \$5,666,787,000 including a program integrity cap adjustment of \$245,904,000 which, when combined with the \$166,086,000 cap adjustment in the Operations Support account, totals \$411,990,000 in additional appropriation for tax enforcement and compliance activities.</p>

OPERATIONS SUPPORT

For necessary expenses of the Internal Revenue Service to support taxpayer services and enforcement programs, including rent payments; facilities services; printing; postage; physical security; headquarters and other IRS-wide administration activities; research and statistics of income; telecommunications; information technology development, enhancement, operations, maintenance, and security; the hire of passenger motor vehicles (31 U.S.C. 1343(b)); and other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, \$4,480,843,000, of which up to \$250,000,000 shall remain available until September 30, 2015, for information technology support; of which up to \$65,000,000 shall remain available until expended for acquisition of real property, equipment, construction and renovation of facilities; of which not to exceed \$1,000,000 shall remain available until September 30, 2016, for research; of which not less than \$2,000,000 shall be for the Internal Revenue Service Oversight Board; of which not to exceed \$25,000 shall be for official reception and representation expenses: Provided, That not later than 30 days after the end of each quarter of each fiscal year, the Internal Revenue Service shall submit a report to the House and Senate Committees on Appropriations and the Comptroller General of the United States detailing the cost and schedule performance for its major information technology investments, including the purpose and life-cycle stages of the investments; the reasons for any cost and schedule variances; the risks of such investments and strategies the Internal Revenue Service is using to mitigate such risks; and the expected developmental milestones to be achieved and costs to be incurred in the next quarter: Provided further, That the Internal Revenue Service shall include, in its budget justification for fiscal year 2015, a summary of cost and schedule performance information for its major information technology systems: Provided, That, of the amounts provided under this heading, such sums as are necessary shall be available to fully support tax enforcement and compliance activities, including not less than \$166,086,000 for an additional appropriation for tax activities, including tax compliance to address the Federal tax gap, as specified for purposes of Section 251(b)(2) of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended.

To provide sufficient time to verify the data and compile the cost and schedule performance information for its major information technology investments, the IRS requests 16 additional days to submit the quarterly report to the House and Senate Committees on Appropriations.

The Budget Request for the Operations Support account is \$4,480,843,000 including a program integrity cap adjustment of \$166,086,000 which, when combined with the \$245,904,000 cap adjustment in the Enforcement account, totals \$411,990,000 in additional appropriation for tax enforcement and compliance activities.

BUSINESS SYSTEMS MODERNIZATION

For necessary expenses of the Internal Revenue Service's business systems modernization program, \$300,827,000, to remain available until September 30, 2016, for the capital asset acquisition of information technology systems, including management and related contractual costs of said acquisitions, including related Internal Revenue Service labor costs, and contractual costs associated with operations authorized by 5 U.S.C. 3109: Provided, That not later than 30 days after the end of each quarter of each fiscal year, the Internal Revenue Service shall submit a report to the House and Senate Committees on Appropriations and the Comptroller General of the United States detailing the cost and schedule performance for CADE 2 and Modernized e-File information technology investments, including the purposes and life-cycle stages of the investments; the reasons for any cost and schedule variances; the risks of such investments and the strategies the Internal Revenue Service is using to mitigate such risks; and the expected developmental milestones to be achieved and costs to be incurred in the next quarter.

ADMINISTRATIVE PROVISIONS —
INTERNAL REVENUE SERVICE
(INCLUDING TRANSFER OF FUNDS)

SEC. 101. Not to exceed 5 percent of any appropriation made available in this Act to the Internal Revenue Service or not to exceed 3 percent of appropriations under the heading "Enforcement" may be transferred to any other Internal Revenue Service appropriation upon the advance notification of the Committees on Appropriations.

SEC. 102. The Internal Revenue Service shall maintain a training program to ensure that Internal Revenue Service employees are trained in taxpayers' rights, in dealing courteously with taxpayers, and in cross-cultural relations.

SEC. 103. The Internal Revenue Service shall institute and enforce policies and procedures that will safeguard the confidentiality of taxpayer information and protect taxpayers against identity theft.

SEC. 104. Funds made available by this or any other Act to the Internal Revenue Service shall be available for improved facilities and increased staffing to provide sufficient and effective 1-800 help line service for taxpayers. The Commissioner shall continue to make the improvement of the Internal Revenue Service 1-800 help

To provide sufficient time to verify the data and compile the cost and schedule performance information for its capital asset acquisition of information technology systems, the IRS requests 16 additional days to submit the quarterly report to the House and Senate Committees on Appropriations.

line service a priority and allocate resources necessary to improve the Internal Revenue Service 1-800 help line service.

SEC. 105. Section 9503(a) of title 5, United States Code, is amended by striking the clause “before July 23, 2013” and inserting “before September 30, 2018”.

SEC. 106. Section 9503(a)(5) of title 5, United States Code, is amended by inserting before the semicolon the following: “renewable for an additional two years, based on a critical organizational need”.

SEC. 107. Section 9505(a) of title 5, United States Code, is amended by striking “Before July 23, 2013” and inserting “Before September 30, 2018”.

Section 105 was deleted from the IRS Administrative Provisions and added to the Treasury Administrative Provisions since the program integrity cap adjustment includes funds for TTB.

The IRS requests a five-year extension to the Streamlined Critical Pay (SCP) authority, which expires July 23, 2013. Without SCP the IRS would not be able to continue paying approximately 30 senior employees, principally in information technology, at the salaries they have earned over several years. The high potential for attrition jeopardizes the IRS’s ability to continue modernizing its critical IT systems, which were just recently removed by GAO from its High-Risk list. The IRS also requests to extend the SCP appointment term to five years because four years is insufficient to complete projects.

2C – Legislative Proposals

The FY 2014 President’s Budget request includes a number of legislative proposals intended to reduce the tax gap and improve tax compliance with minimal taxpayer burden. The Treasury Office of Tax Analysis (OTA) estimates these new tax gap proposals will generate \$77.9 billion over the next 10 years which includes \$46.5 billion generated by program integrity cap adjustments. The IRS estimates the implementation cost for the tax gap proposals included in the FY 2013 President’s Budget that have not yet been enacted, to be \$84.1 million over three years, including the initial startup, processing, and compliance operational costs (the cost for these legislative proposals is provided below).

The Administration proposes to expand information reporting, improve compliance by businesses, and strengthen tax administration. Should the Congress enact these provisions, Treasury requests that the amounts below be included as part of the authorizing legislation. The Budget also proposes to amend the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended, to provide 10-years (FYs 2014-2023) of discretionary caps to permit program integrity cap adjustments costing \$13.8 billion and delivering \$46.5 billion in additional revenue, thereby generating \$32.7 billion in net savings over the ten-year budget window.

Expand information reporting – Compliance with the tax laws is highest when payments are subject to information reporting to the IRS. Specific information reporting proposals would:

- Require information reporting for private separate accounts of life insurance companies (\$0);
- Require a certified Taxpayer Identification Number (TIN) from contractors and allow certain withholding (\$11.5 million); and
- Modify reporting of tuition expenses and scholarships on Form 1098-T, *Tuition Statement* (new in 2014).

Improve compliance by businesses – Improving compliance by businesses of all sizes is important. Specific proposals to improve compliance by businesses would:

- Provide Treasury with the regulatory authority to require that certain information returns be filed electronically (\$0);
- Provide Treasury with the regulatory authority to reduce the current threshold of filing 250 or more returns during a calendar year to require electronic filing of certain other large taxpayers not required to file Schedule M-3 (such as exempt organizations) (\$0.3 million);
- Require corporations and partnerships with assets of \$10 million or more that are required to file Schedule M-3 to file their tax returns electronically (\$0.3 million);
- Provide Treasury with the regulatory authority to require additional information to be included in electronically filed Form 5500, *Annual Return/Report of Employee Benefit Plan*, and electronic filing of certain other employee benefit plan reports (\$11.2 million);

- Implement standards that clarify when employee leasing companies can be held liable for their clients' Federal employment taxes (\$2.9 million);
- Increase certainty about the rules pertaining to classification of employees as independent contractors (\$1.9 million);
- Repeal special estimated tax payment provision for certain insurance companies (\$2.2 million); and
- Require all Form 990 series tax and information returns be filed electronically and provide IRS with regulatory authority to make the electronically filed Form 990 series returns publicly available in a machine readable format in a timely manner. (new in 2014).

Strengthen tax administration – The IRS has taken a number of steps under existing law to improve compliance. These efforts would be enhanced by specific tax administration proposals that would:

- Impose liability on shareholders participating in “Intermediary Transaction Tax Shelters” to collect unpaid corporate income taxes (new in 2014);
- Increase levy authority for payments to Medicare providers with delinquent tax debt (included in the Department of the Treasury FY 2013 General Explanations of the Administration’s Revenue Proposals and is new in 2014 as an IRS legislative proposal);
- Implement a program integrity statutory cap adjustment for tax administration (\$13.8 billion);
- Streamline audit and adjustment procedures for large partnerships (\$2.5 million);
- Revise offer-in-compromise application rules (\$17.8 million);
- Expand the IRS’s access to information in the National Directory of New Hires for tax administration purposes (\$12.0 million);
- Make repeated willful failure to file a tax return a felony (\$0);
- Facilitate tax compliance with local jurisdictions (\$1.2 million);
- Extend statutes of limitations where State tax adjustments affect Federal tax liability (\$0);
- Improve the investigative disclosure statute (\$0);
- Require taxpayers who prepare their returns electronically, but file their returns on paper, to print their returns with a 2-D bar code (\$6.8 million);
- Allow the IRS to absorb credit card processing fees for certain tax payments (\$9.6 million);
- Extend IRS math error authority in certain circumstances (\$1.4 million);
- Impose a penalty on failure to comply with electronic filing requirements (\$2.5 million);

- Restrict access to Death Master File (DMF) (new in 2014);
- Provide whistleblowers with protection from retaliation (new in 2014);
- Provide stronger protection from improper disclosure of taxpayer information in whistleblower actions (new in 2014);
- Index all penalties to inflation (new in 2014);
- Extend paid preparer Earned Income Tax Credit (EITC) due diligence requirements to the child tax credit (new in 2014);
- Extend IRS authority to require truncated Social Security Number (SSN) on Form *W-2, Wage and Tax Statement* (new in 2014);
- Add tax crimes to the Aggravated Identity Theft Statute (new in 2014); and
- Impose a civil penalty on tax identity theft crimes (new in 2014).

Section 3 – Budget and Performance Plan

Taxpayer Services

Appropriation Description

The Taxpayer Services appropriation provides funding for taxpayer service activities and programs. This includes printing forms and publications, processing tax returns and related documents, offering filing and account services, ensuring the availability of taxpayer assistance, and providing taxpayer advocacy services.

The Taxpayer Services President's Budget request for FY 2014 is \$2,412,576,000 in direct appropriations and 32,575 FTE. This is an increase of \$172,873,000, or 7.72 percent, and 2,285 FTE more than the FY 2012 Enacted Budget of \$2,239,703,000 and 30,290 FTE.

2.1 – Budget Adjustments Table

Dollars in Thousands

Taxpayer Services	FTE	Amount
FY 2012 Enacted ¹	30,290	\$2,239,703
FY 2013 Annualized CR Rate	30,402	\$2,253,510
FY 2014 Changes to Base:		
Non-Recur CR Increase:		(\$13,807)
Maintaining Current Levels (MCLs):		\$22,391
Pay Inflation Adjustment		19,277
Non-Pay Inflation Adjustment		3,114
Efficiencies/Savings:	(251)	(\$18,208)
Increase e-File Savings	(101)	(4,969)
Targeted Personnel Savings	(150)	(13,239)
Subtotal FY 2014 Changes to Base	(251)	(\$9,624)
FY 2014 Current Services (Base)	30,151	\$2,243,886
Program Changes:		
Program Increases:		
Taxpayer Service Initiative:		
Improve Taxpayer Service and Meet Increased Demand	1,863	130,306
Subtotal Taxpayer Service Initiative	1,863	\$130,306
Enforcement Initiatives:		
Implement Merchant Card and Basis Matching	153	7,643
Address Impact of Affordable Care Act (ACA) Statutory Requirements	8	1,124
Improve Identification and Prevention of Refund Fraud and Identity Theft	236	19,269
Leverage Data to Improve Case Selection	164	10,348
Subtotal Enforcement Initiatives	561	\$38,384
Subtotal FY 2014 Program Changes	2,424	\$168,690
Total FY 2014 Budget Request	32,575	\$2,412,576

¹ FY 2012 Enacted represents the approved FY 2012 Operating Plan.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Taxpayer Services	FY 2012 Actuals	FY 2013 Annualized CR Rate	FY 2014 Request
FTE	31,311	31,536	33,234
Object Classification:			
11.1 Full-Time Permanent Positions	\$1,559,270	\$1,591,962	\$1,664,466
11.3 Other than Full-Time Permanent Positions	46,738	45,083	45,669
11.5 Other Personnel Compensation	96,928	90,727	98,908
11.8 Special Personal Services Payments	0	0	0
11.9 Personnel Compensation (Total)	\$1,702,936	\$1,727,772	\$1,809,043
12.0 Personnel Benefits	540,569	548,931	560,961
13.0 Benefits to Former Personnel	5,331	150	151
21.0 Travel	17,845	25,002	28,226
22.0 Transportation of Things	1,213	994	1,012
23.1 Rental Payments to GSA	0	0	0
23.2 Rent Payments to Others	18	23	24
23.3 Communications, Utilities, & Misc	2,451	2,037	2,076
24.0 Printing & Reproduction	7,990	9,161	9,478
25.1 Advisory & Assistance Services	31,566	14,864	15,123
25.2 Other Services	25,079	43,000	46,946
25.3 Purchase of Goods & Services from Govt. Accounts	61,363	61,920	66,029
25.4 Operation & Maintenance of Facilities	2	2	3
25.5 Research & Development Contracts	0	0	0
25.6 Medical Care	0	0	0
25.7 Operation & Maintenance of Equipment	0	0	0
25.8 Subsistence & Support of Persons	391	1,568	1,609
26.0 Supplies and Materials	7,691	7,915	8,583
31.0 Equipment	534	762	776
32.0 Lands and Structures	336	292	297
33.0 Investments & Loans	0	0	0
41.0 Grants, Subsidies	30,175	27,893	33,893
42.0 Insurance Claims & Indemn	316	930	948
43.0 Interest and Dividends	0	0	0
44.0 Refunds	0	0	0
91.0 Unvouchered	0	0	0
Total Budget Resources	\$2,435,806	\$2,473,216	\$2,585,178
Budget Activities:			
Pre-filing Taxpayer Assistance & Education	\$652,007	\$642,611	\$670,295
Filing & Account Services	1,783,799	1,830,605	1,914,883
Total Budget Resources	\$2,435,806	\$2,473,216	\$2,585,178

2.3 – Appropriation Detail Table

Dollars in thousands

Taxpayer Services Resources	FY 2012 Actuals		FY 2012 Enacted ¹		FY 2013 Annualized CR Rate		FY 2014 Request		\$ Change FY 2012 to FY 2014		% Change FY 2012 to FY 2014	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
	New Appropriated Resources:											
Pre-Filing Taxpayer Assistance and Education	5,814	\$611,653	5,925	\$625,189	5,656	\$632,514	5,808	\$660,197	(117)	\$35,008	-1.97%	5.60%
Filing and Account Services	24,422	1,610,904	24,365	1,614,514	24,746	1,620,996	26,767	1,752,379	2,402	137,865	9.86%	8.54%
Subtotal New Appropriated Resources	30,236	\$2,222,557	30,290	\$2,239,703	30,402	\$2,253,510	32,575	\$2,412,576	2,285	\$172,873	7.54%	7.72%
Other Resources:												
Reimbursables	456	20,855	456	20,855	453	21,144	453	21,360	(3)	505	-0.66%	2.42%
User Fees	619	174,596	619	174,596	681	198,562	206	151,242	(413)	(23,354)	-66.72%	-13.38%
Recovery from Prior Years				4						(4)		-100.00%
Unobligated Balances from Prior Years		17,798		17,977		7,404		7,400		(10,577)		-58.84%
Transfers In/Out												
Resources from Other Accounts	34		34						(34)		-100.00%	
Subtotal Other Resources	1,109	\$213,249	1,109	\$213,432	1,134	\$227,110	659	\$180,002	(450)	(\$33,430)	-40.58%	-15.66%
Total Budgetary Resources	31,345	\$2,435,806	31,399	\$2,453,135	31,536	\$2,480,620	33,234	\$2,592,578	1,835	\$139,443	5.84%	5.68%

¹ FY 2012 Enacted represents the approved FY 2012 Operating Plan.

3A – Pre-Filing Taxpayer Assistance and Education (\$660,197,000 in direct appropriations, an estimated \$98,000 from reimbursable programs, and an estimated \$10,000,000 from user fees): This budget activity funds services to assist with tax return preparation, including tax law interpretation, publication, production, and advocate services. The program activities include the following:

- *Pre-Filing Services Management* supports headquarters management associated with Customer Assistance Relationship and Education (CARE). CARE provides pre-filing taxpayer assistance and education.
- *Taxpayer Communication and Education* researches customer needs; develops and manages educational programs; establishes partnerships with stakeholder groups; and disseminates tax information to taxpayers and the general public through a variety of media, including publications and mailings, websites, broadcasting, and advertising.
- *Media and Publications* develops and produces notices, forms, and publications for printed and electronic tax materials, and provides media production services to taxpayers.
- *Taxpayer Advocacy* provides advocate services to taxpayers by identifying the underlying causes of taxpayer problems and participating in the development of systematic and/or procedural remedies.
- *Account Management and Assistance – Field Assistance* provides face-to-face assistance, education, and compliance services to taxpayers. It includes return preparation, answering tax questions, resolving account and notice inquiries, and supplying forms and publications to taxpayers.
- *Taxpayer Advocate Case Processing* provides advocate services to taxpayers to resolve taxpayer problems through prompt identification, referral, and settlement.
- *W&I HQ Management and Administration* provides staffing, training, and direct support for Wage and Investment management activities of strategic planning, communications and liaison, finance, human resources, equity, diversity and inclusion, business modernization, and embedded training.
- *National Distribution Center* processes orders for IRS forms and publications received from individual taxpayers, tax practitioners, and IRS tax return preparation partners.

FY 2014 Program Changes by Budget Activity

Dollars in Thousands

Taxpayer Services		
Pre-filing Taxpayer Assistance and Education	FTE	Amount
Taxpayer Service Initiative	111	\$16,815
Improve Taxpayer Service and Meet Increased Demand	111	16,815
Enforcement Initiatives	127	\$13,345
Implement Merchant Card and Basis Matching	11	1,027
Address Impact of Affordable Care Act (ACA) Statutory Requirements	8	1,124
Improve Identification and Prevention of Refund Fraud and Identity Theft	108	11,194
Total FY 2014 Program Changes	238	\$30,160

3.1.1 – Budget and Performance Report and Plan

Dollars in Thousands

Pre-Filing Taxpayer Assistance & Education	FY 2013							
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Annualized	FY 2014
Resource Level ^{1,2}	Enacted	Enacted	Enacted	Enacted	Enacted	Enacted	CR Rate	Request
Appropriated Resources	\$576,537	\$645,253	\$661,000	\$679,924	\$678,204	\$625,189	\$632,514	\$660,197
Reimbursable Resources	843	774	796	862	1,135	96	97	98
User Fees	1,201	12,827	18,700	5,514		22,460	10,000	10,000
Budget Activity Total	\$578,581	\$658,854	\$680,496	\$686,300	\$679,339	\$647,745	\$642,611	\$670,295

¹ The FY 2007 - FY 2012 Appropriated Resources represents the approved Operating Plan.

² The FY 2007 - FY 2012 columns represent realized resources for reimbursable and user fees.

Pre-Filing Taxpayer Assistance & Education	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Measure	Actual	Actual	Actual	Actual	Actual	Actual	Target	Target
Timeliness of Critical Filing Season Tax Products to the Public (Ot)	83.5%	92.4%	96.8%	95.3%	96.3%	97.2%	95.0%	95.0%
Timeliness of Critical TE/GE & Business Tax Products to the Public (Ot)	84.0%	89.5%	95.2%	97.7%	96.4%	94.5%	95.0%	95.0%
Taxpayer Self-Assistance Rate (E) (L)	49.5%	66.8%	69.3%	64.4%	70.1%	78.5%	80.0%	80.5%

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and L - Long Term Goal

Description of Performance

For FY 2012, the IRS timely delivered 97.2 percent of the Critical Individual Filing Season Tax Products to the public by the fifth workday of January. During FY 2012, the IRS released early products not affected by legislation to devote more time to analyze, develop, and post or print the tax products affected by legislation. The FY 2013 and FY 2014 goals of 95 percent were set based on a review of current year data and available resources. To achieve future targets the IRS will continue to release products not affected by legislation early to devote more time to tax products affected by legislation.

The IRS Timeliness of Critical TE/GE and Business Filing Season Tax products to the Public reached 94.5 percent, exceeding the FY 2012 target of 93 percent. The IRS is increasing its target for FY 2013 and FY 2014 to 95 percent based on past performance. To achieve future targets the IRS will continue to release products not affected by legislation early to have more time to analyze, develop, and post or print the tax products affected by legislation.

Taxpayer Self-Assistance Rate reached 78.5 percent in FY 2012, exceeding the target of 72.2 percent. This increase is attributed to a 70 percent increase in the use of the *Where's My Refund?* application. The IRS expects performance to increase as more taxpayers choose to use automated applications to resolve issues and questions instead of more traditional methods such as contact with the IRS by telephone and written correspondence. To achieve future targets, the IRS will continue to increase the self-service applications provided to taxpayers through IRS.gov and release new Smartphone applications such as IRS2Go, which lets taxpayers interact with the IRS where and when they want. Through continued use of automation and based on past performance, the IRS is increasing its FY 2013 and FY 2014 targets to 80.0 percent and 80.5 percent respectively.

3B – Filing and Account Services (\$1,752,379,000 in direct appropriations, an estimated \$21,262,000 from reimbursable programs, and an estimated \$141,242,000 from user fees): This budget activity funds programs that provide filing and account services to taxpayers, process paper and electronically-submitted tax returns, issue refunds, and maintain taxpayer accounts. The IRS continues to make progress in decreasing paper returns and increasing the use of electronic filing and payment methods. This budget activity also provides operating resources to administer the advance payment feature of the Trade Act of 2002 (Public Law 107-210) health insurance tax credit program, which assists dislocated workers with their health insurance premiums.

The program activities include the following:

- *Filing and Account Services Management* administers filing and account services programs.
- *Submission Processing* processes paper and electronically submitted tax returns and supplemental documents, accounts for tax revenue, processes information documents, and issues refunds and tax notices.
- *Account Management and Assistance – Electronic/Correspondence Assistance* provides education and assistance to taxpayers and resolves accounts and notice inquiries through telephone, paper, and Internet correspondence.
- *Electronic Products and Services Support* provides centralized operations and support capabilities for the IRS suite of electronic products, including e-help desk, technology support, and operations support.
- *Electronic Tax Administration (ETA)* markets and administers electronic tax administration products and services.
- *Pre-Refund* provides coordination support for the pre-refund activities to ensure timely issuance of refunds and credits that are legally due to taxpayers.
- *Health Insurance Tax Credit Administration (HITCA)* provides funds to administer the health insurance tax credit portion of the Trade Adjustment Assistance Reform Act of 2002.
- *Joint Operations Center (JOC)* provides service, support, and technology for telephone, correspondence, and electronic media inquiries; real time monitoring and

routing of inbound calls; monitoring of Customer Service Representative accuracy; and management of the enterprise telephone database.

- *Files Most Efficient Organization (MEO)* provides staffing, training, and direct support for the management associated with the MEO for files in Submission Processing. This organization stores the administrative files and the most recent tax returns in process, which are the returns most often requested for research by various IRS organizations before forwarding to Federal records centers.

FY 2014 Program Changes by Budget Activity

Dollars in Thousands

Taxpayer Services		
Filing and Account Services	FTE	Amount
Taxpayer Service Initiative	1,752	\$113,491
Improve Taxpayer Service and Meet Increased Demand	1,752	113,491
Enforcement Initiatives	434	\$25,039
Implement Merchant Card and Basis Matching	142	6,616
Improve Identification and Prevention of Refund Fraud and Identity Theft	128	8,075
Leverage Data to Improve Case Selection	164	10,348
Total FY 2014 Program Changes	2,186	\$138,530

3.1.2 – Budget and Performance Report and Plan

Dollars in Thousands

Filing and Account Services								FY 2013	FY 2014
Resource Level ^{1, 2, 3}	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Annualized	CR Rate	Request
	Enacted	Enacted	Enacted	Enacted	Enacted	Enacted	CR Rate		
Appropriated Resources	\$1,576,557	\$1,561,067	\$1,647,406	\$1,614,418	\$1,630,549	\$1,614,514	\$1,620,996		\$1,752,379
Reimbursable Resources	20,081	36,037	37,094	21,993	27,857	20,759	21,047		21,262
User Fees	63,458	139,109	108,300	115,998	128,966	152,136	188,562		141,242
Budget Activity Total	\$1,660,096	\$1,736,213	\$1,792,800	\$1,752,409	\$1,787,372	\$1,787,409	\$1,830,605		\$1,914,883

¹ The FY 2007 - FY 2012 Appropriated Resources represents the approved Operating Plan.

² The FY 2007 - FY 2012 columns represent realized resources for reimbursable and user fees.

³ In FY 2012, the resources to administer the health insurance tax credit program were moved to the Taxpayer Services appropriation under the P.L. 112-74. For comparison purposes, FY 2007 through FY 2011 include these resources.

Filing and Account Services								
Measures	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
	Actual	Actual	Actual	Actual	Actual	Actual	Target	Target
Percent Individual Returns Processed Electronically (Oe) (L)	57.1%	57.6%	65.9%	69.3%	76.9%	80.5%	80.0%	81.0%
Percent of Business Returns Processed Electronically (Oe) (L)	19.1%	19.4%	22.8%	25.5%	31.8%	36.7%	38.0%	40.0%
Customer Accuracy - Tax Law Phones (Ot)	91.2%	91.2%	92.9%	92.7%	93.4%	93.2%	93.0%	93.0%
Customer Accuracy - Accounts (Phones) (Ot)	93.4%	93.7%	94.9%	95.7%	96.0%	95.6%	95.0%	95.0%
Customer Contacts Resolved per Staff Year (E)	7,648	12,634	12,918	10,744	12,419	16,320	16,754	17,198
Customer Service Representative Level of Service (Oe) (L) ¹	82.1%	52.8%	70.0%	74.0%	70.1%	67.6%	70.0%	79.0%
Refund Timeliness - Individual (Paper) (Ot)	98.9%	99.1%	99.2%	96.1%	99.4%	99.7%	98.0%	98.0%
Cost per Taxpayer Served (\$) (HCTC) (E)	\$14.90	\$16.94	\$13.79	\$9.52	\$12.36	\$14.43	\$15.00	N/A
Sign-up Time (Days) - Customer Engagement (HCTC) (Ot)	93.3	94.0	91.3	124.0	117.0	116.0	125.0	N/A

¹ Beginning in FY 2013, target includes an increase in base user fees.

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and L - Long Term Goal

N/A - HCTC program is scheduled to end on December 31, 2013.

Description of Performance

Millions of individual and business taxpayers file their returns electronically. The IRS achieved an 80.5 percent individual e-file rate and a 36.7 percent business e-file rate in FY 2012, exceeding the targets for both measures. The increase in individual returns filed electronically for FY 2012 can be attributed to a new law requiring paid tax return preparers who anticipate filing eleven or more returns for individuals to electronically file Federal income tax returns and more taxpayers taking advantage of e-filing their tax returns themselves. Continued business e-file growth is the result of States mandating e-filing of State submissions and the overall benefits of e-file (i.e. faster refunds, greater accuracy, secure and confidential submission, quick confirmation, and the ability to file amended, superseded, and prior year returns) continue to drive performance for this measure. The IRS is promoting the benefits of e-filing via social media such as IRS2Go. Based on the most recent filing projections and past performance, the IRS will increase the individual e-filing target to 80 percent for FY 2013 and to 81 percent for FY 2014 and the business e-filing target to 38 percent for FY 2013 and 40 percent for FY 2014.

The IRS correctly answered 93.2 percent of tax law questions and 95.6 percent of account questions via the telephone, exceeding the FY 2012 targets. The IRS expects to maintain high-performance through ongoing efforts to focus on promoting coding consistency of product reviews and providing training to managers and employees to ensure quality service to customers. Although responding to legislative changes in tax laws will continue to be a major challenge moving forward, the IRS has set the tax law accuracy targets at 93 percent and the accounts accuracy targets at 95 percent for FY 2013 and FY 2014.

The IRS Customer Contacts Resolved Per Staff Year reached 16,320, exceeding the FY 2012 target and FY 2011 performance. This measure includes activities such as automated and assistor calls answered and web services completed. For FY 2012, performance improved 31.4 percent compared to FY 2011 because of a significant increase in web usage, up more than 57 percent compared to last year. The IRS is increasing its FY 2013 and FY 2014 targets to 16,754 and 17,198, respectively based on FY 2012 performance and the expectation that more taxpayers will use self service applications on IRS.gov. To achieve these targets, the IRS will continue to provide efficient responses to customer contacts with the resources available and provide more self-service applications on IRS.gov.

The Customer Service Representative Level of Service was 67.6 percent for FY 2012 exceeding the FY 2012 target of 61.0 percent. With additional base user fees, the IRS increased its FY 2013 target to 70.0 percent, while requested initiative funding will increase the FY 2014 target to 79.0 percent. The IRS will maintain a balance between responding to taxpayer telephone demand and the paper correspondence received to achieve future level of service targets.

In FY 2012, Refund Timeliness reached 99.7 percent, exceeding the FY 2012 target of 98 percent due in part to the decline in the number of paper refunds issued. For FY 2013 and FY 2014, the target will remain at 98.0 percent as the IRS makes additional efforts to ensure identity verification before releasing the refund to the taxpayer. The IRS will continue to monitor Individual Master File (IMF) return cycles and inventories through various reports and production meetings to ensure the year-end target is met.

For the Health Insurance Tax Credit Administration (HITCA) program, IRS exceeded last year's performance and the FY 2012 target for Sign-up Time, but fell short of this year's target for Cost per Taxpayer Served (CPTS). In FY 2012, Sign-up Time (the median number of days between the first program kit mailing and the first payment received from the participant) improved compared to FY 2011 while the CPTS was higher (\$14.43 vs. \$12.36). The increase in cost is attributed to a decline in the number of taxpayers served while program costs remained the same. The Trade Adjustment Assistance Extension Act of 2011 modified the IRS code, which eliminates the credit after December 31, 2013. The program will collect the last monthly payment from participants in November 2013 for December 2013 coverage. While Health Coverage Tax Credit (HCTC) program operation activities (i.e., support Master File, decommission HCTC systems, etc.) will continue beyond the 2013 filing season, no payment and/or enrollment activity will take place, rendering both the Cost per Taxpayer Served and Customer Engagement Days (Sign-Up Time) measures obsolete starting in FY 2014. The FY 2013 target is set at 125 days for Sign-up Time and \$15.00 for CPTS.

Enforcement

Appropriation Description

The Enforcement appropriation provides funding for the examination of tax returns, both domestic and international; administrative and judicial settlement of taxpayer appeals of examination findings; technical rulings; monitoring of employee pension plans; determination of qualifications of organizations seeking tax-exempt status; examination of tax returns of exempt organizations; enforcement of statutes relating to detection and investigation of criminal violations of the internal revenue laws; identification of underreporting of tax obligations; securing of unfiled tax returns; collecting unpaid accounts; and providing campus support of the Questionable Refund program.

The Enforcement President's Budget request for FY 2014 is \$5,666,787,000 in direct appropriations and 49,987 FTE. This is a \$367,420,000, or 6.93 percent, and 1,690 FTE increase from the revised FY 2012 Enacted Budget of \$5,299,367,000 and 48,297 FTE.

To reduce future deficits, a portion of this appropriation, \$245,904,000, is requested as part of the \$411,990,000 total program integrity cap adjustment for IRS, which includes an above-base investment in tax enforcement and compliance programs, of which \$5,000,000 will be transferred to the Alcohol and Tobacco Tax and Trade Bureau for High-Return on Investment (ROI) enforcement activities. In conjunction with specified funds provided in the IRS Operations Support account, this increment will support tax compliance initiatives expected to generate high ROI in the form of increased tax revenues.

2.1 – Budget Adjustments Table

Dollars in Thousands

Enforcement	FTE	Amount
FY 2012 Enacted ¹	48,297	\$5,299,367
FY 2013 Annualized CR Rate	46,702	\$5,331,000
FY 2014 Changes to Base:		
Non-Recur CR Increase:		(\$31,633)
Maintaining Current Levels (MCLs):		\$50,551
Pay Inflation Adjustment		45,802
Non-Pay Inflation Adjustment		4,749
Efficiencies/Savings:	(460)	(\$56,605)
Targeted Personnel Savings	(460)	(56,605)
Subtotal FY 2014 Changes to Base	(460)	(\$37,687)
FY 2014 Current Services (Base)	46,242	\$5,293,313
Program Changes:		
Program Increases:		
Taxpayer Service Initiative:		
Improve Taxpayer Service and Meet Increased Demand	32	3,250
Subtotal Taxpayer Service Initiative	32	\$3,250
Enforcement Initiatives:		
Implement Foreign Account Tax Compliance Act (FATCA)	204	19,600
Address International and Offshore Compliance Issues	329	43,311
Implement Merchant Card and Basis Matching	370	30,275
Address Impact of Affordable Care Act (ACA) Statutory Requirements	223	26,084
Improve Identification and Prevention of Refund Fraud and Identity Theft	538	48,361
Increase Audit Coverage to Address Tax Compliance Issues	773	71,453
Increase Collection Coverage	573	36,261
Expand Coverage of High-Wealth Individuals and Enterprises	242	29,456
Improve Coverage of Partnerships and Flow-Through Entities	320	39,136
Build Out Tax Return Preparer Compliance Activities	124	15,982
Leverage Data to Improve Case Selection	10	4,474
Leverage Digital Evidence for Criminal Investigation (CI)	7	831
Subtotal Enforcement Initiatives	3,713	\$365,224
Alcohol and Tobacco Tax and Trade Bureau Program Integrity Transfer:		
Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities		5,000
Subtotal Alcohol and Tobacco Tax and Trade Bureau Program Integrity Trar		\$5,000
Subtotal FY 2014 Program Changes	3,745	\$373,474
Total FY 2014 Budget Request	49,987	\$5,666,787

¹ FY 2012 Enacted represents the approved FY 2012 Operating Plan.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Enforcement	FY 2012 Actuals	FY 2013 Annualized CR Rate	FY 2014 Request
FTE	47,456	47,129	50,284
Object Classification:			
11.1 Full-Time Permanent Positions	\$3,602,124	\$3,660,288	\$3,842,679
11.3 Other than Full-Time Permanent Positions	40,413	44,694	45,008
11.5 Other Personnel Compensation	165,159	162,127	168,811
11.8 Special Personal Services Payments	16,070	18,386	18,515
11.9 Personnel Compensation (Total)	\$3,823,766	\$3,885,495	\$4,075,013
12.0 Personnel Benefits	1,164,208	1,198,856	1,279,028
13.0 Benefits to Former Personnel	15,120	0	0
21.0 Travel	95,966	136,600	164,196
22.0 Transportation of Things	1,792	3,087	4,656
23.1 Rental Payments to GSA	829	836	849
23.2 Rent Payments to Others	532	711	737
23.3 Communications, Utilities, & Misc	4,949	6,147	6,355
24.0 Printing & Reproduction	4,546	3,812	4,099
25.1 Advisory & Assistance Services	81,484	27,512	31,016
25.2 Other Services	62,805	69,471	73,807
25.3 Purchase of Goods & Services from Govt. Accounts	43,696	47,049	47,913
25.4 Operation & Maintenance of Facilities	174	191	195
25.5 Research & Development Contracts	4,008	3,007	3,055
25.6 Medical Care	5	93	94
25.7 Operation & Maintenance of Equipment	1,609	1,503	1,624
25.8 Subsistence & Support of Persons	1,042	2,008	3,192
26.0 Supplies and Materials	27,917	23,679	26,265
31.0 Equipment	18,453	13,026	18,044
32.0 Lands and Structures	13	543	551
33.0 Investments & Loans	1,609	0	0
41.0 Grants, Subsidies	0	0	0
42.0 Insurance Claims & Indemn	1,829	1,967	1,998
43.0 Interest and Dividends	0	0	0
44.0 Refunds	0	18	18
91.0 Unvouchered	9,426	12,878	3,049
Total Budget Resources	\$5,365,778	\$5,438,489	\$5,745,754
Budget Activities:			
Investigations	\$702,546	\$680,374	\$715,176
Exam & Collections	4,499,111	4,584,736	4,848,553
Regulatory	164,121	173,379	182,025
Total Budget Resources	\$5,365,778	\$5,438,489	\$5,745,754

2.3 – Appropriation Detail Table

Dollars in thousands

Enforcement Resources	FY 2012 Actuals		FY 2012 Enacted ¹		FY 2013 Annualized CR Rate		FY 2014 Request		\$ Change FY 2012 to FY 2014		% Change FY 2012 to FY 2014	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Investigations	4,237	\$637,846	4,354	\$636,386	3,791	\$611,233	4,048	\$661,631	(306)	\$25,245	-7.03%	3.97%
Exam and Collections	41,814	4,482,881	42,791	4,504,885	41,725	4,565,257	44,706	4,842,007	1,915	337,122	4.48%	7.48%
Regulatory	1,138	150,903	1,152	158,096	1,186	154,510	1,233	163,149	81	5,053	7.03%	3.20%
Subtotal New Appropriated Resources	47,189	\$5,271,630	48,297	\$5,299,367	46,702	\$5,331,000	49,987	\$5,666,787	1,690	\$367,420	3.50%	6.93%
Other Resources:												
Reimbursables	143	63,940	143	63,940	143	64,702	143	65,619		1,679		2.63%
User Fees	124	19,417	124	19,417	284	41,205	154	18,205	30	(1,212)	24.19%	-6.24%
Recovery from Prior Years		76		109		9				(109)		-100.00%
Unobligated Balances from Prior Years		10,669		12,085		1,582				(12,085)		-100.00%
Transfers In/Out ²		46		180					(5,000)	(5,180)		
Resources from Other Accounts	179		179		5		5			(174)		-97.21%
Subtotal Other Resources	446	\$94,148	446	\$95,731	432	\$107,498	302	\$78,824	(144)	(\$16,907)	-32.29%	-17.66%
Total Budgetary Resources	47,635	\$5,365,778	48,743	\$5,395,098	47,134	\$5,438,498	50,289	\$5,745,611	1,546	\$350,513	3.17%	6.50%

¹ FY 2012 Enacted represents the approved FY 2012 Operating Plan.

² Resources from Transfers In/Out include a FY 2012 transfer in from the Office of National Drug Control Policy (ONDCP) High Intensity Drug Trafficking Area (HIDTA) Program (\$180K) and a FY 2014 transfer out to the Alcohol and Tobacco Tax and Trade Bureau (TTB) (\$5M).

3C – Investigations (\$661,631,000 in direct appropriations and an estimated \$58,402,000 from reimbursable programs): This budget activity funds the Criminal Investigation (CI) programs that explore potential criminal and civil violations of tax laws; enforce criminal statutes relating to violations of tax laws and other financial crimes, and recommend prosecution as warranted. The program activities include the following:

- *General Management and Administration* supports the headquarters management activities of strategic planning, communications, finance, and human resources for CI activities.
- *Criminal Investigations* supports the enforcement of criminal statutes relating to violations of internal revenue laws and other financial crimes. CI investigates cases of suspected intent to defraud that involve both legal and illegal sources of income and recommends prosecution as warranted. This activity includes the investigation and prosecution of tax and money-laundering violations associated with narcotics organizations.
- *Criminal Tax Legal Support* provides legal advice and support from IRS Counsel to CI.
- *International Investigations* supports international investigations involving U.S. citizens residing abroad, non-resident aliens, expatriates, and investigations involving other international issues, including legal support (e.g., Foreign Tax Credit and Foreign Earned Income Exclusion, Corporations, Non-Profits, Pension Plans, etc.).

FY 2014 Program Changes by Budget Activity

Dollars in Thousands

Enforcement		
Investigations	FTE	Amount
Enforcement Initiatives	267	\$42,245
Address International and Offshore Compliance Issues	80	11,301
Implement Merchant Card and Basis Matching	42	7,603
Improve Identification and Prevention of Refund Fraud and Identity Theft	113	17,982
Build Out Tax Return Preparer Compliance Activities	25	4,528
Leverage Digital Evidence for Criminal Investigation (CI)	7	831
Alcohol and Tobacco Tax and Trade Bureau Program Integrity Transfer		\$5,000
Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities		5,000
Total FY 2014 Program Changes	267	\$47,245

3.1.3 – Budget and Performance Report and Plan

Dollars in Thousands

Investigations	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Resource Level ^{1,2}	Enacted	Enacted	Enacted	Enacted	Enacted	Enacted	Annualized CR Rate	Request
Appropriated Resources	\$576,785	\$592,906	\$611,601	\$639,363	\$644,479	\$636,386	\$611,233	\$661,631
Reimbursable Resources	32,441	49,404	39,639	67,549	63,146	56,895	57,559	58,402
User Fees						6,935	10,000	
Budget Activity Total	\$609,226	\$642,310	\$651,240	\$706,912	\$707,625	\$700,216	\$678,792	\$720,033

¹ The FY 2007 - FY 2012 Appropriated Resources represents the approved Operating Plan.

² The FY 2007 - FY 2012 columns represent realized resources for reimbursable and user fees.

Investigations	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Measure	Actual	Actual	Actual	Actual	Actual	Actual	Target	Target
Criminal Investigations Completed (Ot) (L)	4,269	4,044	3,848	4,325	4,697	4,937	4,350	4,350
Number of Convictions (Oe) (L)	2,155	2,144	2,105	2,184	2,350	2,634	2,400	2,400
Conviction Rate (Oe) (L)	90.2%	92.3%	87.2%	90.2%	92.7%	93.0%	92.0%	92.0%
Conviction Efficiency Rate (\$) (E) (L)	\$301,788	\$315,751	\$327,328	\$324,776	\$310,029	\$270,511	\$285,000	\$285,000

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, L - Long Term Goal

Description of Performance

Criminal Investigations (CI) serves the American public by investigating potential criminal violations of the Internal Revenue Code and related financial crimes in a manner that fosters confidence in the tax system and compliance with the law. The following measures are used to evaluate the success of achieving its mission.

The Number of Criminal Investigations Completed in FY 2012 (4,937) increased 5 percent compared to FY 2011 and exceeded the FY 2012 target by 23 percent. Approximately 75 percent of the investigations completed consisted of prosecutions that were recommended to the Department of Justice (DOJ). The increase was attributed to a larger number of investigations initiated in FY 2010 and FY 2011. To achieve future targets, CI will continue to leverage interagency partnerships and develop case selection methods using advanced

technologies. Based on last year's performance and available resources, the IRS will increase its FY 2013 and FY 2014 targets to 4,350.

The Number of Convictions in FY 2012 (2,634) was 12 percent higher compared to FY 2011 and 21 percent above the FY 2012 target. Heightened legislative priority by the Congress on Identity Theft has led the Department of Justice and the U.S. Attorney's Office to prioritize such cases for prosecution. This increased focus on Identity Theft cases contributed to the number of convictions exceeding the FY 2012 target. To achieve future targets, managers will continue to review and monitor performance on a monthly basis and make adjustments, as necessary, to keep on plan. Based on last year's performance and available resources, the IRS will increase its FY 2013 and FY 2014 targets to 2,400.

The Conviction Rate in FY 2012 was 93 percent, a slight increase over FY 2011 performance. During this period, convictions increased 12.1 percent and dismissals increased 6.7 percent compared to FY 2011. To achieve future targets, CI will continue to pursue our core mission of tax enforcement, as well as participate in multi-agency investigations of national and international importance. In FY 2013 and FY 2014, the IRS expects to meet its target of 92 percent using this strategy.

The Conviction Efficiency Rate is the cost of the criminal investigation program divided by the Number of Convictions. The FY 2012 year-end target for the Conviction Efficiency Rate was set lower than FY 2011 target because of decreases in the overall CI financial plan and reimbursable monies. In FY 2012, CI was able to complete 2,634 convictions and decrease the Conviction Efficiency Rate to \$270,511, exceeding the year-end target by 17 percent. To achieve the FY 2013 and FY 2014 goal of \$285,000, CI will continue to monitor its performance and adjust program focus and resources as necessary to ensure efforts garner the greatest deterrent effect possible.

3D – Exam and Collections (*\$4,842,007,000 in direct appropriations, an estimated \$6,541,000 from reimbursable programs, and an estimated \$5,000 from user fees*): This budget activity funds programs that enforce the tax laws and increase compliance through examination and collection programs that ensure proper payment and tax reporting. This budget activity also includes campus support of the Questionable Refund program and appeals and litigation activities associated with exam and collection. The program activities include the following:

- *Compliance Services Management* supports management associated with exam and collection program activities.
- *Payment Compliance – Correspondence Collection* supports IRS collection activities by initiating contact and collecting delinquent taxpayer liabilities through written notices and other means.
- *Automated Collections and Support* initiates contact and collects delinquent taxpayer liabilities through the centralized Automated Collection System (ACS).
- *Payment Compliance – Field Collection* conducts field investigations and collection efforts associated with delinquent taxpayer and business entity liabilities, including

direct taxpayer contact and outreach programs to protect the interest of the Federal Government in delinquent tax liability situations.

- *Tax Reporting Compliance – Document Matching* supports the Automated Underreporter (AUR), Combined Annual Wage Reporting (CAWR), Federal Unemployment Tax Act (FUTA), and other Document Matching Programs.
- *Tax Reporting Compliance – Electronic/Correspondence Exam* initiates written correspondence with taxpayers related to tax issues arising from claims on their tax returns.
- *Tax Reporting Compliance – Field Exam* compares taxpayer income levels and corresponding tax liabilities to ensure the accuracy of taxpayer returns.
- *Fraud/Bank Secrecy Act* assists and supports compliance employees IRS-wide in protecting the integrity of the U.S. tax administration system. The Bank Secrecy Act Program examines non bank financial institutions and nonfinancial trades and businesses for compliance with the anti-money laundering provisions of the Bank Secrecy Act of 1970 (BSA) and the USA Patriot Act of 2001. It processes and provides customer support for Reports of Foreign Bank and Financial Accounts (FBARs) and Form 8300, *Report of Cash Payments Over \$10,000 Received in a Trade or Business*. The National Fraud Program provides oversight and direction for fraud policy and operations IRS-wide.
- *Appeals* provides an administrative review process that provides a channel for impartial case settlement before a case is docketed in a court of law.
- *Litigation* provides legal support for the IRS in litigation of cases, including interpretation of the tax law.
- *Specialty Programs – Exams* examines Federal tax returns of businesses and individuals responsible for the filing and payment of employment, excise, estate and gift taxes.
- *International Collection* supports international field collection efforts associated with delinquent taxpayer and business entity liabilities from U.S. citizens residing abroad, non-resident aliens, expatriates, and those involving other international issues (e.g., Foreign Tax Credit and Foreign Earned Income Exclusion).
- *International Exams* supports the international exam program involving U.S. citizens residing abroad, non-resident aliens, expatriates and other examinations involving other international issues including legal support (e.g., Foreign Tax Credit and Foreign Earned Income Exclusion, Corporations, Non-Profits, Pension Plans, etc).
- *Unit General Management and Administration* provides staffing, training, and direct support for headquarters management activities of strategic planning, communication and liaison, finance, human resources, equity, diversity and inclusion, business system planning, and embedded training.
- *EITC Management and Administration* supports headquarters management associated with administering the Earned Income Tax Credit (EITC) program IRS-wide.

- *Accounts Management Taxpayer Assurance Program* provides support to Accounts Management for the review of questionable refunds including Identity Theft functions.
- *Whistleblower* provides staffing, training, and direct support to process, assess, and analyze tips from individuals who identify tax problems in the course of their daily personal business, regardless of where encountered (including the workplace).
- *Communications and Liaison* coordinates local government and liaison relationships; manages congressional, State, and national stakeholder relationships and issues; coordinates crosscutting issues, including audit management and legislative implementation; manages national media contacts and local media relationships; and ensures IRS compliance with disclosure and privacy laws.

FY 2014 Program Changes by Budget Activity

Dollars in Thousands

Enforcement		
Exam and Collections	FTE	Amount
Taxpayer Service Initiative	32	\$3,250
Improve Taxpayer Service and Meet Increased Demand	32	3,250
Enforcement Initiatives	3,374	\$312,954
Implement Foreign Account Tax Compliance Act (FATCA)	204	19,600
Address International and Offshore Compliance Issues	240	30,323
Implement Merchant Card and Basis Matching	328	22,672
Address Impact of Affordable Care Act (ACA) Statutory Requirements	184	20,484
Improve Identification and Prevention of Refund Fraud and Identity Theft	425	30,379
Increase Audit Coverage to Address Tax Compliance Issues	771	71,201
Increase Collection Coverage	573	36,261
Expand Coverage of High-Wealth Individuals and Enterprises	242	29,456
Improve Coverage of Partnerships and Flow-Through Entities	318	38,804
Build Out Tax Return Preparer Compliance Activities	79	9,300
Leverage Data to Improve Case Selection	10	4,474
Total FY 2014 Program Changes	3,406	\$316,204

3.1.4 – Budget and Performance Report and Plan

Dollars in Thousands

Exam and Collections Resource Level ^{1, 2}	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
	Enacted	Enacted	Enacted	Enacted	Enacted	Enacted	Annualized CR Rate	Request
Appropriated Resources	\$3,959,741	\$4,037,812	\$4,355,186	\$4,700,345	\$4,689,220	\$4,504,885	\$4,565,257	\$4,842,007
Reimbursable Resources	8,764	8,302	8,970	8,729	11,163	6,385	6,474	6,541
User Fees	5,452	12,679	3,103	49			13,005	5
Budget Activity Total	\$3,973,957	\$4,058,793	\$4,367,259	\$4,709,123	\$4,700,383	\$4,511,270	\$4,584,736	\$4,848,553

¹ The FY 2007 - FY 2012 Appropriated Resources represents the approved Operating Plan.

² The FY 2007 - FY 2012 columns represent realized resources for reimbursable and user fees.

Exam and Collections Measure	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
	Actual	Actual	Actual	Actual	Actual	Target	Target	Target
Examination Coverage - Individual (Oe) (L)	1.0%	1.0%	1.0%	1.1%	1.1%	1.0%	1.0%	1.0%
Field Exam National Quality Review Score (Oe) (L)	85.9%	86.0%	85.1%	84.9%	85.8%	87.4%	86.9%	87.3%
Office Exam National Quality Review Score (Oe) (L)	89.4%	90.0%	92.1%	91.6%	90.4%	91.3%	91.1%	91.1%
Examination Quality - Industry (Oe) (L)	87.0%	88.0%	88.0%	87.0%	90.0%	90.0%	N/A ¹	N/A ¹
Examination Quality - Coordinated Industry (Oe) (L)	96.0%	97.0%	95.0%	95.0%	96.0%	96.0%	N/A ¹	N/A ¹
Examination Coverage - Business (Assets > \$10 million) (Oe) (L)	6.8%	6.1%	5.6%	5.7%	6.2%	6.2%	4.6%	4.9%
Automated Underreporter (AUR) Efficiency (E) (L)	1,956	1,982	1,905	1,924	2,007	2,041	2,035	2,001
Automated Underreporter (AUR) Coverage (E) (L)	2.5%	2.6%	2.6%	3.0%	3.3%	3.2%	2.9%	3.1%
Examination Efficiency - Individual (E) (L)	137	138	138	140	139	142	145	145
Collection Coverage - Units (Ot) (L)	54.0%	55.2%	54.2%	50.1%	50.0%	48.1%	46.4%	47.1%
Collection Efficiency - Units (E) (L)	1,828	1,926	1,845	1,822	1,952	1,997	2,049	2,039
Field Collection National Quality Review Score (Ot) (L)	84.0%	79.0%	80.5%	80.6%	80.3%	80.4%	80.4%	80.4%
Automated Collection System (ACS) Accuracy (Oe)	92.9%	95.3%	94.3%	95.9%	94.9%	94.7%	94.5%	94.5%

Key: Oe - Outcome Measure, E - Efficiency Measure, L - Long Term Goal, Ot - Output/Workload Measure

N/A¹ - In FY 2013, these measures were combined and the new measure, Examination Quality - Large Business, will be reported in the FY 2015 Treasury Submission.

Description of Performance

The IRS Strategic goal, *Enforce the Law to Ensure Everyone Meets Their Obligation to Pay Taxes*, drives the IRS effort to enhance voluntary compliance. The IRS enforcement activities, such as examination and collection, target elements of the tax gap and remain a high priority. These programs make sure taxpayers pay what they owe and assist individuals who may have trouble meeting their tax liabilities because of hardship situations.

Exam

The Examination program provides taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness. The IRS uses the performance goals below to gauge the Examination program performance.

The IRS met the FY 2012 Individual Exam Coverage target of 1.0 percent. Individual coverage has been stable from FY 2008 through FY 2012. Future plans include leveraging the National Research Program data to improve return selection criteria, streamlining automation, an emphasis on multiyear noncompliance, and utilization of risk analysis/assessment in all business processes. To maintain a 1.0 percent coverage rate for FY 2013 and FY 2014 the IRS will place more emphasis on closing and monitoring cycle time, Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) returns, and Offshore Banking activity returns. In addition, resources will be devoted to working identity theft Individual Master File (IMF) cases.

In FY 2012, the Field Exam National Quality Review Score (NQRS) reached 87.4 percent, exceeding the FY 2012 target. This increase is because of increased focus on improving the lowest scoring quality attributes, and continued focus on the attribute pertaining to Income Determination (Attribute 300). Field Exam will work to maintain FY 2012 improvements and focus additional efforts upon improving Attribute 510 (Time Span). Beginning in FY 2013, there is a change in the quality scoring methodology, reducing the number of attributes from 18 to 17. The IRS adjusted the FY 2013 target to 86.9 percent and FY 2014 target to 87.3 percent to reflect recent quality improvements.

In FY 2012, Office Exam National Quality Review Score reached 91.3 percent, exceeding the FY 2012 target. This increase is because of continued quality improvement efforts initiated in FY 2011 that focused on the weakest attributes. Field Exam will work to maintain FY 2012 improvements and focus additional efforts upon improving Attribute 510 (Time Span). Beginning in FY 2013, there is a change in the quality scoring methodology, reducing the number of attributes from 18 to 17. The IRS adjusted the FY 2013 and FY 2014 targets to 91.1 percent to reflect recent quality improvements.

In FY 2012, the Examination Quality - Industry (IC) Score met the year-end target of 90 percent. The IRS continues to focus on the importance of meeting the quality measure through direct feedback and outreach to field teams and partnering with the industries on quality improvement efforts. In recent years, the IRS's Large Business & International (LB&I) operating division expanded to take on new program responsibilities and their traditional taxpayer base of large business taxpayers also expanded to include certain individual and small business taxpayers with international activity. At the same time, constrained resources and changing compliance risks have prompted LB&I to begin shifting program priorities to address coverage and compliance needs of the expanded taxpayer population. Therefore, beginning in FY 2013, Examination Quality Industry and Examination Quality Coordinated Industry will be combined and reporting will start in the FY 2015 budget cycle. The new measure will be called "Examination Quality – Large Business".

The IRS achieved a score of 96 percent for the FY 2012 Examination Quality - Coordinated Industry measure, missing the FY 2012 target by one percent. Factors contributing to the FY 2012 shortfall include: Corporate officers' individual returns not being secured and inspection results documented; issue status not being updated on the mid-cycle risk analysis; penalty consideration not documented; and report writing procedures not being followed on the Revenue Agents Report (Form 4549) for informal claims and No-Change cases. The quality management staff continues to focus on the importance of meeting the quality measures through direct feedback to field teams, partnering with the Industries in quality improvement efforts, and outreach to field teams. Over the past couple of years, LB&I expanded to take on new program responsibilities and their traditional taxpayer base of large business taxpayers also expanded to include certain individual and small business taxpayers with international activity. At the same time, constrained resources and changing compliance risks have prompted LB&I to begin shifting program priorities to address coverage and compliance needs of the expanded taxpayer population. Beginning in FY 2013, Examination Quality Industry and Examination Quality Coordinated Industry will be combined and reporting will start in the FY 2015 budget cycle. The new measure will be called "Examination Quality – Large Business".

In FY 2012, the IRS achieved a 6.2 percent rate for Examination Coverage – Business (assets greater than \$10 million), consistent with FY 2011 results and exceeding the FY 2012 plan. LB&I exceeded its planned closures because of hiring at the end of FY 2010 that led to a build up of new starts and pipeline inventory that generated more closures than expected. In FY 2013, LB&I will reallocate resources to work Offshore Voluntary Disclosure Initiative (OVDI) returns which are more complex and take more time to work. As such, the FY 2013 and FY 2014 targets were adjusted to 4.6 percent and 4.9 percent to account for the reallocation of these FTE.

The IRS fell short of the FY 2012 target for Automated Underreporter (AUR) Efficiency, reaching 2041 per FTE. The FY 2012 target assumed attrition hiring early in the year. However, the hiring could not be completed because of funding availability. Resources were realigned to address the reduction in FTE, but without the additional closures anticipated from the new hires, the IRS fell short of the target. The IRS will leverage the process improvements implemented in previous years to improve workload selection and productivity. A reduction in AUR resources to staff Identity Theft and Business Master File (BMF) AUR pilots will result in a decrease in closures and coverage. The FY 2013 and FY 2014 targets were adjusted to 2,035 and 2,001.

The IRS met the FY 2012 target for AUR Coverage even as the number of individual filings increased 1.9 percent compared to FY 2011. AUR data is cyclical, with larger closure volumes occurring later in the fiscal year. As mentioned for AUR Efficiency, because of a reduction in AUR resources to staff Identity Theft and BMF AUR pilots, the FY 2013 and FY 2014 targets were adjusted to 2.9 percent and 3.1 percent. The business operating divisions will continue to work collaboratively to ensure the targets are met by realigning resources and workload as needed.

The IRS exceeded the FY 2012 target of 134 for Individual Exam Efficiency, as closures declined at a slower rate than FTE. In FY 2013, Small Business Field Exam will focus on

business returns and more complex individual work. This work will require increased time because of the probability of in-depth income examinations, which will reduce the volume of individual returns that close. However, OVDI closures will offset a portion of the decline. Domestic & International Business Compliance (IBC) individual return delivery is expected to increase. To maintain coverage, the IRS will place more emphasis on closing and monitoring cycle time, Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) returns and Offshore Banking activity returns. For FY 2013 and FY 2014, the IRS expects to meet the target of 145. In addition, resources will be devoted to working identity theft IMF cases.

Collection

The Collection program collects delinquent taxes, secures delinquent tax returns through the fair and equitable application of the tax laws, and provides education to customers to encourage future compliance, thereby protecting and promoting public confidence in the American tax system. The performance goals that the IRS uses to gauge collection program performance are discussed below.

In FY 2012, Collection Coverage reached 48.1 percent, exceeding the target of 47.8 percent. In FY 2013, to ensure continued improvement each functional area plans to increase productivity 1.5 percent. Field Collection is delivering management training focused on tools to improve group level performance. Automated Collection System (ACS) programs plan to improve efficiency with automated checklists, tools, and e-guides and improve management of priority inventory through site-level timeliness goals. The FY 2013 target of 46.4 percent was set as a result of redirecting ACS staff to Accounts Management Toll-free in support of the Identify Theft program. The IRS expects to meet the FY 2013 target and the FY 2014 target of 47.1.

In FY 2012, the Collection Efficiency target was not met. Attrition replacement hires did not come on board until late in the fiscal year. Although there was an increase in the number of FTE due to attrition hiring, due to the timing of the arrival of the attrition replacement hires, Collection did not receive a corresponding increase in the number of closures and therefore efficiency decreased. In addition, delinquent return notice dispositions fell short of plan because of the reallocation of resources in the campus from return delinquency programs to balance due programs and programming issues related to case creation and notice issuances earlier in the year. To ensure continued improvement, each business unit plans for a 1.5 percent productivity increase. Field Collection is delivering management training focused on tools to improve group performance. ACS plans to improve efficiency using automated checklists, tools, and e-guides, and improve management of priority inventory through site-level timeliness goals. The FY 2013 and FY 2014 targets were increased based on last year's performance to 2,049 and 2,039 based on the planned improvements.

At 80.4 percent, FY 2012 results exceeded the Field Collection NQRS target by 2.4 percentage points. The number of quality attributes reviewed decreased 33 percent from FY 2011 because of process improvements. The IRS experienced improvements in the top five attributes, which contributed to the improved score. To emphasize continual quality improvement, front line managers participated in a Leadership CPE course in September 2012 that provided additional tools in this area, including how to prepare a quality action plan and

better monitor group performance. FY 2013 and FY 2014 targets will remain the same at 80.4 percent based on the FY 2012 results.

The IRS exceeded the FY 2012 ACS target, reaching 94.7 percent. Results for this measure have been consistently above 94 percent for the last five years. To achieve future targets, the IRS will continue to focus on process and performance reviews to maintain the highest accuracy rate possible. Enhanced collaboration and information sharing between ACS sites will be key to meeting the FY 2013 and FY 2014 targets of 94.5 percent.

3E – Regulatory (*\$163,149,000 in direct appropriations, an estimated \$676,000 from reimbursable programs, and an estimated \$18,200,000 from user fees*): This budget activity funds the development and printing of published IRS guidance materials; interpretation of tax laws; internal advice to IRS on general non-tax legal issues; enforcement of regulatory rules, laws, and approved business practices; and support for taxpayers in the areas of pre-filing agreements, determination letters, and advance pricing agreements. The program activities include the following:

- *Tax Law Interpretation and Published Guidance* interprets the tax law through published guidance, technical advice, and other technical legal services.
- *General Legal Services* provides advice to the IRS on non-tax legal issues, including procurement, personnel, labor relations, equal employment opportunity, fiscal law, tort claims and damages, ethics, and conflict of interest.
- *Rulings and Agreements* applies the tax law to specific taxpayers in the form of pre-filing agreements, determination letters, advance pricing agreements, and other pre-filing determinations and advice.
- *International Regulatory Legal Support* supports Counsel's work in tax law interpretation and rulings and agreements related to international issues.
- *Return Preparer Strategy* provides staffing, training, and direct support associated with the Return Preparer Strategy.
- *Office of Professional Responsibility* identifies, communicates, and enforces Treasury Circular 230 standards of competence, integrity, and conduct of those who represent taxpayers before the IRS, including attorneys, Certified Public Accountants (CPAs), enrolled agents, enrolled actuaries and appraisers, and other professionals.

FY 2014 Program Changes by Budget Activity

Dollars in Thousands

Enforcement		
Regulatory	FTE	Amount
Enforcement Initiatives	72	\$10,025
Address International and Offshore Compliance Issues	9	1,687
Address Impact of Affordable Care Act (ACA) Statutory Requirements	39	5,600
Increase Audit Coverage to Address Tax Compliance Issues	2	252
Improve Coverage of Partnerships and Flow-Through Entities	2	332
Build Out Tax Return Preparer Compliance Activities	20	2,154
Total FY 2014 Program Changes	72	\$10,025

3.1.5 – Budget and Performance Report and Plan

Dollars in Thousands

Regulatory	Resource Level ^{1,2}	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
		Enacted	Enacted	Enacted	Enacted	Enacted	Enacted	Annualized CR Rate	Request
	Appropriated Resources	\$149,951	\$149,282	\$150,480	\$164,292	\$159,293	\$158,096	\$154,510	\$163,149
	Reimbursable Resources	255	435	469	574	654	660	669	676
	User Fees		168			13,249	12,482	18,200	18,200
	Budget Activity Total	\$150,206	\$149,885	\$150,949	\$164,866	\$173,196	\$171,238	\$173,379	\$182,025

¹ The FY 2007 - FY 2012 Appropriated Resources represents the approved Operating Plan.

² The FY 2007 - FY 2012 columns represent realized resources for reimbursable and user fees.

Regulatory	Measure	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
		Actual	Actual	Actual	Actual	Actual	Target	Target	Target
	TE/GE Determination Case Closures (Ot)	109,408	100,050	96,246	105,247	91,205	87,000	62,473	67,922

Key: Ot - Output/Workload Measure

Description of Performance

Tax Exempt and Government Entities (TEGE) Determination Closures include both applications for tax-exempt status for employee retirement plans and applications from various charitable entities seeking tax-exempt status. Applications are reviewed to determine their eligibility and closed upon approval or disapproval. FY 2012 results exceeded the target by 32 percent. Contributing factors include:

- Exempt Organizations (EO) – Additional overtime hours worked and the utilization of clerical resources to assist with closing determination cases led to an increase in closures; and
- Employee Plans (EP) – TEGE implemented improvements, such as changing submission procedures to better control receipts and inventory levels while enhancing business rules to close cases faster.

As more focus is placed on reducing aged inventory, the FY 2013 and FY 2014 targets are set at 62,473 and 67,922, respectively.

Operations Support

Appropriation Description

The Operations Support appropriation provides funding for overall planning, direction, and support for the IRS, including shared service support related to facilities services, rent payments, printing, postage, and security. This appropriation funds headquarters policy and management activities such as corporate support for strategic planning; communications and liaison; finance; human resources; equity, diversity and inclusion; research and statistics of income; and necessary expenses for information systems and telecommunication support, including development, security, and maintenance of the IRS's information systems.

The Operations Support President's Budget request for FY 2014 is \$4,480,843,000 in direct appropriations and 13,143 FTE. This is an increase of \$533,427, or 13.51 percent, and 689 FTE more than the FY 2012 Enacted Budget of \$3,947,416,000 and 12,454 FTE.

A portion of this appropriation, \$166,086,000, is requested as part of the \$411,990,000 program integrity cap adjustment for the IRS tax enforcement and compliance programs, which includes an above-base investment in these programs to reduce future deficits. In conjunction with specified funds provided to the IRS Enforcement account, this increment will support new tax compliance initiatives that are expected to generate high returns on investment in the form of increased tax revenues. This appropriation funds the following budget activities.

2.1 – Budget Adjustments Table

Dollars in Thousands

Operations Support	FTE	Amount
FY 2012 Enacted¹	12,454	\$3,947,416
FY 2013 Annualized CR Rate	12,240	\$3,971,000
FY 2014 Changes to Base:		
Non-Recur CR Increase:		(\$23,584)
Maintaining Current Levels (MCLs):		\$52,115
Pay Inflation Adjustment		13,977
Non-Pay Inflation Adjustment		38,138
Efficiencies/Savings:	(146)	(\$150,051)
Increase e-File Savings		(71)
Reduce Information Technology (IT) Infrastructure		(57,500)
Implement Human Capital Administrative Efficiencies	(73)	(\$7,858)
Targeted Personnel Savings	(73)	(7,922)
Savings from Space Optimization		(76,700)
Reinvestment:		\$37,500
Implement Space Optimization to Achieve Savings		37,500
Subtotal FY 2014 Changes to Base	(146)	(\$84,020)
FY 2014 Current Services (Base)	12,094	\$3,886,980
Program Changes:		
Program Increases:		
Taxpayer Service Initiative:		
Improve Taxpayer Service and Meet Increased Demand	40	43,501
Subtotal Taxpayer Service Initiative	40	\$43,501
Enforcement Initiatives:		
Implement Foreign Account Tax Compliance Act (FATCA)	29	15,590
Address International and Offshore Compliance Issues		6,043
Implement Merchant Card and Basis Matching	13	12,361
Address Impact of Affordable Care Act (ACA) Statutory Requirements	52	17,212
Improve Identification and Prevention of Refund Fraud and Identity Theft	76	33,468
Increase Audit Coverage to Address Tax Compliance Issues	24	39,482
Increase Collection Coverage		24,213
Expand Coverage of High-Wealth Individuals and Enterprises		4,509
Improve Coverage of Partnerships and Flow-Through Entities		5,877
Build Out Tax Return Preparer Compliance Activities		2,333
Leverage Data to Improve Case Selection	53	36,879
Leverage Digital Evidence for Criminal Investigation (CI)	1	3,708
Subtotal Enforcement Initiatives	248	\$201,675
Infrastructure Initiatives:		
Implement IT Changes to Deliver Tax Credits and Other Requirements	722	305,645
Develop New Online Services	37	24,059
Develop Converged Telecommunication Networks		15,000
Expand Virtual Services Delivery (VSD)	2	3,983
Subtotal Infrastructure Initiatives	761	\$348,687
Subtotal FY 2014 Program Changes	1,049	\$593,863
Total FY 2014 Budget Request	13,143	\$4,480,843

¹ FY 2012 Enacted represents the approved FY 2012 Operating Plan.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Operations Support	FY 2012 Actuals	FY 2013 Annualized CR Rate	FY 2014 Request
FTE	11,640	12,356	13,259
Object Classification:			
11.1 Full-Time Permanent Positions	\$1,072,941	\$1,127,155	\$1,226,945
11.3 Other than Full-Time Permanent Positions	8,284	9,741	9,808
11.5 Other Personnel Compensation	27,249	31,227	31,418
11.8 Special Personal Services Payments	0	0	0
11.9 Personnel Compensation (Total)	\$1,108,474	\$1,168,123	\$1,268,171
12.0 Personnel Benefits	368,585	383,117	421,307
13.0 Benefits to Former Personnel	73,604	48,897	49,234
21.0 Travel	24,741	34,586	37,307
22.0 Transportation of Things	17,792	20,654	20,201
23.1 Rental Payments to GSA	661,815	648,714	644,792
23.2 Rent Payments to Others	13,019	13,393	13,607
23.3 Communications, Utilities, & Misc	384,483	383,447	367,242
24.0 Printing & Reproduction	22,459	23,093	26,189
25.1 Advisory & Assistance Services	536,271	727,591	592,444
25.2 Other Services	76,102	132,299	174,863
25.3 Purchase of Goods & Services from Govt. Accounts	65,360	54,711	61,631
25.4 Operation & Maintenance of Facilities	168,181	177,069	179,415
25.5 Research & Development Contracts	0	34	34
25.6 Medical Care	13,928	14,315	15,987
25.7 Operation & Maintenance of Equipment	83,451	119,374	116,361
25.8 Subsistence & Support of Persons	14	215	218
26.0 Supplies and Materials	28,284	39,254	41,380
31.0 Equipment	341,341	393,420	402,453
32.0 Lands and Structures	39,662	58,770	48,491
33.0 Investments & Loans	0	0	0
41.0 Grants, Subsidies	0	0	0
42.0 Insurance Claims & Indemn	1,710	428	435
43.0 Interest and Dividends	0	0	0
44.0 Refunds	0	0	0
91.0 Unvouchered	0	0	0
Total Budget Resources	\$4,029,276	\$4,441,504	\$4,481,762
Budget Activities:			
Infrastructure	\$952,858	\$972,156	\$934,528
Shared Services & Support	1,235,708	1,288,613	1,348,498
Information Services	1,840,710	2,180,735	2,198,736
Total Budget Resources	\$4,029,276	\$4,441,504	\$4,481,762

2.3 – Appropriation Detail Table

Dollars in thousands

Operations Support Resources	FY 2012 Actuals		FY 2012 Enacted ¹		FY 2013 Annualized CR Rate		FY 2014 Request		\$ Change FY 2012 to FY 2014		% Change FY 2012 to FY 2014	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Infrastructure		\$894,365		\$929,634		\$916,269		\$939,182		\$9,548		1.03%
Shared Services and Support	5,308	1,187,959	5,879	1,214,514	5,774	1,239,929	5,759	1,305,701	(120)	91,187	-2.04%	7.51%
Information Services	6,191	1,681,195	6,575	1,803,268	6,466	1,814,802	7,384	2,235,960	809	432,692	12.30%	23.99%
Subtotal New Appropriated Resources	11,499	\$3,763,519	12,454	\$3,947,416	12,240	\$3,971,000	13,143	\$4,480,843	689	\$533,427	5.53%	13.51%
Other Resources:												
Reimbursables	124	37,656	124	37,656	116	23,347	116	23,648	(8)	(14,008)	-6.45%	-37.20%
User Fees	17	132,238	17	132,238		271,658		108,135	(17)	(24,103)	-100.00%	-18.23%
Recovery from Prior Years		1,178		2,081		94				(2,081)		-100.00%
Unobligated Balances from Prior Years		94,685		95,005		177,498		2,006		(92,999)		-97.89%
Transfers In/Out				13						(13)		-100.00%
Resources from Other Accounts	455		455						(455)		-100.00%	
Subtotal Other Resources	596	\$265,757	596	\$266,993	116	\$472,597	116	\$133,789	(480)	(\$133,204)	-80.54%	-49.89%
Total Budgetary Resources	12,095	\$4,029,276	13,050	\$4,214,409	12,356	\$4,443,597	13,259	\$4,614,632	209	\$400,223	1.60%	9.50%

¹ FY 2012 Enacted represents the approved FY 2012 Operating Plan.

² Resources from Transfers In/Out include a FY 2012 transfer in from the Office of National Drug Control Policy (ONDCP) High Intensity Drug Trafficking Area (HIDTA) Program (\$13K).

3F – Infrastructure (\$939,182,000 in direct appropriations, an estimated \$1,044,000 from reimbursable programs, and an estimated \$17,137,000 from user fees): This budget activity funds administrative services related to space and housing, rent and space alterations, building services, maintenance, guard services, and non-IT equipment. The program activities include:

- *Building Delegation* oversees and manages the IRS GSA-delegated buildings, including cleaning, maintenance, utilities, protection, administrative, and recurring and one-time repair costs.
- *Rent* provides resources for all IRS rent needs.
- *Space and Housing/Non-IT Equipment* provides management of all IRS building services, maintenance, space alterations, guard services, custodial overtime, utility services needs, and non-IT equipment.
- *Security* covers building security costs related to contract guard services.

FY 2014 Program Changes by Budget Activity

Dollars in Thousands

Operations Support		FTE	Amount
Infrastructure			
Taxpayer Service Initiative			\$12,772
	Improve Taxpayer Service and Meet Increased Demand		12,772
Enforcement Initiatives			\$29,058
	Implement Foreign Account Tax Compliance Act (FATCA)		1,538
	Address International and Offshore Compliance Issues		2,171
	Implement Merchant Card and Basis Matching		3,538
	Address Impact of Affordable Care Act (ACA) Statutory Requirements		1,159
	Improve Identification and Prevention of Refund Fraud and Identity Theft		5,530
	Increase Audit Coverage to Address Tax Compliance Issues		5,260
	Increase Collection Coverage		3,783
	Expand Coverage of High-Wealth Individuals and Enterprises		1,598
	Improve Coverage of Partnerships and Flow-Through Entities		2,112
	Build Out Tax Return Preparer Compliance Activities		818
	Leverage Data to Improve Case Selection		1,498
	Leverage Digital Evidence for Criminal Investigation (CI)		53
Infrastructure Initiatives			\$3,148
	Implement IT Changes to Deliver Tax Credits and Other Requirements		2,766
	Develop New Online Services		244
	Expand Virtual Services Delivery (VSD)		138
Total FY 2014 Program Changes			\$44,978

3.1.6 – Budget and Performance Report and Plan

Dollars in Thousands

Infrastructure	Resource Level ^{1,2}	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
		Enacted	Enacted	Enacted	Enacted	Enacted	Enacted	Annualized CR Rate	Request
Appropriated Resources		\$845,203	\$826,313	\$875,538	\$895,202	\$926,190	\$929,634	\$916,269	\$939,182
Reimbursable Resources		121	149	14,120	505	880	1,016	1,027	1,044
User Fees			13,049			23,290	57,477	16,867	17,137
Budget Activity Total		\$845,324	\$839,511	\$889,658	\$895,707	\$950,360	\$988,127	\$934,163	\$957,363

¹ The FY 2007 - FY 2012 Appropriated Resources represents the approved Operating Plan.

² The FY 2007 - FY 2012 columns represent realized resources for reimbursable and user fees.

Description of Performance

In FY 2012, the IRS completed 72 space reduction projects, releasing approximately 600,000 rentable square feet of space with annualized savings of \$13.2 million.

In FY 2013, there are currently 54 space reduction projects that have been approved for implementation, which would result in the release of approximately 470,000 rentable square feet of space with annualized savings of \$13.3 million. The IRS will continue to implement high priority projects in FY 2014 if funds become available. Project identification will occur closer to the budget year.

The IRS also intends, where possible, to place new hires in existing space and renew leases at existing sites rather than move to new locations, when cost effective. These and other actions will help offset the projected rent costs in FY 2013 and beyond, as well the cost of future campus consolidation projects.

3G – Shared Services and Support (\$1,305,701,000 in direct appropriations, an estimated \$15,806,000 from reimbursable programs, and an estimated \$31,520,000 from user fees): This budget activity funds policy and management, IRS-wide support for research, strategic planning, communications and liaison, finance, human resources, and equity, diversity and inclusion programs. It also funds printing and postage, business systems planning, security, corporate training, legal services, procurement, and employee benefits programs. The program activities include the following:

- *National Headquarters Management and Administration* directs the management activities of strategic planning, communications and liaison, finance, human resources, equity, diversity and inclusion programs, and business systems planning and embedded training. This activity sets policies and goals, provides leadership and direction for the IRS and builds partner relationships with key stakeholders (Congress, GAO, OMB, and the Oversight Board). It provides policy guidance for conducting planning and budgeting strategies, conducting analysis of programs and investments to support strategic decision-making, and developing and managing human resources. It also includes official reception and representation expenses.
- *Real Estate and Facilities Management* provides services and supplies required to manage IRS facilities.
- *Procurement* supports the procurement function of the IRS.
- *Equity, Diversity and Inclusion Field Services*: This activity provides staffing, training, and direct support to plan and manage the IRS's Equity, Diversity and Inclusion program.
- *Communications and Liaison* coordinates local government and liaison relationships; handles congressional, State, and national stakeholder relationships and issues; coordinates crosscutting issues, including managing audits and legislative implementation; handles national media contacts and local media relationships; and ensures IRS-wide compliance with disclosure and privacy laws.
- *Employee Support Services* plans and manages financial services, including relocation, travel, purchase cards, corporate express, and employee clearances.
- *Treasury Complaint Centers* plan and manage the Treasury Complaint Centers.
- *Shared Support not provided by Agency-Wide Shared Services* provides resources for shared cross-functional support, such as copiers, postage meters, shredders, courier services, and post office boxes.
- *Printing and Postage – Media and Publications* provides operating divisions with printing and postage, including shipping of taxpayer and internal use materials.

- *Statistics of Income* provides resources for researching annual income, financial, and tax data from tax returns filed by individuals, corporations, and tax-exempt organizations.
- *Research* provides resources for market-based research to identify compliance issues, for conducting tests of treatments to address noncompliance, and for the implementation of successful treatments of taxpayer noncompliant behavior.
- *Security Administration and Management* manages and oversees the staffing, training, equipment, and direct support for the protection of IRS employees, facilities, and assets, and the protection and proper use of identity information.
- *Wage and Investment (W&I) Business Modernization Support* provides staffing, training, and direct support for W&I's enterprise-wide business modernization efforts, including Customer Account Data Engine 2 (CADE 2), and Account Management Services (AMS) technology solutions, and re-engineered business processes.
- *Benefit Payments* provides resources to fund Workers' Compensation benefits and Unemployment Compensation for Federal employee payments.
- *Shared Services* provides additional services, such as the Public Transit Subsidy.

FY 2014 Program Changes by Budget Activity

Dollars in Thousands

Operations Support		
Shared Services and Support	FTE	Amount
Taxpayer Service Initiative	9	\$9,650
Improve Taxpayer Service and Meet Increased Demand	9	9,650
Enforcement Initiatives	72	\$63,864
Implement Foreign Account Tax Compliance Act (FATCA)		1,722
Address International and Offshore Compliance Issues		2,419
Implement Merchant Card and Basis Matching		3,759
Address Impact of Affordable Care Act (ACA) Statutory Requirements	52	15,045
Improve Identification and Prevention of Refund Fraud and Identity Theft	20	9,633
Increase Audit Coverage to Address Tax Compliance Issues		9,893
Increase Collection Coverage		15,072
Expand Coverage of High-Wealth Individuals and Enterprises		1,875
Improve Coverage of Partnerships and Flow-Through Entities		2,434
Build Out Tax Return Preparer Compliance Activities		995
Leverage Data to Improve Case Selection		978
Leverage Digital Evidence for Criminal Investigation (CI)		39
Infrastructure Initiatives		\$1,772
Implement IT Changes to Deliver Tax Credits and Other Requirements		1,579
Develop New Online Services		185
Expand Virtual Services Delivery (VSD)		8
Total FY 2014 Program Changes	81	\$75,286

3.1.7 – Budget and Performance Report and Plan

Dollars in Thousands

Shared Services and Support	FY 2013							
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Annualized	FY 2014
Resource Level ^{1,2}	Enacted	Enacted	Enacted	Enacted	Enacted	Enacted	CR Rate	Request
Appropriated Resources	\$1,179,216	\$1,291,296	\$1,269,642	\$1,311,127	\$1,291,568	\$1,214,514	\$1,239,929	\$1,305,701
Reimbursable Resources	13,649	30,796	20,763	20,315	19,957	31,486	15,618	15,806
User Fees		19,114		17,887	4,588	14,938	31,520	31,520
Budget Activity Total	\$1,192,865	\$1,341,206	\$1,290,405	\$1,349,329	\$1,316,113	\$1,260,938	\$1,287,067	\$1,353,027

¹The FY 2007 - FY 2012 Appropriated Resources represents the approved Operating Plan.

²The FY 2007 - FY 2012 columns represent realized resources for reimbursable and user fees.

Description of Performance

Through support activities that include management and administration of human resources, security, and research, the IRS continues to provide shared services to all IRS programs.

Human Capital

The IRS made significant progress toward achieving the strategic goal of becoming the “Best Place to Work in Government” and fostering high employee engagement. In FY 2012, the IRS:

- Revised the All Employee Survey into a new 15 question Workgroup Questionnaire, the results of which will be used to focus employee engagement efforts and workplace improvements, establish business priorities, and address barriers to achieving goals and objectives.
- Established Geographic Leadership Communities (GLCs) comprised of 33 cross-functional groups of executives that host development opportunities and community building workshops in specific geographic areas to improve engagement and networking and better leverage local resources and talent.
- Added an assessment revalidation option to the Leadership Succession Review (LSR) system, reducing the time to complete an assignment by 30 percent. The revalidation option provides the employee and the employee's manager the opportunity to review the previous year's LSR assessment (leadership skills, competencies, and bench strengths) and make changes, if necessary.
- Increased use of online training courses, resulting in reduced travel costs and providing timely, convenient, and accessible training for all employees. There were over 355,000 learning completions of courses in FY 2012, an increase of 21.5 percent from FY 2011. The IRS received the Bersin & Associates 2012 Learning Leaders Award for utilizing innovative, efficient, and effective approaches to employee learning and talent management.
- Initiated the Compliance Management Operations (CMO) pilot program, to identify more effective and efficient means for return selection, risk analysis, and case selection.
- Developed products and services to improve the work life of employees with disabilities through the IRS Disability Initiative.

The IRS will continue to support its mission by investing in human capital strategies and tools for engaging, recruiting, hiring, developing, and retaining a highly-skilled and high-performing workforce.

Physical, Information, and Cyber Security

Security of employees, taxpayer information, and tax processing systems is a top priority of the IRS. Through monitoring, identifying, and mitigating fraudulent schemes, the IRS protects its systems and taxpayers from increasing and evolving online fraud and identity theft schemes and helps to reduce the number of taxpayers who fall victim to them.

The IRS installed new Enterprise Physical Access Control Systems (ePACS) in 88 prioritized IRS locations nationwide to comply with the Homeland Security Presidential Directive-12 (HSPD-12), which mandates use of the Personal Identity Verification SmartID credentials by employees and contractors as a reliable form of identification and access control. The new ePACS system replaces the legacy proxy card based physical access systems and features IRS Wide Area Network (WAN) Connectivity, which provides interoperability between identity systems so that applications and systems have a reliable, up-to-date view of users and their rights.

Because the IRS has the unique position as the custodian and administrator of Federal tax information for all taxpayers, it has an immense responsibility for protecting Federal tax information from threats and vulnerabilities. Criminals are increasingly focused on accessing personal data and have expanded their attempts to steal identities and obtain private tax information. Protecting this information is vital to maintaining the public trust.

In FY 2012, the IRS processed and mitigated emerging threats posed by more than 2,300 cyber incidents and blocked IRS employee access to over 8,100 websites to prevent access to malicious or compromised sites.

The IRS dramatically improved threat intelligence gathering capabilities to quickly take down servers and web sites that were sending out fraudulent emails from all around the world and posing as IRS to defraud innocent taxpayers. In FY 2012, identity thieves changed their tactics by sending phishing emails posing as tax preparers in addition to setting up fraudulent websites and sending phishing emails posing as legitimate e-file providers. Working directly with Internet service providers, 18,810 fraudulent domestic websites were taken down including 13,077 fraudulent malware websites, compared to 9,272 in FY 2011.

In FY 2012, the IRS took additional steps to prevent further identity theft including:

- Masking social security numbers (SSNs) in a two-dimensional (2D) barcode on 46 nonpayment notices, affecting 18.9 million annual taxpayer notices;
- Collaborating with State and law enforcement officials on data and perpetrator information sharing to gain additional insight into the growth of tax related identity theft crimes; and
- Releasing several new communications regarding identity theft to help affected taxpayers, including special tips on IRS.gov and YouTube videos.

Research

During FY 2012, the IRS released an updated estimate of the tax gap, the amount of true tax liability faced by taxpayers that is not paid on time. This estimate, based on tax year (TY) 2006 liabilities, reflects a gross tax gap of \$450 billion. The voluntary compliance rate for TY 2006 was 83.1 percent. The IRS continues to conduct research studies of filing, payment, and reporting compliance, including the National Research Program (NRP), to provide a comprehensive picture of overall taxpayer compliance levels. Research allows the IRS to target specific areas to improve voluntary compliance and to allocate resources more effectively to reduce the tax gap. The NRP efforts include analyzing individual income tax returns for TY 2006 – 2010 as part of an on-going reporting compliance study, an employment tax compliance study for TY 2008 – 2010, and preparing to begin reporting compliance studies of corporate income tax and fuel excise tax.

In FY 2012, the IRS continued to develop tools and models to detect noncompliance, to identify emerging issues related to compliance activities (with a focus on international issues), to analyze results of implemented compliance efforts, and to support the Return Preparer Strategy. Research efforts in FY 2012 also concentrated on data analytics in emerging areas of interest, including the analysis of liens, identity theft, the Compliance Assurance Process,

taxpayer compliance costs, and the relationship between service and compliance. In addition, research provides taxpayer-based information and analyses that are necessary to implement new tax laws; in particular, health care-related legislation and provisions of the American Recovery and Reinvestment Act of 2009.

3H – Information Services (\$2,235,960,000 in direct appropriations, an estimated \$6,798,000 from reimbursable programs, and an estimated \$59,478,000 from user fees): This budget activity funds staffing, equipment, and related costs to manage, maintain, and operate the information systems critical to the support of the tax administration programs. This includes the design and operation of security controls and disaster recovery planning. This budget activity funds the development and maintenance of the millions of lines of programming code that support all aspects and phases of tax processing and the operation and administration of mainframes, servers, personal computers, networks, and a variety of management information systems.

Information Technology (IT) is responsible for information systems and technology, ranging from cyber security and networks to applications development and end user equipment and services. The program activities include the following:

- *Security Services* ensures effective security policies and programs to safeguard taxpayer records, IRS employees, facilities, business processes, systems and other resources. The program is responsible for corrective action efforts to establish adequate service-wide security, including Security Policy Support and Oversight, Mission Assurance, and Modernization Security. Policies are set using a governance process including executive steering committees. Compliance review teams perform vulnerability assessments. Mission assurance activities include operation of the Computer Systems Incident Response and Situation Awareness and Management Centers, as well as coordination of service-wide disaster recovery and business continuity planning. Operational programs include security training and awareness, sensitive system certification and accreditation with Treasury on the Federal Critical Infrastructure Protection Program.
- *Tier B* provides support for small to medium new investment projects (not Operations & Maintenance (O&M)), using core data, Business Master File (BMF) and Individual Master File (IMF), to support specialized functions (Submission Processing, Enforcement, and Taxpayer Service).
- *Management Services* provides for the design, development, delivery, and evaluation of a wide range of human resource programs for the IT organization. These programs include workforce planning, recruitment and retention, career management, performance management, labor/employee relations, position management, workplace improvement, succession management and service-wide IT training and education.
- *National Headquarters (NHQ) IT Management* provides for the management and oversight of investments in IT for the Chief of Staff and Research, Analysis and Statistics (RAS). The program allows NHQ to manage and leverage IT solutions that are responsive to IRS-wide management, tax compliance, enforcement, and strategic and tactical research projects.

- *Affordable Care Act – Program Management Office (PMO)* manages the strategic planning, development, and implementation of new information systems in support of business requirements with regard to the healthcare reform initiative.
- *IT Executive Oversight* provides support to the immediate Office of the Chief Technology Officer, as well as the direct reports for equity, diversity and inclusion, and the Director, Stakeholder Management (including Communications Services and Program Oversight). The program provides executive direction for the IT organization, enabling IT to be a customer-focused supplier of IT solutions that are responsive to customer business priorities and meet functional and operational needs effectively.
- *Application Development* performs the analysis, design, development, testing, and implementation of approximately 85,000 application programs supporting critical tax processing, management information reporting and financial management support systems for the IRS. This program also supports external trading partner data exchanges with Federal Government agencies, State and local governments, and other third party entities. The program controls application source code and deploys applications to the production environment.
- *Enterprise Operations* designs, develops, and maintains IT that supports critical tax processing, management information reporting and financial management support systems for the IRS. The program supports data exchanges with external organizations, such as other Federal agencies, State and local governments, and external entities (e.g., employers and banks), and includes a comprehensive disaster recovery capability to ensure continued operations in the event of a major interruption of service.
- *Enterprise Network* provides telecommunications service delivery to all customer segments, including management of day-to-day operations of the telecommunications environment. This includes the operation of equipment and services to meet business user needs and the execution of routine changes for scheduled and unscheduled modifications to the telecommunications infrastructure and applications. It addresses all phases of engineering, acquisition, implementation, and operation of telecommunications systems and services, including voice, video, and data communications.
- *Enterprise Services* plans and manages service and delivery methods used across the IT organization, including demand analysis, enterprise architecture, configuration management, project reporting, enterprise life cycle management, release management, systems engineering, dashboard reporting, and internal management.
- *User and Network Services* maintains the IRS automated business processes at headquarters and field sites, effectively allowing the IRS to fulfill its missions. The support includes technical systems and applications software support to end users, maintaining legacy operations, local and corporate systems administration activities, email and domain user account maintenance. This activity monitors IRS network and systems administration by utilizing automated management tools. It performs asset management activities, and maintenance of the voice and data infrastructure at the territory offices.

- *Strategy and Planning* provides the management and oversight of investments in IT, demand analysis, project reporting, portfolio management and other IT operational priorities.
- *IT Security Certification and Accreditation* provides design and operations of security controls and the technical mechanisms used by the IRS systems and applications as part of the development of the system security plan, system risk assessment, and IT contingency plan. It also supports security testing and evaluation as part of the certification process, including time preparing system documentation, interviewing contractors, and responding to information requests.
- *Disaster Recovery* supports activities related to Enterprise Disaster Recovery planning, including testing, evaluations, plan development, and technical and business impact assessments.
- *IT Security Training* provides training for Federal Information Security Management Act (FISMA) reporting purposes.
- *IT Homeland Security Presidential Directive-12* oversees the use of Personal Identity Verification (PIV) technology for physical access to Federally controlled facilities and logical access to information systems for all Federal employees and contractors who require long-term access.
- *IT Infrastructure* funds the replacement of IRS IT infrastructure that has reached or surpassed its useful life cycle. The IRS centralizes the resources achieved through efficiencies in various parts of IT to ensure that replacement of the aging infrastructure is addressed corporately.
- *Treasury Working Capital Fund* is a centralized functional area for separating from the Information Services base budget the resources required to pay Treasury billings for services provided through the Working Capital Fund.
- *Integrated Document Solutions Enterprise (IDSE) Campus Operations Most Efficient Organization (MEO)* captures savings resulting from IDSE MEO activities (i.e., activities that reduce FTE, re-engineer processes, and enhances use of technology).

FY 2014 Program Changes by Budget Activity

Dollars in Thousands

Operations Support		
Information Services	FTE	Amount
Taxpayer Service Initiative	31	\$21,079
Improve Taxpayer Service and Meet Increased Demand	31	21,079
Enforcement Initiatives	176	\$108,753
Implement Foreign Account Tax Compliance Act (FATCA)	29	12,330
Address International and Offshore Compliance Issues		1,453
Implement Merchant Card and Basis Matching	13	5,064
Address Impact of Affordable Care Act (ACA) Statutory Requirements		1,008
Improve Identification and Prevention of Refund Fraud and Identity Theft	56	18,305
Increase Audit Coverage to Address Tax Compliance Issues	24	24,329
Increase Collection Coverage		5,358
Expand Coverage of High-Wealth Individuals and Enterprises		1,036
Improve Coverage of Partnerships and Flow-Through Entities		1,331
Build Out Tax Return Preparer Compliance Activities		520
Leverage Data to Improve Case Selection	53	34,403
Leverage Digital Evidence for Criminal Investigation (CI)	1	3,616
Infrastructure Initiatives	761	\$343,767
Implement IT Changes to Deliver Tax Credits and Other Requirements	722	301,300
Develop New Online Services	37	23,630
Develop Converged Telecommunication Networks		15,000
Expand Virtual Services Delivery (VSD)	2	3,837
Total FY 2014 Program Changes	968	\$473,599

3.1.8 – Budget and Performance Report and Plan

Dollars in Thousands

Information Services	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	
							Annualized	FY 2014
Resource Level ^{1,2}	Enacted	Enacted	Enacted	Enacted	Enacted	Enacted	CR Rate	Request
Appropriated Resources	\$1,520,416	\$1,723,500	\$1,721,831	\$1,877,555	\$1,838,958	\$1,803,268	\$1,814,802	\$2,235,960
Reimbursable Resources	14,006	14,310	14,612	17,231	16,286	5,154	6,702	6,798
User Fees	66,678	50,000	9,543	36,081	26,764	59,823	223,271	59,478
Budget Activity Total	\$1,601,100	\$1,787,810	\$1,745,986	\$1,930,867	\$1,882,008	\$1,868,245	\$2,044,775	\$2,302,236

¹The FY 2007 - FY 2012 Appropriated Resources represents the approved Operating Plan.

²The FY 2007 - FY 2012 columns represent realized resources for reimbursable and user fees.

Description of Performance

The IRS taxpayer service and enforcement programs rely heavily on information systems that fall into the non-business systems modernization (BSM) major products categories to process tax and information returns, account for tax revenues collected, send bills for taxes owed, issue refunds, assist in the selection of tax returns for audit, and provide telecommunication services for all business activities, including the public's toll-free access to tax information.

In addition, in FY 2012, the IRS provided new applications and services to make it easier for taxpayers to get assistance and secure tax information.

- For the first time, Customer Service Representatives (CSR) can provide taxpayers with timely status updates on amended returns. The IRS is developing the *Where's My Amended Return?* telephone and online application.
- The Virtual Service Delivery (VSD) pilot, where taxpayers may receive tax assistance at certain Taxpayer Assistance Centers (TAC) and Volunteer Income Tax Assistance (VITA) locations from employees located in other sites, ended May 2012. More than 12,500 taxpayers were served during the pilot period. Quality results met goals in Accuracy of Tax Law Contacts and Accuracy of Accounts Contacts. Based on customer and employee feedback, the IRS plans to upgrade and expand VSD in 2013.
- The IRS is providing assistance to taxpayers at TACs and VITA sites through Facilitated Self Assistance (FSA) kiosks. Treasury recognized FSA as an area of customer service improvement.
- IRS implemented the Teletypewriter (TTY) One Call Solution. Deaf and Hard of Hearing taxpayers can now make a single call to the IRS to gain access to a CSR.
- IRS launched the VITA Site Locator on IRS.gov. This tool allows taxpayers to search for sites within a 5 to 100 mile radius of the zip code entered.
- To address the increasing Identity Theft issues, the IRS is implementing new processes and screening filters to improve its ability to identify potentially fraudulent returns.
- The IRS implemented e-Fax, allowing phone assistors to provide taxpayers a direct fax number so the taxpayer can provide case-related information to the assistor while on the phone, resulting in quicker case resolution. Also, e-Fax provides quicker relief with outgoing capabilities that allow employees to fax levy releases directly from their desktop while on the phone with the taxpayers.
- During filing season, companies offering free commercial online tax preparation and electronic filing services to taxpayers overseas clearly labeled on the IRS Free File webpage. A tag line—"U.S. Citizens and resident aliens with foreign addresses" was included on the webpage to help foreign taxpayers obtain the necessary information on free tax preparation services.

Through September 2012, the IRS had a consistent record-managing cost and schedule variance for the 26 non-BSM, information service projects that are part of major programs as illustrated in the chart below. These projects comprise a significant component of the overall IT funding total and receive the same management approach and scrutiny as the more public BSM activity.

Non-BSM Major Projects		
Fiscal Year	Percent Within +/- 10% Cost Variance	Percent Within +/- 10% Schedule Variance
2010	89%	100%
2011	90%	99%
2012	84%	99%

The IRS continues to strengthen management of its IT Infrastructure by implementing an Enterprise Infrastructure Strategy. This strategy incorporates a risk-based approach to the replacement and upgrade of hardware and software in the infrastructure and includes assessments of aging components together with consideration of new technology and customer demand.

For FY 2013 and beyond, the IRS will use the newly implemented Enterprise Infrastructure Strategy to assess the need to replace/upgrade hardware and software in the most effective manner.

Business Systems Modernization

Appropriation Description

The Business Systems Modernization (BSM) appropriation provides resources for the planning and capital asset acquisition of IT to modernize the IRS business systems.

The BSM President's Budget request for FY 2014 is \$300,827,000 in direct appropriations and 513 FTE. This is a decrease of \$29,383,000, or 8.90 percent, and 92 FTE fewer from the FY 2012 Enacted Budget of \$330,210,000 and 605 FTE.

2.1 – Budget Adjustments Table

Budget Adjustments Table

Dollars in Thousands

Business Systems Modernization	FTE	Amount
FY 2012 Enacted ¹	605	\$330,210
FY 2013 Annualized CR Rate	513	\$332,231
FY 2014 Changes to Base:		
Non-Recur CR Increase:		(\$2,021)
Maintaining Current Levels (MCLs):		\$617
Pay Inflation Adjustment		617
Efficiencies/Savings:		(\$30,000)
Business Systems Modernization (BSM) Savings		(30,000)
Subtotal FY 2014 Changes to Base		(\$31,404)
FY 2014 Current Services (Base)	513	\$300,827
Subtotal FY 2014 Program Changes		
Total FY 2014 Budget Request	513	\$300,827

¹ FY 2012 Enacted represents the approved FY 2012 Operating Plan.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Business Systems Modernization	FY 2012 Actuals	FY 2013 Annualized CR Rate	FY 2014 Request
FTE	596	513	513
Object Classification:			
11.1 Full-Time Permanent Positions	\$65,764	\$56,772	\$56,136
11.3 Other than Full-Time Permanent Positions	1,365	1,855	1,232
11.5 Other Personnel Compensation	2,954	3,693	3,291
11.8 Special Personal Services Payments	0	0	0
11.9 Personnel Compensation (Total)	\$70,083	\$62,320	\$60,659
12.0 Personnel Benefits	18,239	16,376	16,181
13.0 Benefits to Former Personnel	0	50	0
21.0 Travel	938	2,243	1,274
22.0 Transportation of Things	0	0	0
23.1 Rental Payments to GSA	0	0	0
23.2 Rent Payments to Others	20	12	9
23.3 Communications, Utilities, & Misc	0	2,154	1,019
24.0 Printing & Reproduction	20	23	16
25.1 Advisory & Assistance Services	213,049	178,650	184,015
25.2 Other Services	518	786	343
25.3 Purchase of Goods & Services from Govt. Accounts	54	79	82
25.4 Operation & Maintenance of Facilities	6	0	0
25.5 Research & Development Contracts	0	0	0
25.6 Medical Care	0	0	0
25.7 Operation & Maintenance of Equipment	2,543	3,644	1,813
25.8 Subsistence & Support of Persons	0	0	0
26.0 Supplies and Materials	0	259	163
31.0 Equipment	45,530	58,650	41,686
32.0 Lands and Structures	0	0	0
33.0 Investments & Loans	0	0	0
41.0 Grants, Subsidies	0	0	0
42.0 Insurance Claims & Indemn	0	0	0
43.0 Interest and Dividends	0	0	0
44.0 Refunds	0	0	0
91.0 Unvouchered	0	0	0
Total Budget Resources	\$351,000	\$325,246	\$307,260
Budget Activities:			
IT Investments	\$351,000	\$325,246	\$307,260
Total Budget Resources	\$351,000	\$325,246	\$307,260

2.3 – Appropriation Detail Table

Dollars in thousands

Business Systems Modernization Resources	FY 2012 Actuals		FY 2012 Enacted ¹		FY 2013 Annualized CR Rate		FY 2014 Request		\$ Change FY 2012 to FY 2014		% Change FY 2012 to FY 2014	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Business Systems Modernization	562	\$250,537	605	\$330,210	513	\$332,231	513	\$300,827	(92)	(\$29,383)	-15.21%	-8.90%
Subtotal New Appropriated Resources	562	\$250,537	605	\$330,210	513	\$332,231	513	\$300,827	(92)	(\$29,383)	-15.21%	-8.90%
Other Resources:												
Reimbursables												
User Fees												
Recovery from Prior Years				1,041		336				(1,041)		-100.00%
Unobligated Balances from Prior Years	34	100,463		118,199		97,408		104,359		(13,840)		7.14%
Transfers In/Out												
Resources from Other Accounts												
Subtotal Other Resources	34	\$100,463		\$119,240		\$97,744		\$104,359		(\$14,881)		-12.48%
Total Budgetary Resources	596	\$351,000	605	\$449,450	513	\$429,975	513	\$405,186	(92)	(\$44,264)	-15.21%	-9.85%

¹ FY 2012 Enacted represents the approved FY 2012 Operating Plan.

3I – Business Systems Modernization (\$300,827,000 in direct appropriations): This budget activity funds the planning and capital asset acquisition of information technology (IT) to modernize IRS business systems, including labor and related contractual costs.

BSM uses best practices and expertise in business solutions and internal management from the IRS, businesses, and technology sectors to develop a world-class tax administration system. The program provides value to taxpayers, the business community, and government and it plays an integral role in reducing the tax gap. This program has delivered improved taxpayer service, electronic filing capacity, and data analysis capability and it has maintained successful performance in delivering projects within acceptable cost, schedule, and performance estimates.

The following projects are supported by the FY 2014 BSM request of \$300.8 million:

Customer Account Data Engine 2 (CADE 2) (Taxpayer Account Database): The CADE 2 program implements a single, data-centric solution that provides daily processing of taxpayer accounts. A major component of the CADE 2 program is an authoritative database and data model for all individual taxpayers that provides the foundation for more efficient and effective tax administration. The CADE 2 authoritative database will provide a capability to view the taxpayer account data stored in the CADE database, and will feed downstream systems such as the Integrated Data Retrieval System (IDRS) for online transaction processing by IRS customer service representatives and an analytical data store for more meaningful business intelligence and expanded opportunities to increase compliance and accelerate the identification of fraudulent trends.

The second phase of the CADE 2 initiative, Transition State 2, will ensure the long-term viability of the IRS tax processing systems by addressing risks associated with the antiquated legacy core tax processing systems and associated programming languages in the current IRS environment. The IRS will continue the design and development of applications that expand the capabilities of the relational database while addressing current financial material weakness.

Modernized e-File (MeF): MeF provides a standard filing structure for all IRS return types, a robust platform that can meet performance and capacity needs, enhanced and up-to-date

technologies, and customer service benefits that are of great appeal to external customers and stakeholders. With MeF, the IRS stores all tax return data in XML format in a Modernized Tax Return Database (MTRDB) allowing all authorized viewers of the data to see an entire tax return online over the Internet. Once fully implemented, all tax returns and transmission files will adhere to IRS rules/schemas.

Core Infrastructure: The Core Infrastructure provides mission-critical services to BSM projects. In FY 2014, this activity will continue to provide mission-critical services in designing, engineering, testing, and deploying standardized, consolidated, virtual and secure modernized development and production environments for use by BSM projects.

The IRS is modernizing taxpayer applications to take advantage of web-based technologies that allow taxpayers to communicate with the IRS through the Internet using commercially available technology. The modernized infrastructure provides a complete environment (hardware, software, processes, and management) for developing, testing, deploying, operating, and monitoring both customer and internal applications in support of business practices. This includes updating the access portals and standardizing services, security, and operations management.

This approach facilitates the IRS's ability to develop a shared infrastructure and common business service solutions that are usable across multiple BSM projects. The core infrastructure consists of two primary program elements – Infrastructure Shared Services (ISS), and the Development, Integration and Testing Environment (DITE):

- ISS provides integrated architectural and engineering services required to deploy and deliver the BSM projects, including infrastructure requirements identification and management, security engineering, systems engineering, performance engineering, capacity planning, transition management support, configuration management, and expanded e-services and online filing. The continued development and management of this infrastructure incorporates the identification and development of common infrastructure, security, and application integration services for use and reuse by the BSM projects and reduces delivery time, application development, and operations and maintenance costs.
- DITE is comprised of a Virtual Development Environment (VDE) and an Enterprise Integration and Test Environment (EITE). The VDE provides a software development environment for modernization projects such as MeF and CADE 2 that allows geographically distributed developers access to standardized tools, information, and services. EITE provides the more structured, production-like, comprehensive integration and testing environment necessary to test end-to-end system capabilities and performance before release into the BSM production environment. The enhanced environment allows for the execution of extensive performance and capacity tests in a more production like environment, increasing the probability of success when the product is moved into the production environment. This approach provides for significant cost savings when compared to replicating the production environment on a project-by-project basis.

Architecture, Integration and Management (AI&M): The AI&M program provides engineering management capabilities essential to delivering a program of the magnitude and complexity of BSM. It also delivers essential IRS systems strategy, architecture, and engineering capabilities to the major modernization projects across all technology platforms: IT Infrastructure, Business Applications, Data Management, and IT Security. The AI&M program translates enterprise and project objectives into targeted, actionable investments to provide the necessary framework and direction for a cohesive, successful modernization.

Management Reserve: The management reserve allows the IRS some flexibility to cover unanticipated cost adjustments.

Labor: This activity provides the labor costs associated with the development of projects within the BSM portfolio.

3.1.9 – Budget and Performance Report and Plan

Dollars in Thousands

Business Systems Modernization								FY 2013	
Resource Level ^{1, 2}	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Annualized	FY 2014	
	Enacted	Enacted	Enacted	Enacted	Enacted	Enacted	CR Rate	Request	
Appropriated Resources	\$212,569	\$267,090	\$229,914	\$263,897	\$263,369	\$330,210	\$332,231	\$300,827	
Reimbursable Resources									
User Fees					88,948				
Budget Activity Total	\$212,569	\$267,090	\$229,914	\$263,897	\$352,317	\$330,210	\$332,231	\$300,827	

¹The FY 2007 - FY 2012 Appropriated Resources represents the approved Operating Plan.

²The FY 2007 - FY 2012 columns represent realized resources for reimbursable and user fees.

Business Systems Modernization								
Measure	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
	Actual	Actual	Actual	Actual	Actual	Target	Target	Target
Percent of BSM Projects within +/- 10% Cost Variance (E)	*	92.0%	60.0%	40.0%	71.4%	50.0%	90.0%	90.0%
Percent of BSM Projects within +/- 10% Schedule Variance (E)	*	92.0%	90.0%	100.0%	100.0%	90.0%	90.0%	90.0%

Key: E - Efficiency Measure

^{*}Prior to FY 2008, Cost and Schedule Variance was reported separately for each project. In FY 2008, these measures were changed to reflect an overall percentage of all

Description of Performance

The IRS's modernization efforts focus on building and deploying advanced information technology systems, processes, and tools to improve efficiency and productivity.

For the Business Systems Modernization program (BSM), the IRS met 50 percent (1 of 2) of its BSM targets for FY 2012. These targets pertain to the two budget level measures which track the percentage of major BSM projects that are within the +/-10 percent Cost and Schedule variance threshold. The IRS met its Schedule variance target while falling short of the Cost variance target. As listed in the tables below, there were four project segments completed in FY 2012.

In FY 2012, two out of four (50.0 percent) project segments met the cost variance threshold. Two of the project segments exceeded the cost variance threshold. The two project segments that did not meet the cost variance threshold are associated with MeF.

- MeF Release R7 Milestone 4b was 18 percent over expected costs because of additional funds needed to conduct unplanned testing to ensure the system could support the anticipated filing season volume and the purchase of additional hardware to ensure the disaster recovery environment has the same processing capabilities as the production environment.
- MeF Release R7 Milestone 5 was 103 percent over expected costs because of hardware and software purchases planned for prior milestones along with unplanned and unfunded costs associated with various support activities to ensure milestone completion.

Cost Variance for Project Segments Completed in FY 2012							
Project	Release	MS	Planned Cost (\$000)	Current Cost (\$000)	Variance (\$000)	Variance (%)	Within Acceptable Tolerance
MeF	R7	4b	22,100	26,076	3,976	18%	NO
MeF	R7	5	7,000	14,175	7,175	103%	NO
MeF	R8	3-4a	8,700	8,700	0	0%	YES
CADE 2	Trans. State 1	4b	41,362	39,565	(1797)	-4%	YES

In FY 2012, the IRS completed 100 percent of all project segments within the schedule variance threshold, exceeding the goal of 90 percent, as improved planning and project management continues to have a positive effect on the projects.

Schedule Variance for Project Segments Completed in FY 2012							
Project	Release	MS	Planned Finish Date	Current Finish Date	Variance (days)	Variance (%)	Within Acceptable Tolerance
MeF	R7	4b	12/29/11	12/29/11	0	0%	YES
MeF	R7	5	05/17/12	05/17/12	0	0%	YES
MeF	R8	3-4a	07/16/12	07/16/12	0	0%	YES
CADE 2	Trans. State 1	4b	01/31/12	02/09/12	7	3%	YES

To meet future targets, the IRS will continue to improve on its modernization efforts by implementing new practices, such as the Capability Maturity Model Integration (CMMI) and the Information Technology Infrastructure Library (ITIL), which help to improve areas such as development, services, and acquisitions. In FY 2013 and FY 2014, the IRS expects to meet a target of 90 percent for Cost and Schedule Variance through improved project management and oversight.

Section 4 – Supplemental Information

4.1 – Summary of Capital Investments

Dollars in Thousands

Internal Revenue Service FY 2014 Congressional Justification Submission Capital Investments							
Investments / Funding Source	FY 2011 Actuals	FY 2012 Actuals	% Change from FY11 to FY12	FY 2013 Annualized CR Rate	% Change from FY12 to FY13	FY 2014 CJ Request	% Change from FY13 to FY14
Major IT Investments							
Account Management Services (AMS)	\$18,162	\$19,734	8.7%	\$18,786	-4.8%	\$24,850	32.3%
IRS BSM 015-45-0921	059	000		000		000	
IRS Operations Support 015-45-0919	18,103	19,734		18,786		24,850	
CADE 2	\$214,409	\$214,928	0.2%	\$245,502	14.2%	\$250,797	2.2%
IRS BSM 015-45-0921	214,406	210,482		205,980		187,273	
IRS Operations Support 015-45-0919	003	4,446		39,522		40,024	
IRS Operations Support User Fees 015-45-5432	000	000		000		23,500	
e-Services	\$17,033	\$13,093	-23.1%	\$12,104	-7.6%	\$12,179	0.6%
IRS BSM 015-45-0921	002	000		000		000	
IRS Operations Support 015-45-0919	17,031	13,093		12,104		12,179	
Electronic Fraud Detection System (EFDS)	\$13,212	\$17,832	35.0%	\$18,700	4.9%	\$18,937	1.3%
IRS Operations Support 015-45-0919	9,555	14,317		15,071		15,250	
IRS EITC 015-45-0919-0	3,657	3,515		3,629		3,687	
Return Review Program (RRP)	\$24,015	\$23,740	-1.1%	\$45,452	91.5%	\$29,614	-34.8%
IRS Operations Support 015-45-0919	24,015	23,739		18,052		19,614	
IRS EITC 015-45-0919-0	000	001		000		000	
IRS Operations Support User Fees 015-45-5432	000	000		27,400		10,000	
Individual Master File (IMF)	\$8,143	\$8,055	-1.1%	\$9,017	11.9%	\$9,119	1.1%
IRS Operations Support 015-45-0919	8,143	8,055		9,017		9,119	
Information Reporting and Document Matching (IRDM)	\$24,354	\$21,760	-10.7%	\$22,981	5.6%	\$23,058	0.3%
IRS Operations Support 015-45-0919	24,354	21,757		22,981		23,058	
IRS EITC 015-45-0919-0	000	003		000		000	
IRS End User Systems and Services (EUSS)	\$274,004	\$235,612	-14.0%	\$194,398	-17.5%	\$186,178	-4.2%
IRS Operations Support 015-45-0919	274,004	235,606		186,398		186,178	
IRS Operations Support User Fees 015-45-5432	000	000		8,000		000	
IRS EITC 015-45-0919-0	000	006		000		000	
IRS Main Frames and Servers Services and Support (MSSS)	\$443,418	\$481,790	8.7%	\$413,013	-14.3%	\$396,608	-4.0%
IRS Operations Support 015-45-0919	383,669	432,328		355,637		351,955	
IRS BSM 015-45-0921	59,561	48,900		41,574		37,855	
IRS Operations Support User Fees 015-45-5432	000	000		9,100		000	
IRS Operations Support Reimbursables 015-45-0919	000	000		6,702		6,798	
IRS Private Collection Agent Program 015-45-5510	188	562		000		000	
IRS Telecommunications Systems and Support	\$329,442	\$336,736	2.2%	\$289,800	-13.9%	\$304,280	5.0%
IRS Operations Support 015-45-0919	327,262	334,750		282,728		303,190	
IRS Operations Support User Fees 015-45-5432	000	000		6,000		000	
IRS Private Collection Agent Program 015-45-5510	1,053	764		000		000	
IRS EITC 015-45-0919-0	1,081	1,073		1,072		1,090	
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfeiture	046	149		000		000	
Integrated Customer Communications Environment (ICCE)	\$16,321	\$16,622	1.8%	\$16,285	-2.0%	\$16,447	1.0%
IRS Operations Support 015-45-0919	16,320	16,622		16,285		16,447	
IRS BSM 015-45-0921	001	000		000		000	
Integrated Data Retrieval Systems (IDRS)	\$18,627	\$18,098	-2.8%	\$18,516	2.3%	\$18,669	0.8%
IRS Operations Support 015-45-0919	18,627	18,098		18,516		18,669	

**Internal Revenue Service
FY 2014 Congressional Justification Submission
Capital Investments**

Investments / Funding Source	FY 2011 Actuals	FY 2012 Actuals	% Change from FY11 to FY12	FY 2013 Annualized CR Rate	% Change from FY12 to FY13	FY 2014 CJ Request	% Change from FY13 to FY14
Integrated Financial System/CORE Financial System (IFS)	\$26,579	\$17,495	-34.2%	\$15,667	-10.4%	\$15,908	1.5%
IRS Operations Support 015-45-0919	26,579	17,261		15,667		15,908	
IRS BSM 015-45-0921	000	234		000		000	
Integrated Submission and Remittance Processing System (ISRP)	\$17,458	\$16,087	-7.9%	\$11,697	-27.3%	\$11,824	1.1%
IRS Operations Support 015-45-0919	\$17,458	\$16,087		\$11,697		\$11,824	
Internal Revenue Service.gov (IRS.gov)	\$52,470	\$63,534	21.1%	\$73,100	15.1%	\$57,887	-20.8%
IRS Operations Support 015-45-0919	52,470	63,534		38,100		57,887	
IRS Operations Support User Fees 015-45-5432	000	000		35,000		000	
Foreign Account Tax Compliance Act (FATCA)	\$0,897	\$7,120	693.9%	\$27,200	282.0%	\$4,441	-83.7%
IRS Operations Support 015-45-0919	897	7,120		15,500		4,441	
IRS Operations Support User Fees 015-45-5432	000	000		11,700		000	
Modernized e-File (MeF)	\$89,347	\$77,885	-12.8%	\$67,272	-13.6%	\$72,518	7.8%
IRS BSM 015-45-0921	68,067	57,186		37,348		34,700	
IRS Operations Support 015-45-0919	21,280	20,699		29,924		31,318	
IRS Operations Support User Fees 015-45-5432	000	000		000		6,500	
Service Center Recognition/Image Processing System (SCRIPS)	\$16,047	\$18,209	13.5%	\$9,667	-46.9%	\$9,733	0.7%
IRS Operations Support 015-45-0919	16,047	18,209		9,667		9,733	
Subtotal, Major IT Investments	\$1,603,936	\$1,608,329	0.3%	\$1,509,157	-6.2%	\$1,463,047	-3.1%
Non-Major IT Investments	\$779,145	\$869,734	11.6%	\$1,035,046	19.0%	\$1,140,215	10.2%
TOTAL IT Investments	\$2,383,081	\$2,478,063	4.0%	\$2,544,203	2.7%	\$2,603,262	2.3%
Major Non-IT Investments							
Criminal Investigations Capital Assets	\$7,089	\$756	-89.3%		-100.0%	\$193	0.0%
IRS Operations Support (One Year)		42				193	
IRS Enforcement (Reimbursable)	7,089	714					
Security Equipment	\$3,701	\$2,500	-32.5%	\$2,800	12.0%	\$2,486	-11.2%
IRS Operations Support (One Year)	3,701	2,500		2,800		2,486	
Leasehold Improvements	\$27,277	\$12,400	-54.5%	\$11,100	-10.5%	\$55,357	398.7%
IRS Operations Support (One Year)	27,277	12,400		11,100		55,357	
Total Major Non-IT Investments	\$38,067	\$15,656	-58.9%	\$13,900	-11.2%	\$58,036	317.5%
Total Capital Investments	\$2,421,148	\$2,493,719	3.0%	\$2,558,103	2.6%	\$2,661,298	4.0%

4.2 – Summary of Cost and Schedule Performance for Major Information Technology Systems

Investment	FY 2013 Funding Type ¹	Cost Variance %	Schedule Variance %
Account Management Services (AMS)	O	0.11%	0.00%
Customer Account Data Engine 2 (CADE 2)	B	0.00%	0.00%
e-Services (e-SVS)	B	0.00%	-5.22%
Electronic Fraud Detection System (EFDS)	O	33.62%	6.90%
Foreign Account Tax Compliance Act (FATCA)	D	25.63%	6.53%
Implement RRP (Replaces EFDS)	D	1.93%	0.00%
Individual Master File (IMF)	B	0.00%	0.00%
Information Reporting and Document Matching (IRDM)	B	1.38%	0.00%
Integrated Customer Communication Environment (ICCE)	B	0.00%	0.00%
Integrated Data Retrieval System (IDRS)	B	2.32%	0.00%
Integrated Financial System/CORE Financial System (IFS)	B	1.63%	0.00%
Integrated Submission and Remittance Processing System (ISRP)	B	0.00%	0.00%
IRS End User Systems and Services (EUSS)	O	0.00%	0.00%
IRS Main Frames and Servers Services and Support (MSSS)	O	0.00%	0.00%
IRS Telecommunications Systems and Support (TSS)	O	0.00%	-33.23%
IRS.GOV - Portal Environment	B	0.00%	0.00%
Modernized e-File (MeF)	B	0.00%	0.00%
Service Center Recognition/Image Processing System (SCRIPS)	B	-2.78%	-32.56%

Based on data submitted to Treasury, February 2013

¹ D – Development/Modernization/Enhancement (DME)

O – Operations and Maintenance (O&M)

B – Both DME and O&M

4A – Capital Investment Strategy

Information Technology (IT)

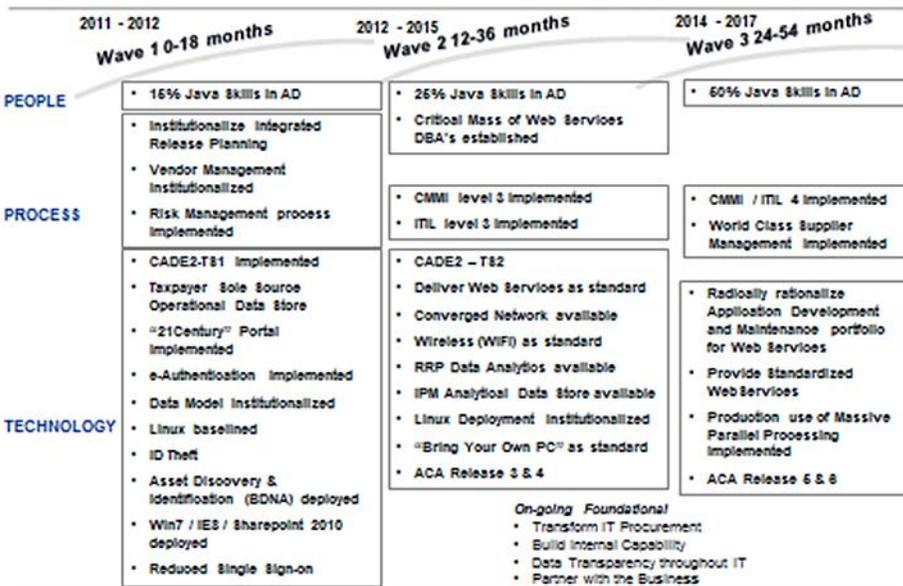
IT is a key enabler for efficient and effective tax administration. Today, the role of IT is more important than ever as the IRS faces the increasing complexity of tax administration, accelerating globalization, and an explosion in electronic data, online interactions, and related security risks. IRS IT investments address these new challenges, while ensuring that the IRS continues to deliver on its core mission and meets ongoing business needs. The IRS evaluates new technologies to deliver comprehensive IT solutions that focus on improving electronic filing of tax returns, enhancing services to taxpayers and third party practitioners, and strengthening compliance and criminal enforcement of tax laws. To ensure the public trust, the IRS also is making significant investments to secure infrastructure, data, and applications. With continued investment in new technologies and the modernization of existing IT systems, the IRS is improving service to taxpayers, achieving productivity gains, and distinguishing itself as a model of tax administration around the world.

The IRS also has established world-class practices and tools to manage and implement its portfolio of IT investments more efficiently. One element of the strategy, the Integrated Release Plan (IRP), provides a multiyear view of essential technology initiatives noting schedule, budgetary and human capital data and a link to the IT Technology Roadmap. The IRS continues to develop and refine the IRP by it to encompass a larger proportion of its IT investments each year. The IRP allows the IRS to assess proposed and current essential investments, assuring alignment to strategic goals, while illuminating budget or staffing constraints. This improves the IRS's ability to use limited resources efficiently and practice sound investment management.

IT Technology Roadmap

Another tool, the IT Technology Roadmap (shown below), provides a multiyear strategic view defined in 18-month segments or waves. Each wave identifies the critical people, process, and technology needed to support the IRS mission. This guiding strategic document integrates with the more tactical Integrated Release Plan.

Technology Roadmap 2011 – 2017



Delivering a Balanced Portfolio of Investments

While the annual tax-filing season and legislative changes are IRS's highest priorities each year, the IT strategy ensures the IRS also explores new technologies in areas such as communications to complement its existing portfolio of IT investments. For example, projects such as *Bring Your Own Device* enable employees to use their personal smart phones and tablets for both professional and personal communications; *Network Convergence* embraces the power of the Internet for voice, data, and visual communications; and *IRS portal modernization* is streamlining navigation and enhancing search capabilities to make it easier for taxpayers and other stakeholders to find information and resources quickly. The IRS balances these technologically-advanced investments, which enable more effective use of resources, against other IT investments that support revenue collections, such as third party tax information reporting and document matching, faster return reviews in processing to prevent tax refund fraud, and foreign account tax reporting.

Managing Performance as part of IRS's IT Strategy

The IRS monitors major IT investments using baselines identified in OMB Exhibit 300B, IT Capital Asset Performance Measurement Report. The monthly review includes a comparison of the projected cost, schedule, and performance estimates to those in the approved business case and generates reports for internal and external stakeholders. Every month an Executive Steering Committee (ESC) reviews the overall status, cost, schedule, and scope for each investment and makes needed recommendations. Any changes to the cost, schedule, or scope of the investment require a formal Baseline Change Request (BCR). The IRS employs remediation strategies for investments that are not meeting their stated performance goals, including conducting internal TechStat meetings for investments with a “yellow” (or below) rating in the areas of cost, schedule, or Treasury CIO rating.

IRS Portfolio of Major Investments

Following is a comprehensive list of assets that make up the foundation of IRS's investment strategy. Also included are details regarding the immediate and full life-cycle costs, projected useful life, anticipated benefit(s), performance measurement criteria, and remediation strategy specific to each asset.

Account Management Services

Account Management Services (AMS) is a strategic program that delivers improved customer support for managing taxpayer accounts by leveraging existing IRS applications. It is a web-based resource that brings various IRS systems together into one common view. The AMS application enables IRS case managers to access and update taxpayer accounts instantaneously, provides data presentation services to display and validate updates, and facilitates management actions (such as assignments, transfers, case creation and closure, and the generation of letters to taxpayers). AMS provides front-end functions for adjustments, penalties, interest, abatements, credit and debit transfers, name and address changes, bankruptcies, installment agreements, changes to the automated treatment streams, follow-up activity or deferred actions and many other taxpayer account-related functions required for customer service and compliance.

The immediate cost (defined as the base FY 2013 budget plus the FY 2014 request) as well as the full life cycle cost of the asset:

FY 2013 - FY 2014:	\$43,635,403
Life-cycle Cost:	\$211,833,520

The projected useful life of the current asset: estimated 2019.

Timeframe for the “development, modernization, and enhancement” (DME) or “operations and maintenance” (O&M) phase of the investment for FY 2014:

AMS deployed in December 2010 and is now in the O&M phase.

The anticipated benefit(s) of the investment:

AMS cost-effectively and expeditiously decreases taxpayer burden and improves taxpayer service by providing customer service representatives and other users, such as tax examiners, with tools to access taxpayer and filer data. AMS supports the IRS’s mission to provide America’s taxpayers quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness.

How performance will be measured and evaluated:

- **Core Application Availability:** The percentage of uptime that the AMS system is available for users. The Core Application allows users to handle a variety of account management actions. This measure indicates the percentage of available, scheduled up-time and considers the application servers and the infrastructure components of the AMS Core Application.
- **Databases Availability:** This technical measure indicates the percentage of scheduled up-time of the four AMS databases that provide the data needed by users.
- **Imaging Inventory Application Availability:** More than 8,000 users respond to taxpayers using the Imaging Inventory. This measure indicates the percentage of scheduled up-time that the application is available to customer service representatives. This technical measure considers the availability of the application servers, workflow system, and content management system components of the Imaging Inventory.
- **Accuracy of adjustments and responses to Taxpayer Correspondence:** The percent of adjustments to taxpayer accounts and answers to taxpayer issues provided by correspondence units that are accurate.
- **Telephone Level of Service:** The percent of time that taxpayers calling IRS toll-free operations successfully reach a live assister.

Customer Account Data Engine 2

The Customer Account Data Engine (CADE 2) program implements a single, data-centric solution that provides daily processing of taxpayer accounts. CADE 2 is one of the key IRS modernization programs. Once fully implemented, it will provide state-of-the-art individual taxpayer account processing and will provide a solid data foundation for the future. It will allow the IRS to collect, consolidate, access, and analyze taxpayer data more effectively, to drive improvements in service to taxpayers and enhancements in tax administration. After 50+ years of weekly posting of returns, payments, and other types of transactions, CADE 2 moved the IRS to a daily cycle for tax processing and posting of individual taxpayer accounts

and for feeding downstream systems. This means application programs that formerly took hours or days to complete now run in minutes or seconds. The new CADE 2 daily processing capability enhances IRS tax administration and improves service by enabling faster refunds for more taxpayers.

The IRS will implement CADE 2 through two Transition States. The first phase is Transition State 1 (TS1), which established the target CADE 2 data model, database, and uses the data to provide individual taxpayer account information to select external systems. Updated daily from the individual taxpayer account core processing applications, the database establishes the foundation for developing the CADE 2 solution and is critical to addressing the IRS financial statement audit material weakness. The TS1 solution primarily leverages security controls provided by existing systems, including the Security and Communications System (SACS) for account viewing. Transition State 2 (TS2), builds upon the foundation established in TS1. Core applications will directly access and update the CADE 2 database implemented in TS1. TS2 will focus on the hardest and more critical financial management applications and address financial material weaknesses. Capturing taxpayer account data on a daily basis and storing it in new multi-level, connected and relatable formats will enable the IRS to do sophisticated searches and comparisons to identify trends revealing critical areas of noncompliance.

The immediate cost (defined as the base FY 2013 budget plus the FY 2014 request) as well as the full life-cycle cost of the asset:

FY 2013 - FY 2014:	\$496,298,988
Life-cycle Cost:	\$1,479,340,951

The projected useful life of the current asset: estimated 2019.

The anticipated benefit(s) of the investment:

With the exit of Milestone 5, the IRS met its goals for CADE 2 TS1 by providing the following business functionality and benefits: a single database that stores all individual taxpayer accounts; enhanced processing, including daily batch processing; more timely posted data to IRS's key customer service operational database, IDRS; tools for business users to access the CADE 2 Database and Integrated Production Model (IPM) for analytical reporting; enhanced data security; and downstream systems feeds to support daily processing.

How performance will be measured and evaluated:

- **Faster Notices:** The number of daily notices generated by CADE 2 (versus weekly notices);
- **Faster Refunds:** The percentage of refunds processed daily;
- **Increased percentage of transactions processed daily:** The percentage of transactions processed daily compared to the total transactions processed by IRS;
- **Daily Updates to IDRS:** The percent of business days the CADE 2 solution will process transactions within 48 hours of receipt from submissions processing for days in which there are transactions to process; and
- **Individual Accounts Viewable:** The percent of individual taxpayers that will have individual account data stored in the CADE 2 relational database and usable by IRS employees for viewing.

e-Services

e-Services is a suite of web-based, self-assisted services that allow authorized individuals to conduct business with the IRS electronically. Currently, e-Services products are available to tax practitioners, payers, and other third parties. The services include Registration, Tax Identification Number (TIN) Matching, e-File Application, Disclosure Authorization (DA), Electronic Account Resolution (EAR), Transcript Delivery System (TDS), Reporting Agents, and Automated Electronic Fingerprinting.

The immediate cost (defined as the base FY 2013 budget plus the FY 2014 request) as well as the full life-cycle cost of the asset:

FY 2013 - FY 2014: \$24,283,012
Life-cycle Cost: \$211,434,389

The projected useful life of the current asset: estimated 2019.

The anticipated benefit(s) of the investment:

e-Services provides a faster way for authorized individuals to interact and conduct business electronically with the IRS.

How performance will be measured and evaluated:

- The number of e-Services transactions processed through the Registered User Portal (to represent the usage of the Internet applications);
- The percentage of transcripts delivered by the re-engineered Transcript Delivery System;
- The percentage of scheduled e-Services Transcript Delivery System availability per the approved Service Level Agreement as documented monthly by IRS Enterprise Services;
- The percentage of external merchants receiving transcripts electronically; and
- Reduction in the number of transmittals or requests for corrective changes to the production environment.

Electronic Fraud Detection System

The Electronic Fraud Detection System (EFDS) is a major, steady state, automated client server-based system used to maximize fraud detection at the time that tax returns are filed to eliminate the issuance of fraudulent tax refunds. EFDS supports the Department of the Treasury strategic goal to “Manage the Government’s Finances Effectively.” EFDS allows IRS Criminal Investigation Investigative Aides/Analysts and Wage and Investment (W&I), Business

Performance Solutions, and Accounts Management Taxpayer Assistance Program (AMTAP) Tax Examiners to protect Government revenue by detecting potentially fraudulent tax refund claims and preventing the issuance of fraudulent tax refunds.

The immediate cost (defined as the base FY 2013 budget plus the FY 2014 request) as well as the full life-cycle cost of the asset:

FY 2013 - FY 2014: \$37,636,862
Life-cycle Cost: \$149,601,593

The projected useful life of the current asset: estimated 2015.

Timeframe for the DME or O&M phase of the investment for FY 2014:

The EFDS investment is 100 percent O&M funded for FY 2014.

The anticipated benefit(s) of the investment:

The EFDS will protect Government revenue by detecting potentially fraudulent tax refund claims and stopping the issuance of fraudulent tax refunds at the time a return is filed. As of August 2012, EFDS stopped fraudulent refunds totaling \$11.2 billion during Filing Season 2012.

How performance will be measured and evaluated:

- Number of confirmed fraudulent returns identified by the data models.
- Percentage of Questionable Refund Program refunds identified as false that AMTAP stops.
- Percentage of scheduled system availability per the approved Service Level Agreement.
- Percentage of completed verifications that is potentially fraudulent.
- Percentage of primary investigations accepted by CI as subject criminal investigations.

Foreign Account Tax Compliance Act

The Foreign Account Tax Compliance Act (FATCA) project is a system under development that will improve tax compliance by identifying U.S. taxpayers that attempt to shield or divert assets by depositing funds in foreign accounts. The system will consist of a registration component and a document-matching component. FATCA legislation requires foreign financial institutions to report to the IRS information regarding financial accounts held by U.S. taxpayers or foreign entities in which U.S. taxpayers hold a substantial ownership interest.

The immediate cost (defined as the base FY 2013 budget plus the FY 2014 request) as well as the full life-cycle cost of the asset:

FY 2013 - FY 2014: \$31,641,500
Life-cycle Cost: \$91,485,794

The projected useful life of the current asset: estimated 2019.

Timeframe for the DME or O&M phase of the investment for FY 2014:

The FATCA investment is 100 percent Development, Modernization, and Enhancement (DME) funded for FY 2014.

The anticipated benefit(s) of the investment:

The primary beneficiaries of this investment are the Federal Government and the U.S. taxpayers. FATCA will allow the agency to increase international service and enforcement through examinations of employment tax; specialty program audits, individual audits, business audits, and criminal investigation case closures, ensuring taxpayers meet their tax obligations.

How performance will be measured and evaluated:

The FATCA investment has yet to deploy and performance measures are under development.

Implement Return Review Program

The Return Review Program (RRP) is a system that uses leading-edge technologies to advance IRS effectiveness in detecting, addressing, and preventing tax refund fraud and protecting United States Treasury revenue. It will replace the legacy EFDS which was built in the mid-1990s. The entirely new RRP fraud framework is critical for IRS success in tackling ever-evolving tax schemes in a sophisticated, scalable, and adaptable manner. Based on specific business models from the Office of Criminal Investigation and the Return Integrity and Correspondence Services (RICS) Office, RRP will support the new cross-functional approach to criminal and civil tax noncompliance, including identity theft. With RRP, predictive fraud detection models will seek out subtle data patterns to determine the reliability of return data, including the filer's identity. RRP will generate a scorecard for questionable returns, evaluating consistency and dependability on each. RRP will evaluate returns against the prior three years of filing history and other external data sources to provide a robust perspective. The IRS will be able to respond to multiple issues of noncompliance on a single return. Using massively parallel processing, the system's capacity will promote speed, even during the peak of tax filing season. This speed will serve taxpayers not only by supporting fast refunds, but also by quickly recognizing patterns and redirecting fraudulently filed returns. The database query speed will be more than 10 times that of the current EFDS system.

The immediate cost (defined as the base FY 2013 budget plus the FY 2014 request) as well as the full life-cycle cost of the asset:

FY 2013 - FY 2014: \$75,065,921
Life-cycle Cost: \$169,127,670

The projected useful life of the current asset: estimated 2019.

Timeframe for the DME or O&M phase of the investment for FY 2014:

The RRP investment is 100 percent DME funded for FY 2014.

The anticipated benefit(s) of the investment:

- IRS will be able to respond to multiple issues of noncompliance on a single return; and
- Using massively parallel processing, the system's capacity will promote speed, even during the peak of tax filing season. This speed will serve taxpayers not only by supporting fast refunds, but also by quickly recognizing patterns and redirecting fraudulently filed returns.

How performance will be measured and evaluated:

The RRP investment has yet to deploy and the IRS is developing performance measures.

Individual Master File

The Individual Master File (IMF) is the authoritative data source for individual taxpayer's accounts. Within the IMF, accounts are updated, taxes are assessed, and refunds are generated as required each tax filing period. Virtually all IRS information system applications and processes depend on output, directly or indirectly, from this data source. IMF Daily Processing is a key component in the development efforts of CADE 2. While today IMF remains the system of record for individual taxpayer account data, CADE 2 will continue to migrate the IRS away from the current IMF tape-based architecture for tax processing toward its target state of a more modern system architecture based on relational database technologies.

The immediate cost (defined as the base FY 2013 budget plus the FY 2014 request) as well as the full life-cycle cost of the asset:

FY 2013 - FY 2014: \$18,135,736
Life-cycle Cost: \$107,669,300

The projected useful life of the current asset: estimated 2019.

The anticipated benefit(s) of the investment:

- Performs daily processing of tax returns allowing faster issuance of refunds; and
- Performs identity theft related checks on individual tax returns filed on paper.

How performance will be measured and evaluated:

- Completes planned processing schedule (e.g., daily, weekly) to meet refund, notice and online access deadlines. Measurement available on Enterprise Operations weekly reports;
- Refund Error rate with Systemic Errors: The error rate is the ratio of total incorrect refunds compared to the total number of refunds. Measurement data is provided by W&I and SB/SE in the Submission Processing Measures Analysis and Reporting Tool (SMART) database. Systemic errors (errors attributed to incorrect programming, less than ideal products from properly working systems, and incorrect Internal Review Manual procedures are also included in the rates which indicate "with systemic errors";

- The percentage of scheduled system availability per the approved Service Level Agreement, as documented monthly by IRS Enterprise Services in the IT Performance Report; and
- Percent of Taxpayer refunds (paper returns only) issued within 40 days. Timeliness measured by sampling taxpayers receiving refunds. Measurement data is provided by W&I and Small Business/Self-Employed (SB/SE) in Submission Processing (SMART) database. The Business target for this measure is established by Customer Account Services (CAS) every January, with a yearly goal and cumulative planned projection for each month. The results report the variance against the target, and the monthly cumulative target is reported in the comments.

Information Reporting and Document Matching

Information Reporting and Document Matching (IRDM) is a program to improve business taxpayer compliance by automatically matching the tax return filings to third party information returns. The goals of IRDM are to increase voluntary compliance and enhance accurate reporting of income by establishing a new business tax return and information returns that focus on merchant card payments and securities basis reporting. IRDM supports IRS Business utilizing information systems that sort, match, identify, manage, and report on returns that are likely sources of tax gap-reducing revenue. Closing the tax gap through IRDM increases Federal Government revenues and benefits the vast majority of taxpayers who voluntarily file accurate returns. To accomplish this, the IRS requires operational resources and systems be put in place to implement business and technology changes that will expand and improve automated matching of data on information returns to the data submitted on tax returns filed. This automation will improve the use of third party data to increase compliance, provide improved access to information to enhance the quality of customer services, accelerate issue identification and resolution, and increase the productivity and quality of tax administration.

IRDM has many dependent relationships and interacts with other systems across the IRS, including data submission systems, databases, data transport functionality, and data processing systems.

IRDM relies heavily on submission processing systems, corporate data systems, and newly implemented infrastructure to identify potential under-reporters and non-filers. IRDM will utilize corporate data master file data such as Information Return Master File (IRMF) and Business Master File (BMF) extracted and stored in the Integrated Production Model (IPM). IRDM consists of new functionality developed to assimilate, correlate, select, and manage potential cases. In addition, it supplies data during the management process to as many as 19 external systems to resolve cases and provide the disposition of a case to other systems within the IRS.

IRDM is a component of the overall tax gap initiative. The effectiveness of other efforts, as well as funding for compliance personnel will influence how much and how quickly IRDM reduces the tax gap. Reducing the tax gap through IRDM will increase Federal Government revenues and benefit the vast majority of taxpayers who voluntarily file accurate returns by improving the use of third party data to increase compliance and provide improved access to

information. This will enhance the quality of customer services, accelerate issue identification and resolution, and increase the productivity and quality of tax administration.

The immediate cost (defined as the base FY 2013 budget plus the FY 2014 request) as well as the full life-cycle cost of the asset:

FY 2013 - FY 2014: \$46,039,380
Life-cycle Cost: \$186,485,472

The projected useful life of the current asset: estimated 2019.

The anticipated benefit(s) of the investment:

- Reduce the tax gap through IRDM, which will increase Federal Government revenues and benefit the vast majority of taxpayers who voluntarily file accurate returns; and
- Improve the use of third party data to increase compliance, provide improved access to information to enhance the quality of customer services, accelerate issue identification and resolution, and increase the productivity and quality of tax administration.

How performance will be measured and evaluated:

The IRDM investment has yet to deploy and the IRS is developing performance measures.

Integrated Customer Communication Environment

The Integrated Customer Communication Environment (ICCE) directly supports the IRS Strategic Goal of improving service to make voluntary compliance easier. Consolidating logic for telephone applications reduces overall costs because it applies standard solutions to what was a specialized arena. ICCE provides a set of telephone and web applications that allow individual taxpayers to interact directly with their accounts, as described below:

- The Online Payment Agreement Application allows the taxpayer or authorized representative (i.e., Power of Attorney) to apply for and receive online approval for a short term extension of time to pay or set up a monthly installment agreement;
- The Internet Refund Fact of Filing provides tax refund status information via the web to 1040 series filers;
- The Internet Refund Address change allows taxpayers who have not received paper refunds after a specific amount of time to initiate a refund trace;
- The Personal Identification Number (PIN) applications are intended to be used as common modules, available for use by any Interactive Application, which callers use to establish their identity. Callers establish their identity by either correctly entering a previously established PIN or by successfully passing an automated Identification and Authentication Interview and establishing a PIN;

- The Address Module supports multiple ICCE Web applications, providing taxpayers with the ability to initiate a change of address of record as well as information on refund status and undelivered refund checks;
- The Modernized Internet Employer Identification Number application is a component of ICCE web applications and the business web application servers. It allows the general public to apply for an Employer ID number over the web and receive the number in the same session;
- The Send My Transcripts, eTranscript offers an additional method for requesting tax return or tax account transcripts via the web. Taxpayers can request their current year and three prior years of tax account and/or tax return transcripts. The transcripts are delivered to a secured mailbox for retrieval by a third party; and
- The Foreign Account Tax Compliance Act Registered User Portal Application provides an online registration process for Foreign Financial Institution to register and enter into an agreement with the IRS to comply with FATCA regulations.

The immediate cost (defined as the base FY 2013 budget plus the FY 2014 request) as well as the full life-cycle cost of the asset:

FY 2013 - FY 2014: \$32,732,556
 Life-cycle Cost: \$534,244,437

The projected useful life of the current asset: estimated 2019.

The anticipated benefit(s) of the investment:

- Allows the taxpayer or an authorized representative (i.e., Power of Attorney) to apply for and receive online approval for a short term extension of time to pay or set up a monthly installment agreement;
- Allows taxpayers who have not received (lost or destroyed) paper refunds after a specific amount of time to initiate a refund trace (or re-issuance of their refund check); and
- Provides taxpayers the ability to initiate a change of address of record and provide a phone number (optional) based on a refund status that indicates an undeliverable refund check and other criteria have been met.

How performance will be measured and evaluated:

- Customer Satisfaction (IRS.gov American Customer Satisfaction Index Score);
- The percentage of taxpayers utilizing IRS web applications and automated Phone Service versus Customer Service Representatives in order to find solutions and answer questions related to tax matters;
- The percentage of scheduled system availability per the approved Service Level Agreement, as documented monthly by IRS Enterprise Services in the IT Performance Report;
- The number of times a taxpayer accesses IRS web applications to request refund status and other web services: Internet Refund Fact of Filing, Internet Employee Identification Number, or Online Payment Agreement; and
- Reduction in the number of transmittals or requests for corrective changes to production environment, as evidence of improved efficiency.

Integrated Data Retrieval System

Operational since 1973, the Integrated Data Retrieval System (IDRS) is a secure, reliable, flexible, mission-critical system consisting of databases and programs supporting IRS employees working active tax cases. It would not be possible to run the Federal Government tax filing season without IDRS or some equivalent system. About 60,000 of the 100,000 IRS employees rely on it daily to do their work. It provides for systemic review of case status, alleviating staffing needs and providing consistency in case control. For example, each time a taxpayer calls the IRS, the person answering the phone uses IDRS to log the call and answer questions. IDRS issues notices and processes installment agreements, offers in compromise, and adjustments. Actions taken via IDRS include penalty and interest computations and explanations, credit and debit transfers among accounts and research of taxpayer accounts for problem resolution of taxpayer inquiries. IDRS manages data retrieved from the tax master files (Business, Individual, and Employee Plan) allowing IRS employees to take actions on taxpayer issues, track status and post updates back to the master files. Using data analytics, IDRS allows the IRS to evaluate taxpayer data efficiently to inform enforcement and secure legal compliance, both domestically and internationally.

In addition to IRS employees, IRS Internet applications depend on IDRS to provide back-end services to enable them to help taxpayers. For example, tens of millions of taxpayers ask *Where's My Refund?* at IRS.gov annually and millions of business taxpayers obtain Employer Identification Numbers via IRS.gov instead of via paper. IDRS enables businesses providing payroll services to submit tax data on behalf of millions of taxpayers and collaborates with registered tax practitioners to reduce the burden of filing Powers of Attorney and Taxpayer information authorizations, allowing them to request access to other e-Services. IDRS produces many kinds of tax information to support sending and receiving information to and from other systems within the IRS, Social Security Administration, Financial Management Service, State and local governments, and tax practitioners.

The immediate cost (defined as the base FY 2013 budget plus the FY 2014 request) as well as the full life-cycle cost of the asset:

FY 2013 – FY 2014: \$37,184,289
Life-cycle Cost: \$322,110,686

The projected useful life of the current asset: estimated 2019.

The anticipated benefit(s) of the investment:

- Allows the IRS to evaluate taxpayer data efficiently to inform enforcement and secure legal compliance, both domestically and internationally; and

How performance will be measured and evaluated:

- Individual taxpayer usage of *Where's My Refund?* feature through IRS.gov, IRS2Go smartphone application, or automated, toll-free telephone number. This feature relies on IDRS to operate and provides convenient, high-quality, citizen-centered service without the assistance of a Federal employee. The target for this steady state performance metric is usage equal to 100 percent of the average usage during typical processing years;
- IRS staff usage of IDRS. IDRS enables approximately 60,000 taxpayer-facing IRS employees, using a variety of methods, to retrieve taxpayer records quickly, accurately, and securely to authorized staff while responding to taxpayer inquiries and conducting examinations. The command code TXMOD displays tax data for specific taxpayers for specific periods. The target for this steady state performance metric is TXMOD usage equal to 100 percent of the average usage during typical processing years;
- The percentage of scheduled system availability. To measure this steady state performance metric, calculate the cumulative average percentage of system availability per an approved service level agreement as documented by IRS Information Technology Enterprise Services for "Essential Business Systems";
- Business taxpayer usage of IRS.gov to obtain Employer Identification Numbers (EINs). This feature relies on IDRS to operate and lets taxpayers obtain EINs without the assistance of a Federal employee or the mailing of form SS-4 "Application for EIN." It reduces the expense and difficulty of doing business with the Government. The target for this steady state performance metric is usage equal to 100 percent of the average usage during typical processing years; and
- The percentage of certified letters printed centrally versus locally. These notify business and individual taxpayers of issues. This aligns with IRS goals to improve taxpayer service and enhance enforcement of tax law. To measure this steady state

performance metric, the IRS calculates the percentage of certified letters printed centrally versus locally out of all certified letters printed.

Integrated Financial System

The Integrated Financial System (IFS) is the core financial system used by the IRS for budget, payroll, accounts payable, accounts receivable, general ledger functions, and financial reporting. The IFS system provides accountants, budget, and financial management analysts the ability to effectively manage U.S. Government finances for the IRS and respond to audit requests in support of a clean audit opinion.

The immediate cost (defined as the base FY 2013 budget plus the FY 2014 request) as well as the full life-cycle cost of the asset:

FY 2013 - FY 2014:	\$31,574,976
Life-cycle Cost:	\$482,838,476

The projected useful life of the current asset: estimated 2019.

The anticipated benefit(s) of the investment:

- Enables the IRS to make informed and timely performance-based business and budgetary decisions.
- Eliminates redundant data management by providing a single master data repository.

How performance will be measured and evaluated:

- Complete monthly financial close process and submit Treasury Information Executive Repository (TIER) report within 3 days after month end;
- The number of calendar days required to run cost assessment allocation cycles for internal and external customers;
- The percentage of scheduled system availability per the approved Service Level Agreement, as documented monthly by IRS Enterprise Services;
- Obtain clean audit opinion from GAO; and
- Percentage of end user issues (aka, Priority 1 and Priority 2 tickets, equating to severity) eliminated or remediated within timeframes established in the approved Service Level Agreement.

Integrated Submission and Remittance Processing System

The Integrated Submission and Remittance Processing (ISRP) system is a mission-critical operations and maintenance project that processes tens of millions of tax returns and deposits billions of dollars to the U.S. Treasury on a yearly basis. ISRP is an integrated suite of

hardware, software, and network components that provides the interfaces for data entry perfection and transmission of data to IRS Corporate data storage. ISRP Data Entry Operators enter the information from various paper documents that are then converted into electronic data used by downstream operations such as Financial Information Systems. ISRP also updates tax forms to comply with legislative changes in tax laws.

The immediate cost (defined as the base FY 2013 budget plus the FY 2014 request) as well as the full life-cycle cost of the asset:

FY 2013 - FY 2014: \$23,521,379
Life-cycle Cost: \$191,856,671

The projected useful life of the current asset: estimated 2019.

The anticipated benefit(s) of the investment:

- Processes tens of millions of “paper” tax returns supporting the core business of IRS.
- Processes billions of dollars of remittances to the U.S. Treasury on a yearly basis.

How performance will be measured and evaluated:

- The percentage of daily ISRP deposits made in accordance with Internal Revenue Manual (IRM) 3.0.275;
- Production Problem Resolution and Reporting - Number of high priority trouble tickets (P1) not closed within 4 hours;
- System Availability (Uptime) - Percent of up time hours (actual uptime hours/planned uptime hours);
- Production Problem Resolution and Reporting - Number of priority trouble tickets (P2) not closed timely within 24 hours; and
- Scanner/ Transport Hardware Response Timeliness – Percentage of Priority Trouble Tickets (P1) Maintenance Response within 2 hours.

IRS End User Systems and Services

The End User Systems and Services (EUSS) program supports the IRS’s day-to-day end user products, services, and support for over 100,000 IRS employees at headquarters and field sites.

The immediate cost (defined as the base FY 2013 budget plus the FY 2014 request) as well as the full life-cycle cost of the asset:

FY 2013 - FY 2014: \$380,575,962
Life-cycle Cost: \$1,683,601,065

The projected useful life of the current asset: estimated 2025.

Timeframe for the DME or O&M phase of the investment for FY 2014:

The EUSS investment is 100 percent O&M funded for FY 2014.

The anticipated benefit(s) of the investment:

- Provides the IT infrastructure to allow the IRS to process tax returns, collect revenue, and issue refunds;
- Decreases the obsolescence rate of “in use” assets;
- Optimizes use of technology and tools allowing incidents to be resolved remotely; and
- Equips high-mobility employees with tools and technologies for network connectivity from off-site locations.

How performance will be measured and evaluated:

- Obsolescence Asset Quantity - Percentage of obsolete UNS assets (those assets that are beyond end-of-life) identified as "in use" on the asset record. This includes nine groups of equipment. *If UNS improves the delivery of end user equipment, the organization should experience a decrease in the obsolescence rate of "in use" assets;
- Remote Closures - Percentage of incidents resolved remotely using a service delivery process that optimizes the use of technology and tools;
- Service Desk Speed of Answer - Average time a customer is waiting in the Service Desk queue before reaching a Service Desk Representative;
- Aircard Deployment - Number of wireless aircards provided to high-mobility employees for network connectivity from off-site locations; and
- First Contact Resolution - Percentage of calls and incidents resolved on first contact with the customer.

IRS Mainframes and Servers, Services and Support

The Mainframes and Servers, Services and Support (MSSS) program provides for the design, development, and deployment of server, middleware and large systems as well as enterprise storage infrastructures, including systems software products, databases and operating systems for these platforms.

The immediate cost (defined as the base FY 2013 budget plus the FY 2014 request) as well as the full life-cycle cost of the asset:

FY 2013 - FY 2014: \$809,621,304
Life-cycle Cost: \$6,015,836,109

The projected useful life of the current asset: estimated 2025.

Timeframe for the DME or O&M phase of the investment for FY 2014:

The MSSS investment is 100 percent O&M funded for FY 2014.

The anticipated benefit(s) of the investment:

- Enables the IT infrastructure to allow the IRS to process tax returns, collect revenue, and issue refunds;
- Provides 24x7 IT Operations and Maintenance to all Tier I and Tier II production systems responsible for the daily operation of the IRS batch and online processing environments;
- Ensures server computer resources maintain sufficient capacity to meet system functional and performance demands; and
- Develops, installs, maintains, and modifies the infrastructure required for various ongoing Tax Processing Unisys mainframe systems.

How performance will be measured and evaluated:

- The percentage of Server Environment Virtualized;
- The percentage of Uptime for the ACS, ICS and IDRS Databases;
- The success Rate Percentage for Automated Deployment of Infrastructure Component Packages to Production - Using the Package Based Promotion Tool;
- The number of Standard Employee IDs with Elevated Access are Reduced; and
- The percentage of Priority Tickets that are Triaged/Resolved by Service Operations Command Center Systems Administrators.

IRS Telecommunications Systems and Support

The TSS program falls under the jurisdiction of the Users and Networks Services (UNS) organization that is responsible for the management of voice and data networks, video services and engineering throughout the IRS. This includes providing remote access, voice telephony, voicemail, contact centers, cell phones, pagers, and video conferencing. UNS network is composed of wide area networks, local area networks, servers, switches, and control devices. The investment supports the IT Infrastructure services regarding the Federally mandated transition to IPV6.

Network Convergence replaces aged voice, voicemail, and video infrastructure, and combines these services on a common network. It provides operational efficiencies, supports agency initiatives to reduce real estate (through projects including the shared workspaces initiative, universal workspace design, home as point of duty), and reduces risks posed by aged legacy assets. The Video Conferencing System (VCS) infrastructure has aged devices that need replacing. The original equipment manufacturer no longer supports these devices. The VCS refresh initiative is in alignment with the IRS's Sustaining Infrastructure goal to retire aged assets and reduce obsolescence enterprise-wide. Enterprise e-Fax provides desktop fax capability to IRS employees nationwide. The fax capability will help support decreases in paper, hardware, and toner costs and help support telework related initiatives.

UNS manages a large-scale contact center infrastructure to assist its customers with tax-related problems and questions. It is in the planning stages of upgrading the existing Aspect Automated Call Distributor (ACD) platforms. ACDs distribute calls among local and remote agents at 30+ centers within the United States and Puerto Rico. The ACD platforms are reaching end-of-life and need replacing. Replacement will provide features necessary to replicate primary functionality of the ACDs, while supporting integration with the existing application and other Contact Center production systems.

The immediate cost (defined as the base FY 2013 budget plus the FY 2014 request) as well as the full life-cycle cost of the asset:

FY 2013 - FY 2014: \$594,080,041
Life-cycle Cost: \$2,583,274,476

The projected useful life of the current asset: estimated 2021.

Timeframe for the DME or O&M phase of the investment for FY 2014:

The TSS investment is 100 percent O&M funded for FY 2014.

The anticipated benefit(s) of the investment:

- Provides the IT infrastructure to allow the IRS to process tax returns, collect revenue, and issue refunds;

- Supports agency initiatives to reduce real estate (through projects including the shared workspaces initiative, universal workspace design, and home as post of duty);
- Reduces risks posed by aged legacy assets; and
- Supports the IRS's Sustaining Infrastructure goal to retire aged assets and reduce obsolescence enterprise-wide.

How performance will be measured and evaluated:

- Internet Access Availability - Average availability of the IRS to be able to reach a select number of external websites through the three Common Communications Gateways (CCG);
- LAN Availability - Availability based on Knowledge Incident Service Asset Management (KISAM) tickets and the customer impact on making the network available. Percent is derived from total number of hours per month X total number of sites/hours a site is not available;
- WAN Availability - Availability based on KISAM tickets and the customer impact on making the network available. Percent is derived from total number of hours per month X total number of sites/hours a site is not available;
- Percent of GSP compliance - Guidance's, Standards, and Procedures (GSP) - UNS Router/Switch GSPs exist to ensure standardized security configurations for the network devices used in the IRS User & Network Services. NetDoctor is the enforcement tool used for ensuring GSP compliance. It enforces the GSP rules against the IRS's network device configurations;
- Total Network Usage (as a percentage of capacity) Average - Target is greater than or equal to 15 percent - It is the average of all sites based on bandwidth in and bandwidth out. Capacity is determined to ensure the IRS correctly sizes TNet circuits to accommodate user's needs - too small a circuit means the network slows down. Too large means the IRS pays for unused capacity; and
- Total Network usage (as a percentage of capacity) Peak - Target is less than or equal to 65 percent - It is the average of all sites based on bandwidth in and bandwidth out. Capacity is determined to ensure the IRS correctly sizes TNet circuits to accommodate user's needs - too small a circuit means the network slows down. Too large means the IRS pays unnecessary expenses for unused capacity.

IRS.gov - Portal Environment

The Integrated Enterprise Portals (IEP) are critical to the IRS mission and foundational to IRS electronic tax administration and to IRS business operations. IRS has adapted these mission-critical systems over the years to meet the changing needs of the tax paying population; however, current portal design limitations and available systems capacity will not

meet the needs of the future investment portfolio. The new IRS IEP will provide seamless one-stop, web-based services to internal and external users, such as taxpayers, business partners, IRS employees, and other Government agencies. The objective of the new portal project is to continue to maintain and operate secure and reliable portals to meet the goals of the agency by competitively acquiring managed services for the establishment and management of a new infrastructure, hosting, help desk, content management, search, and reporting solution, and the transition of the existing portal capabilities and services to the new IRS Web environment transparent to external users. By transitioning both to the new Integrated Enterprise Portal (IEP) environment, it improves the IRS capability to increase IT services to meet the changing needs of the taxpaying public. The IRS will build the new IEP environment in phases with the final phase to be completed FY 2013.

The immediate cost (defined as the base FY 2013 budget plus the FY 2014 request) as well as the full life-cycle cost of the asset:

FY 2013 - FY 2014: \$130,986,829
Life-cycle Cost: \$612,032,567

The projected useful life of the current asset: estimated 2020.

The anticipated benefit(s) of the investment:

- Improves web environment, efficiencies, effectiveness, quality, and process maturity.
- Provides visibility into program cost drivers.
- Delivers year over year unit cost reductions to the IRS.

How performance will be measured and evaluated:

- The percentage of the calls answered by Help Desk representative within 40 seconds. Providing a public facing web portal environment availability of 99.99 percent that allows taxpayers to meet their tax obligations timely.
- Web portal environment is available 99.99 percent to meet the internal user's needs with minimum interruption.
- The percentage of the e-mails responded to within 24 business hours with scripted e-mail response.
- The percentage of all new applications successfully deployed in the IRS.Gov production environment within five business days, must equal 100 percent.

Modernized e-File

The Modernized e-File (MeF) system is a mixed life-cycle investment that is the primary system to receive and process all tax returns submitted electronically. When MeF receives an electronic tax return, the system determines if it satisfies the acceptance rules required for further processing.

One of the benefits of MeF is the extensive error checking and data validation that occurs before the return is fully processed. MeF creates an acknowledgment telling the transmitter that the return was either accepted or rejected, and it provides information about the cause(s) of rejection. This acknowledgment is generally available to the transmitter within minutes of tax return submission. MeF forwards accepted returns to IRS systems used for processing tax returns. If MeF rejects a return due to errors, the transmitter can correct the identified issues and re-submit. These up-front checks help ensure successful processing of returns by downstream tax systems.

The MeF Program provides a secure, web platform for electronically filing tax and information returns by registered Electronic Return Originators (ERO). This system uses a browser-based and application-to-application solution to provide ERO end users with optimized return filing. MeF is becoming the primary system for electronic filing of business and individual tax returns and forms.

The immediate cost (defined as the base FY 2013 budget plus the FY 2014 request) as well as the full life-cycle cost of the asset:

FY 2013 - FY 2014:	\$139,790,105
Life-cycle Cost:	\$575,302,667

The projected useful life of the current asset: estimated 2019.

The anticipated benefit(s) of the investment:

- Beneficiaries include the tax preparation community and the taxpayers they represent;
- Benefits large corporations and tax-exempt organizations that are required at a specific asset threshold to file their tax returns or annual information returns electronically by reducing the handling/ mailing of voluminous paper returns that sometimes exceed 700 attachments/schedules;
- Extensive error checking and data validation that occurs before the return is processed; and
- The system delivers tax returns that do not pass these error checks to the transmitter for correction. These up-front checks help ensure successful processing of returns by the downstream tax systems.

How performance will be measured and evaluated:

- The percent of business tax returns processed electronically by MeF;
- The average number of minutes within which electronic filers receive acknowledgement of their electronically filed tax returns;
- The percentage of scheduled system availability per the approved Service Level Agreement, as documented monthly by IRS Enterprise Services;
- Error rate for electronically filed tax returns;
- The percentage of individual tax returns processed electronically; and
- Total quarterly cost savings derived from electronically filed tax returns.

Service Center Recognition/Image Processing System

The Service Center Recognition/Image Processing System (SCRIPS) is a major paper input processing system specifically designed to automate the processing of Information Return Processing (IRP) forms, Schedule K-1's (Forms 1041 K-1, 1065 K-1, and 1120 K-1), Form 941 (and associated Schedules B and Schedule R), and Form 940 (and associated Schedule A and Schedule R). SCRIPS scans and stores images of all tax documents processed, saving time by converting the scanned images and data to computer-readable code and providing hardcopy images when requested. This is accomplished using the Optical Character Recognition/Intelligent Character Recognition (OCR/ICR) engine in addition to utilizing 2D bar code recognition that optimizes and automates data entry of the taxpayer data.

SCRIPS is one of the front-end input systems that operates at four IRS Submission Processing Centers where the IRS receives, sorts, and sends forms to the scanning areas. SCRIPS sends the electronic taxpayer data to the IRS downstream tax processing systems, including Generalized Mainline Framework (GMF) and Master File for posting to the IRS database, and also Service-Wide Employment Tax Research System (SWETRS) and Statistics Of Income (SOI) for compliance. The IRS archives and retains the images on the system. IRS Customer Service Representatives can request hard copies of images through the IDRS.

The immediate cost (defined as the base FY 2013 budget plus the FY 2014 request) as well as the full life-cycle cost of the asset:

FY 2013 - FY 2014:	\$19,399,137
Life-cycle Cost:	\$194,979,712

The projected useful life of the current asset: estimated 2019.

The anticipated benefit(s) of the investment:

SCRIPS scans and stores images of all tax documents processed, saving time by converting the scanned images and data to computer-readable code and providing hardcopy images when requested.

How performance will be measured and evaluated:

- The average number of tax return-related documents processed per hour (for all sites);
- Maintain a character recognition error rate on scanned forms of no more than 4 percent per month;
- The percentage of time the SCRIPS system is available per month for processing (system up-time);
- Number of High Priority (P1) trouble tickets not closed within 4 hours;
- Number of Moderate Priority (P2) trouble tickets not closed within 24 hours; and
- The percentage of tax return image print requests fulfilled within 2 days.

Criminal Investigations (CI) Capital Assets

These capital assets are used to protect CI special agents from threats and bodily injury when performing their law enforcement duties including conducting investigations concerning alleged criminal tax fraud violations, financial crimes, and other related offenses. CI special agents use law enforcement vehicles to conduct or participate in surveillance, armed escorts, undercover operations, execution of search and arrest warrants, seizures, etc.

Security Equipment

The IRS purchases security equipment such as cameras, digital video recorder system (DVRs), access control panels, and card readers. The IRS uses facility-specific security assessments to prioritize asset needs and develop criteria for replacing equipment in a given facility. Additionally, emergency needs arise over the course of the year. These needs are ranked and funded according to the effect the equipment has on the overall security posture.

Performance is measured through security reviews, testing, and the assessment of individual facilities for their overall security posture using a number of criteria including location, size, number of employees, and type of work done in the facility. These criteria are used to develop an overall security posture. This posture is then compared to existing equipment in the facility to determine additional needs. If a facility has a large divergence from the posture, equipment is ordered. Reviews are done on a regular basis to measure and evaluate performance.

The useful life of security equipment is usually five years. The need for equipment can arise at any time, such as when employees are moved into a new building, during internal moves, or intermittently when equipment needs to be replaced. The benefit of this capital asset investment is that it supports the IRS priority to provide a safe and secure environment for its employees, equipment, and facilities.

Leasehold Improvements

Many projects undertaken by IRS entail the design, alteration, and furnishing of space either upon acquisition, at lease renewal, or for other purposes, such as supporting space consolidation or reduction. The portion of the project that is captured as a capital asset is reflected in OMB Object Class 3200, Land and Structures, and includes alterations to buildings; fixtures such as elevators, plumbing, power-plant boilers, fire-alarm systems, lighting, heating systems, air-conditioning systems, flooring, and carpeting. The total figure is a sum of the expenditures in that object class for all IRS projects in that particular year.

The IRS employs a scheme to rank projects in priority order and keeps a comprehensive list of projects across the territories. Projects are considered based on the critical need for the project. Projects approved but not funded in the current year are deferred to the following year. Proposed projects are identified throughout the year and are prioritized and added to list as appropriate.

Performance is measured utilizing the following measures:

- Project Spend per total rentable square feet (RSF) in Portfolio;
- Project Spend per usable square feet (USF) on Closed Projects;
- Total USF Touched by Projects; and
- Percent of Total USF Under Management; Percent Customers Satisfied With Completed Space Projects.

The useful life of these alterations is usually five years or the remaining fixed term of the lease. The fixed term of most leases is five years, with options to renew or to extend for some additional period. The need for alterations can arise at any time, including, but not limited to:

- Adding personnel workspaces;
- Consolidating functions; and
- Addressing other space issues.

The benefit of these alterations is that they provide the means for the business unit occupants to perform their mission efficiently and in user-friendly space. In some cases, a portion of the investment may provide a savings such as in the area of energy consumption.

[A summary of capital investment resources, including major information technology and non-technology investments](#) is available.

**4B – IRS Aging Legacy Information Technology (IT) Infrastructure (non-BSM)
Proposed Long-term Multiyear Funding Strategy and Timetable**

The IRS established a Sustaining Infrastructure (SI) program to provide for long-term infrastructure viability with the flexibility to meet dynamically changing business requirements. The SI program includes a prioritization process to replenish aged assets that support the most critical IRS business needs. The prioritization process is a long-term funding strategy, within the Operations Support multiyear appropriation, to upgrade and modernize the aging legacy Information Technology (IT) infrastructure for non-Business System Modernization projects. The process is built on leading business practices that support the IRS mission and strategic objectives while ensuring compliance with Federal laws and agency oversight.

The SI program establishes its infrastructure investment timetable by overlaying the annual budget into the prioritization process. Extending beyond legacy systems, investments in innovation such as network convergence and desktop virtualization allow the IRS to gain efficiencies such that foreseeable budgets will meet the requirements to replace aged assets. This innovation element, as part of the SI program, is a key component to the IRS’s long-term infrastructure viability. Each year the IRS assesses and funds projects in the following three portfolios:

Portfolio Name	Description	Average Percentage of Portfolio
Sustaining Infrastructure	Aged inventory beyond useful life	69%
Sustaining Architecture & Engineering	Aged inventory not past its useful life, but tied to production applications or critical business need	20%
Sustaining Other	Operational Demand	11%

The objectives of the SI prioritization process are to:

- Achieve an acceptable level of aged assets (20 – 25 percent);
- Reduce the aged inventory of IRS infrastructure;
- Describe an IRS future infrastructure replacement decision model;
- Focus replacement investment decisions on the future infrastructure vision;
- Assist in preparing annual asset retirement goals; and
- Make the most efficient infrastructure investments.

The benefits of the SI prioritization process include:

- Reducing the overall operational infrastructure cost of the IT Organization (IT) wherever possible;
- Reducing equipment diversity and quantity;

- Improving infrastructure capacity;
- Improving governance;
- Increasing IT security;
- Improving disaster recovery operations; and
- Directing infrastructure to a more efficient world-class environment.

The SI prioritization process is defined by four lifecycle phases: Pre-Select, Select, Control, and Evaluate. During each phase, the IRS governance bodies make decisions using defined processes and data regarding the investments under consideration. Approved investments become part of the larger SI investment portfolio and both new and ongoing investments are monitored continuously throughout their lifecycle against Key Performance Indicators (KPIs) for ACIO and IESC review. The IRS conducts post-implementation assessments to ensure that the Cost, Schedule, and Overall goals of the project were successfully completed.

The four-lifecycle phases of the SI Prioritization Process are described below:

- The ***Pre-Select Phase*** assesses proposed IT solutions for unmet business requirements. The pre-selection phase creates a portfolio of IT project investments designed to improve overall organizational performance. The three-step pre-selection process is:
 - ***Step 1 – Screen IT proposals for relevance and feasibility.*** A mature investment screening process prescribes the required amount of documentation and level of analytical rigor, depending on the project’s type (e.g., mission-critical infrastructure, etc.) and phase (e.g., initial concept, new, ongoing, and operational).
 - ***Step 2 – Retain proposals with the highest potential to support the IRS critical mission and/or operations.*** If viable, the proposal moves into the Investment Management Plan (IMP) development stage.
 - ***Step 3 – Prioritize the list of IT projects.*** After completing the analysis, the IRS develops a ranked listing of IT projects.
- During the ***Select phase***, an executive level, decision-making body determines which projects to fund based on the analyses completed during the pre-select phase. The process is used to prioritize IT investments to align with organizational priorities and strategic direction. Projects are funded based on budget constraints with consideration for technical soundness of projects, contribution to mission needs, performance improvement priorities, and overall available budget levels.
- The ***Control Phase*** begins once investments are selected and approved for funding. The Control Phase monitors ongoing IT projects during the planning, acquisition, deployment, and operation and maintenance stages of the IT investment life cycle. The primary objective is to assess the investment’s performance and enable effective management of all major IT investments within the IRS. If a project is late, over cost, or not being developed according to approved IMP’s projects may be modified or cancelled.

- The *Evaluate Phase* includes two components, a Post Implementation Review (PIR) of implemented or cancelled investments, and an annual analysis of the performance of the IRS's portfolio management process. During PIRs, data is collected, recorded, and analyzed to compare expected results against actual benefits and returns. Once investments are fully implemented or cancelled, actual versus expected results are evaluated to assess the investment's impact on strategic performance, identify modifications that may be needed, and revise the investment management process based on lessons learned.

4C – Summary of FY 2012 Savings Realized

The IRS FY 2012 President's Budget request of \$13,283.9 million included \$189.9 million and 523 FTE in reductions to the IRS FY 2011 base budget. However, the IRS FY 2012 enacted budget was \$11,816.7 million, \$305.1 million less than the FY 2011 enacted budget of \$12,121.8 million, and \$372 million less in the three IRS operating appropriations of Taxpayer Services, Enforcement, and Operations Support. Total actual savings in FY 2012 were \$426,012,831 and 4,420 FTE. FY 2012 savings were realized as follows:

Savings not fully realized: -\$44,534,000 / -416 FTE. Actual savings: -\$9,636,100 / -182 FTE.

Non-Recur Savings: -\$22,090,000 / 0 FTE. Actual savings: -\$1,636,100 / 0 FTE
 These proposed savings were identified from non-recurring the one-time (e.g., IT equipment and training) costs associated the FY 2011 enforcement hiring initiatives as well as a small savings generated by non-recurring second year one-time costs associated with the FY 2010 enforcement initiatives. As the IRS did not receive any funding for enforcement initiatives in FY 2011, the non-recur savings associated with these initiatives were not realized.

Increased e-File Savings: -\$22,444,000 / -416 FTE. Actual savings realized: -\$8,000,000 / -182 FTE. The IRS projected FY 2012 e-File savings based on anticipated fewer paper filed returns as well as an increased electronically-filed returns with the enactment of the Worker, Homeownership, and Business Assistance Act of 2009 (Public Law 111-92). In FY 2012, the IRS received 2.4 million fewer paper returns compared to FY 2011 and an increase of 7.7 million returns filed electronically for actual savings of \$8 million and 182 FTE. The IRS realized the majority of the projected savings from enactment of the Worker, Homeownership, and Business Assistance Act of 2009 in FY 2011. In FY 2011 the IRS projected savings of \$22.8 million and 472 FTE and realized \$42.4 million and 960 FTE. The combined savings for FY 2011 and FY 2012 was \$50.4 million and 1,142 FTE – exceeding the two-year increased savings projection by \$5.1 million and 254 FTE.

Savings fully realized: -\$4,000,000 / 0 FTE. Actual savings: -\$4,000,000 / 0 FTE.

Eliminate Lockbox Fees: -\$4,000,000 / 0 FTE. Taxpayers now pay lockbox fees as part of their installment agreements, saving IRS \$4 million.

Increased savings realized: -\$141,423,000 / -107 FTE. Actual savings realized: \$203,729,155 / -247 FTE.

Reduce Information Technology (IT) Infrastructure -\$75,000,000 / 0 FTE.

Actual savings realized: -\$79,476,337 / -140 FTE. Actual savings realized resulted from continuing to adopt common technologies, managing demand, and taking advantage of strategic procurement opportunities such as renegotiating contracts for more favorable pricing and changing contract vehicles to firm fixed price type contracts; mostly in IT hardware, software licensing and maintenance, and telecommunication contracts.

Reduced Contracts: -\$20,754,000 / 0 FTE. Actual savings realized: -\$26,541,775 / 0 FTE. The IRS achieved targeted savings through reduced contracting expenses. By renegotiating non-IT contracts for more favorable pricing and changing contract vehicles the IRS generated savings of \$26.5 million.

Reduced Administrative Expenses: -\$14,331,000 / -66 FTE. Actual savings realized: -\$14,960,155 / -66 FTE. In FY 2012 the IRS eliminated administrative and support positions through targeted attrition and hiring freezes generating \$15.0 million in savings.

Reduced Certain Mailings: -\$4,000,000 / 0 FTE. Actual savings realized: -\$21,900,000 / 0 FTE. In FY 2012, the IRS reduced printing and postage costs by eliminating automatic, weekly mailings of Publication 15, *Employer's Tax Guide*, and decreasing small package carrier expenditures and other mailings, saving \$21.9 million.

Reduce Training, Travel and Programs: -\$27,338,000 / -41 FTE. Actual savings realized: -\$60,850,888 / -41 FTE.

Reduced Travel: -\$11,937,000 / 0 FTE. Actual savings realized: -\$22,355,964 / 0 FTE. The IRS reduced agency-wide non-technical training and non-case related travel by making greater use of technology and increasing the use of hoteling, saving \$22.4 million.

Reduced Training: -\$9,000,000 / 0 FTE. Actual savings realized: -\$32,093,924 / 0 FTE. Reductions in training costs were achieved by reducing out-of-town training and the length of training, as well as by leveraging technology, saving \$32.1 million.

Reduce Programs: -\$6,401,000 / -41 FTE. Actual savings realized: -\$6,401,000 / -41 FTE. The IRS generated savings of \$6.4 million by implementing program efficiencies in the taxpayer communication and education programs. Despite the proposed saving included in the FY 2012 budget, Congress increased resources for the Business Systems Modernization (BSM) program to ensure successful implementation of CADE 2, Transition State 1, and therefore, the \$1 million savings was offset by the increased

funding. Additionally, the enacted FY 2012 budget included a congressional change for the appropriation of funding related to administering the tax credit in title II of division A of the Trade Act of 2002 (Public Law 107-210), earmarking this spending at the FY 2011 appropriated level. Therefore, the IRS did not realize the \$1.1 million in contract savings included in the FY 2012 budget.

Other FY 2012 Savings to Reach the FY 2012 Enacted Level: Actual savings realized: -\$208,647,576 / -3,991 FTE.

In addition to the \$189.9 million in savings submitted in the FY 2012 President's Budget, the IRS generated additional savings in FY 2012, primarily through attrition, due to the reduction to the FY 2012 enacted level. The IRS absorbed these reductions through:

- **Attrition Savings to Reach FY 2012 Enacted Level: Actual savings realized: -\$205,569,252 and -3,991 FTE.** The IRS generated savings to reach the FY 2012 enacted level by decreasing full-time equivalents (FTEs) by more than 3.4 percent from FY 2011 through the use of attrition, hiring freezes that did not replace attrition, and targeted buyouts for more than 1,200 support staff for an annualized savings of \$205.6 million.
- **Supplies: Actual savings realized: -\$3,078,324 and 0 FTE.** To generate additional savings, the IRS cut supplies costs primarily by negotiating contracts for improved pricing and curtailing spending for only critical shortfalls.

4.3 – IRS Performance Measure Table

Performance Measures	Type of Measure	FY2007 Actual	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Planned	FY2014 Planned
Customer Service Representative Level of Service (LOS) ¹	Oe, L	82.1%	52.8%	70.0%	74.0%	70.1%	67.6%	70.0%	79.0%
Customer Contacts Resolved per Staff Year	E	7,648	12,634	12,918	10,744	12,419	16,320	16,754	17,198
Customer Accuracy - Tax Law (Phones)	Ot	91.2%	91.2%	92.9%	92.7%	93.4%	93.2%	93.0%	93.0%
Customer Accuracy - Accounts (Phones)	Ot	93.4%	93.7%	94.9%	95.7%	96.0%	95.6%	95.0%	95.0%
Timeliness of Critical Filing Season Tax Products to the Public	Ot	83.5%	92.4%	96.8%	95.3%	96.3%	97.2%	95.0%	95.0%
Timeliness of Critical TE/GE & Business Tax Products to the Public	Ot	84.0%	89.5%	95.2%	97.7%	96.4%	94.5%	95.0%	95.0%
Percent Individual Returns Processed Electronically	Oe, L	57.1%	57.6%	65.9%	69.3%	76.9%	80.5%	80.0%	81.0%
Cost per Taxpayer Served (\$) (HCTC)	E	\$14.90	\$16.94	\$13.79	\$9.52	\$12.36	\$14.43	\$15.00	N/A
Sign-Up Time (Days) - Customer Engagement (HCTC)	Ot	93.3	94.0	91.3	124.0	117.0	116.0	125.0	N/A
Percent of Business Returns Processed Electronically	Oe, L	19.1%	19.4%	22.8%	25.5%	31.8%	36.7%	38.0%	40.0%
Refund Timeliness - Individual (Paper)	Ot	98.9%	99.1%	99.2%	96.1%	99.4%	99.7%	98.0%	98.0%
Taxpayer Self-Assistance Rate	E, L	49.5%	66.8%	69.3%	64.4%	70.1%	78.5%	80.0%	80.5%
Examination Coverage - Individual	Oe, L	1.0%	1.0%	1.0%	1.1%	1.1%	1.0%	1.0%	1.0%
Field Exam Nat'l Quality Review Score	Oe, L	85.9%	86.0%	85.1%	84.9%	85.8%	87.4%	86.9%	87.3%
Office Exam Nat'l Quality Review Score	Oe, L	89.4%	90.0%	92.1%	91.6%	90.4%	91.3%	91.1%	91.1%
Examination Quality - Industry	Oe, L	87.0%	88.0%	88.0%	87.0%	90.0%	90.0%	N/A ¹	N/A ¹
Examination Quality - Coordinated Industry	Oe, L	96.0%	97.0%	95.0%	95.0%	96.0%	96.0%	N/A ¹	N/A ¹
Examination Coverage - Business (Assets > \$10 million)	Oe, L	6.8%	6.1%	5.6%	5.7%	6.2%	6.2%	4.6%	4.9%
Examination Efficiency - Individual	E, L	137	138	138	140	139	142	145	145
Automated Underreporter Efficiency	E, L	1,956	1,982	1,905	1,924	2,007	2,041	2,035	2,001
Automated Underreporter Coverage	E, L	2.5%	2.6%	2.6%	3.0%	3.3%	3.2%	2.9%	3.1%
Collection Coverage (Units)	Ot, L	54.0%	55.2%	54.2%	50.1%	50.0%	48.1%	46.4%	47.1%
Collection Efficiency (Units)	E, L	1,828	1,926	1,845	1,822	1,952	1,997	2,049	2,039
Field Collection Nat'l Quality Review Score	Ot, L	84.0%	79.0%	80.5%	80.6%	80.3%	80.4%	80.4%	80.4%
Automated Collection System Accuracy	Oe	92.9%	95.3%	94.3%	95.9%	94.9%	94.7%	94.5%	94.5%
Criminal Investigations Completed	Ot, L	4,269	4,044	3,848	4,325	4,697	4,937	4,350	4,350
Number of Convictions	Oe, L	2,155	2,144	2,105	2,184	2,350	2,634	2,400	2,400
Conviction Rate	Oe, L	90.2%	92.3%	87.2%	90.2%	92.7%	93.0%	92.0%	92.0%
Conviction Efficiency Rate (\$)	E, L	\$301,788	\$315,751	\$327,328	\$324,776	\$310,029	\$270,511	\$285,000	\$285,000
TE/GE Determination Case Closures	Ot	109,408	100,050	96,246	105,247	91,205	87,000	62,473	67,922
Percent of BSM Projects within +/- 10% Cost Variance	E	*	92.0%	60.0%	40.0%	71.4%	50.0%	90.0%	90.0%
Percent of BSM Projects within +/- 10% Schedule Variance	E	*	92.0%	90.0%	100.0%	100.0%	90.0%	90.0%	90.0%

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, L - Long-Term Goal

¹ Beginning in FY 2013, targets include an increase in base user fees.

*Prior to FY 2008, Cost and Schedule Variance was reported separately for each project. In FY 2008, these measures were changed to reflect an overall percentage of all major BSM projects that were within the +/- 10% threshold.

N/A - HCTC Program is scheduled to end on December 31, 2013.

N/A¹ - In FY 2013, these measures were combined and the new measure, Examination Quality - Large Business, will be reported in the FY 2015 Treasury Submission.

Budget Level Performance Measure Descriptions	
Customer Service Representative (CSR) Level of Service	The number of toll free callers that either speak to a Customer Service Representative or receive informational messages divided by the total number of attempted calls.
Customer Contacts Resolved per Staff Year	The number of Customer Contacts resolved in relation to staff years expended.
Customer Accuracy – Tax Law Phones	The percentage of correct answers given by a live assistant on Toll-free tax law inquiries.
Customer Accuracy – Customer Accounts (Phones)	The percentage of correct answers given by a live assistant on Toll-free account inquiries.
Timeliness of Critical Individual Filing Season Tax Products to the Public	The percentage of critical individual filing season tax products (tax forms, schedules, instructions, publications, tax packages, and certain notices required by a large number of filers to prepare a complete and accurate tax return) available to the public in a timely fashion.
Timeliness of Critical TE/GE & Business Tax Products to the Public	Percentage of critical other tax products, paper and electronic, available to the public in a timely fashion.
Percent Individual Returns Processed Electronically	The percentage of electronically filed individual tax returns divided by the total individual returns filed.
Cost per Taxpayer Served (\$) (HCTC)	The costs associated with serving the taxpayers including program kit correspondence, registration and program participation.
Sign-Up Time (Days) – Customer Engagement (HCTC)	The length of time between the first Program Kit mailing and first payment received.
Percent Business Returns Processed Electronically	The percentage of electronically filed business tax returns divided by the total business returns filed.
Refund Timeliness – Individual (Paper)	The percentage of refunds resulting from processing Individual Master File paper returns issued within 40 days or less.
Taxpayer Self Assistance Rate	The percentage of taxpayer assistance requests resolved using self-assisted automated services.
Examination Coverage – Individual (1040)	The sum of all individual 1040 returns closed by Small Business/Self Employed (SB/SE), Wage & Investment (W&I), Tax Exempt and Government Entities (TE/GE), and Large Business and International (LB&I) (Field Exam and Correspondence Exam programs) divided by the total individual return filings for the prior calendar year.
Field Exam Nat'l Quality Review Score	The score awarded to a reviewed field examination case by a Quality Reviewer using the National Quality Review System (NQRS) quality attributes.
Office Exam Nat'l Quality Review Score	The score awarded to a reviewed office examination case by a Quality Reviewer using the NQRS quality attributes.
Examination Quality – Industry	Average of the scores of Industry Cases reviewed. Case scores are based on the percentage of elements passed within each auditing standard.
Examination Quality – Coordinated Industry	Average of the scores of Coordinated Industry Cases reviewed. Case scores are based on the percentage of elements passed within each auditing standard.
Examination Coverage – Business Assets >\$10 Million	The number of LB&I returns (C and S Corporations with assets over \$10 million and all partnerships) examined and closed by LB&I during the current fiscal year divided by the number of filings for the preceding calendar year.
Examination Efficiency – Individual (1040)	The sum of all individual 1040 returns closed by SB/SE, W&I, TE/GE, and LB&I (Field Exam and Correspondence Exam programs) divided by the total Full-Time Equivalent (FTE) expended in relation to those individual returns.
Automated Underreporter (AUR) Efficiency	The total number of W&I and SB/SE contact closures (a closure resulting from a case where we made contact) divided by the total FTE, including overtime.
Automated Underreporter (AUR) Coverage	A percentage representing the total number of W&I and SB/SE contact closures (a closure resulting from a case where SBSE and W&I made contact) divided by the total return filings for the prior year.
Collection Coverage – Units	The volume of collection work disposed compared to the volume of collection work available.
Collection Efficiency – Units	The volume of collection work disposed divided by total collection FTE.
Field Collection Nat'l Quality Review Score	The score awarded to a reviewed collection cases by a Quality Reviewer using the NQRS quality attributes.
Automated Collection System (ACS) Accuracy	The percent of taxpayers who receive the correct answer to their ACS question.
Criminal Investigations Completed	The total number of subject criminal investigations completed during the fiscal year, including those that resulted in prosecution recommendations to the Department of Justice as well as those discontinued due to a lack of prosecution potential.
Number of Convictions	The number of criminal convictions.
Conviction Rate	The percent of adjudicated criminal cases that result in convictions.
Conviction Efficiency Rate (\$)	The cost of Criminal Investigation's (CI) program divided by the number of convictions.
TE/GE Determination Case Closures	The number of cases closed in the Employee Plans or Exempt Organizations Determination programs, regardless of type of case or type of closing.
Percent of BSM Projects within +/- 10% Cost Variance	The percentage of BSM projects that are within the +/-10% threshold for cost. The cost variance is measured from the initial cost estimate versus current cost estimate.
Percent of BSM Projects within +/- 10% Schedule Variance	The percentage of BSM projects that are within the +/-10% threshold for schedule. The schedule variance is measured from the initial schedule estimate to the current schedule estimate.

4.4 – IRS Evaluation Program

National Research Program to evaluate taxpayer compliance

The IRS National Research Program (NRP) is a comprehensive cross-functional effort to assess taxpayers' voluntary compliance with the Federal tax law at a strategic level and to produce data that support the development of improved IRS systems for identifying noncompliant taxpayers. The program evaluation is built on annual, random "research" audits of taxpayers, designed specifically to shed light on the broad range of taxpayer compliance behavior. The program evaluates compliance with a range of taxes and for different groups of taxpayers. For the purpose of the NRP, compliance is divided into three taxpayer activities: filing compliance, payment compliance, and reporting compliance. Data from the NRP support strategic and tactical objectives of the IRS, which fall into four categories: IRS strategic objectives, workload identification, legislative or administrative changes, and internal IRS procedures.

IRS Strategic Objectives

A primary purpose of the NRP reporting compliance data is the estimation of the underreporting (of income) component of the tax gap. The tax gap is an estimate of the amount of true tax liability that is not paid on time. For tax year 2006, individual underreporting accounted for 52 percent of the \$450 billion tax gap. Among other things, IRS leadership uses these estimates to define the IRS's strategic direction.

Workload Identification

NRP data is essential for the estimating and updating of IRS workload identification models, including new models for high-income taxpayers. The IRS estimates that the initial set of new models generated approximately \$185 million in additional adjustments compared to the old models. In addition, the IRS tested alternative modeling techniques to identify noncompliant high-income taxpayers, with preliminary results that suggest the average adjustment is at least three times larger than the traditional workload selection models. The move to multiyear studies will allow the IRS to update to these models each year.

Legislative or Administrative Changes

NRP studies provide data for identifying and addressing specific instances of noncompliance. The IRS recommended requirements for brokerage houses to provide documentation on asset transactions and for purchase card companies to provide information related to card-based sales, based on an analysis of compliance behaviors using NRP study data. The current NRP Form 1040 study is gathering data that will assist IRS customer service activities. NRP data are supporting a number of issue and market-specific research efforts, including analyses of the compliance characteristics of Earned Income Tax Credit (EITC) and high-income taxpayers. The results of this research will assist the IRS in its efforts to improve taxpayer compliance and service.

Internal IRS Procedures

In addition to providing compliance data, NRP studies provide a platform to test and improve IRS operational procedures and guidelines. This includes:

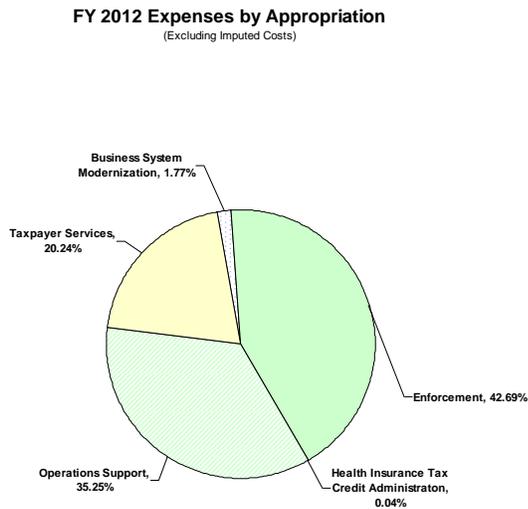
- Support of the small business exam reengineering effort that helped identify specific issues for examination;
- Refinement of a number of tools that support the exam process by using the NRP studies as a standard for operational programs; and
- Adoption of systems to collect data for compliance research, which led to reductions of the burden on NRP examiners and taxpayers.

4.5 – Cost of IRS Operating Activities

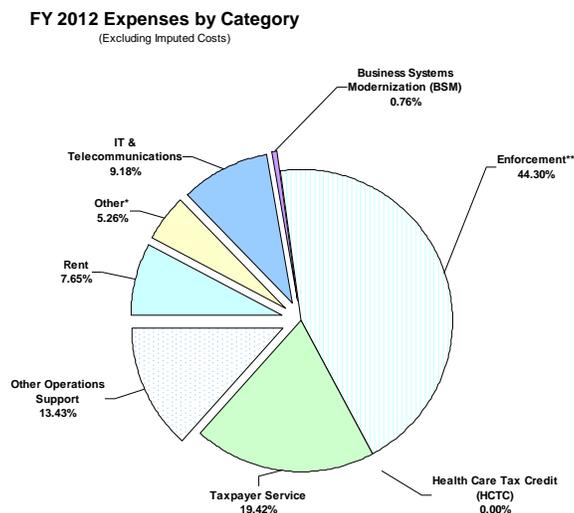
FY 2012 Cost of IRS Operating Activities

The following charts provide the FY 2012 cost of IRS operating activities by appropriation and by major expense category. The charts include all expenditures, regardless of the fiscal year the funds were appropriated, that occurred in FY 2012 except for imputed costs (i.e., costs associated with services obtained by other agencies such as the Department of the Treasury and the Office of Personnel Management that are provided to the IRS, but are not reimbursed).

The first chart shows the FY 2012 actual costs by appropriation.



The second chart shows the FY 2012 actual costs by major expense category.



Notes:

¹**Other** includes Contractual Services, Supplies, Printing, Postage, Travel and Training

²**Enforcement** includes Non-Labor Enforcement Expenses of \$132M (1.1%)

Labor Costs represent 76.77% of total expenses and are included in Taxpayer Service, Enforcement, Operations Support, and HCTC

4.6 – Return on Investment (ROI) for IRS Major Enforcement Programs

The GAO recommended in its report, Internal Revenue Service, Assessment of the Fiscal Year 2009 Budget Request, GAO-08-620T, that the IRS extend the use of return on investment (ROI) analysis to cover the major enforcement programs. The IRS has developed a methodology to compare actual cost and actual revenue collected for the three major enforcement programs: Examination, Collection and Automated Underreporter (AUR). The activities included in these programs include:

Examination Program conducts examinations of individual taxpayers, businesses and other types of organizations. This includes individuals, small business, self-employed, large corporate business, international, estate and gift, excise tax and employment tax, and tax exempt, qualified pension benefit plans, and Government entities. The examination costs include the Field Exam, Correspondence Exam, IRS Chief Counsel and Appeals functions.

Collection Program collects delinquent taxes and secures delinquent tax returns, including the use of enforcement tools such as lien, levy, seizure of assets, installment agreement, offer in compromise, substitute for return, summons, and IRC 6020(b) (i.e., allows the IRS to prepare returns if a taxpayer neglects or refuses to file), when appropriate; and provides education to customers to enable future compliance. The cost of the Collection program includes Automated Collection System (ACS), Field Collection, and Payment Compliance/Correspondence Collection.

Automated Underreporter (AUR) Program matches payer information returns (Forms 1099, W-2, etc.) against data reported on individual tax returns. The information is verified to identify any discrepancies. If a discrepancy is identified, the case is given to a tax examiner for research and analysis. If the tax examiner is unable to resolve the discrepancy, a proposed notice is issued and a proposed assessment is generated.

ROI is calculated by dividing revenue by cost. The Cost, Revenue, and ROI for FY 2009, 2010, 2011 and 2012 for the three major programs, Examination, Collection, and AUR, are provided below. This information provides an indication of the ROI for the three major enforcement program over time, but it is important to note that enforcement revenue collected in a fiscal year includes tax, interest, and penalties from multiple tax years. Some enforcement activities can take more than a year to close and may generate revenue over several years, so it is generally inappropriate to compare revenue collected in a given fiscal year to the staffing available for that same year.

In addition, it also is important to note that these data reflect the average ROI for these programs and do not include the indirect effects of IRS enforcement activities on voluntary compliance. As such, they are not intended to be used to allocate resources or maximize revenue. Net revenue is maximized only when resources are allocated according to *marginal direct and indirect* ROI, but those ratios are much more challenging to estimate than the average ROI shown here. As a result, the IRS will continue to allocate enforcement resources across a range of enforcement activities to ensure taxpayers pay the taxes they owe with integrity and fairness to all.

Return on Investment for IRS Major Enforcement Programs

Dollars in Millions

Enforcement Program	FY 2009			FY 2010			FY 2011			FY 2012		
	Cost ¹	Revenue	ROI									
IRS Total	\$6,068.3	\$48,886	8.1	\$6,581.1	\$57,592	8.8	\$6,542.7	\$55,229	8.4	\$6,241.5	\$50,187	8.0
Examination	3,965.2	17,446	4.4	4,371.0	23,563	5.4	4,333.0	18,924	4.4	4,232.4	14,476	3.4
Collection	1,880.3	26,871	14.3	1,948.4	29,105	14.9	1,939.4	31,060	16.0	1,741.7	30,442	17.5
Automated Underreporter (AUR)	222.8	4,569	20.5	261.7	4,924	18.8	270.3	5,245	19.4	267.4	5,269	19.7

¹The cost of the enforcement programs was calculated using budget data from the IRS Integrated Financial System (IFS) and includes direct dollars and FTE from the Enforcement appropriation, Exam and Collections budget activity, and dollars from the Operations Support appropriation prorated using actual FTE realized for each major enforcement program.

4.7 – Alignment of the FY 2014 Initiatives to the IRS Strategic Goals

	Treasury			Strategic Plan ¹		IRS Strategic Plan Goals		Taxpayer Assistance Blueprint (TAB)				
	Priority Goals		Goal #3	Goal #4	Improve Service to Make Voluntary Compliance Easier	Enforce the Law to Ensure Everyone Meets Their Obligation to Pay Taxes	Service Improvement Categories					
	Increase voluntary tax compliance	Increase Electronic Transactions with the public to improve service, prevent fraud, and reduce costs.	Protect our National Security through Targeted Financial Actions	Pursue Comprehensive Tax and Fiscal Reform - Increase voluntary tax compliance			Electronic Interaction Enablement	Telephone Service Enhancements	Partner Services	Outreach and Education	Marketing and Promotion	
FY 2014 Initiatives												
Improve Taxpayer Service and Meet Increased Demand	✓			✓	✓		✓		✓			✓
Implement FATCA			✓	✓	✓		✓					
Address International and Offshore Compliance Issues			✓	✓	✓		✓					
Implement Merchant Card and Basis Matching	✓			✓	✓		✓					
Address Impact of ACA Statutory Requirements				✓	✓		✓					
Improve Identification and Prevention of Refund Fraud and Identity Theft		✓		✓	✓		✓					
Increase Audit Coverage to Address Tax Compliance Issues				✓	✓		✓					
Increase Collection Coverage				✓	✓		✓					
Expand Coverage of High-Wealth Individuals and Enterprises				✓	✓		✓					
Improve Coverage of Partnerships and Flow-Through Entities				✓	✓		✓					
Build Out Tax Return Preparer Compliance Activities				✓	✓		✓					
Leverage Data to Improve Case Selection				✓	✓		✓					
Leverage Digital Evidence for Criminal Investigation (C)			✓		✓		✓					
Implement IT Changes to Deliver Tax Credits and Other Requirements				✓	✓		✓					
Develop New Online Services		✓		✓	✓		✓				✓	
Develop Converged Telecommunication Networks				✓	✓		✓				✓	
Expand Virtual Services Delivery (VSD)				✓	✓		✓				✓	

¹ Strategic Plan, 2012-2015

4.8 – Summary of IRS FY 2010 – FY 2012 Affordable Care Act (ACA) Funding

In FY 2010 through FY 2012, the IRS received funding to implement the Affordable Care Act (ACA) from the Health Insurance Reform Implementation Fund (HIRIF) appropriated to the Secretary of Health and Human Services (HHS) to fund the Federal administrative expenses to implement ACA.

<i>Dollars in Thousands</i>	FY 2010		FY 2011		FY 2012		Total	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
Administer New Fees on Drug Manufacturers and Health Insurers	345	1	667	4	1,136	8	2,148	13
Strengthen Oversight of Exempt Hospitals	414	2	4,525	39	4,029	34	8,968	75
Promoting Compliance with Other New Provisions	825	5	11,643	90	8,293	66	20,761	161
Program Management	123	0	8,366	42	17,909	49	26,398	91
Support of Implementation & Taxpayer Issues (e.g. Counsel, Appeals)	2,360	14	5,008	31	5,174	37	12,542	82
Customer Service Support (Outreach, Phones & Other Support)	1,299	9	6,020	77	4,712	64	12,031	150
Information Technology, Operations & Support & Infrastructure / Deliver New Tax Credits & Individual Coverage Requirement	15,340	0	131,928	294	257,961	406	405,229	700
Total	\$20,706	31	\$168,157	577	\$299,214	664	\$488,077	1272

4.9 – Summary of IRS FY 2014 Implementation of Affordable Care Act (ACA)

Dollars in Thousands

FY 2014 Affordable Care Act (ACA)	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT		TOTAL	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
Program Increases:								
Improve Taxpayer Service and Meet Increased Demand	70,322	908	3,250	32	15,947	9	89,519	949
Address Impact of Affordable Care Act (ACA) Statutory Requirements	1,124	8	26,084	223	17,212	52	44,420	283
Implement IT Changes to Deliver Tax Credits and Other Requirements					305,645	722	305,645	722
Total FY 2014 ACA Budget Request	\$71,446	916	\$29,334	255	\$338,804	783	\$439,584	1,954

4.10 – Summary of Program Integrity Cap Adjustment

	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT		BSM		TOTAL	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
Summary of Program Integrity Cap Adjustment										
FY 2012 Enacted ¹	\$2,238,703	30,290	\$5,299,367	48,297	\$3,947,416	12,454	\$330,210	605	\$11,816,696	91,646
FY 2013 Annualized CR Rate	\$2,253,510	30,402	\$5,331,000	46,702	\$3,971,000	12,240	\$332,231	513	\$11,887,741	89,857
FY 2014 Changes to Base:										
Non-Recr CR Increase:	(\$13,807)		(\$31,633)		(\$23,584)		(\$2,024)		(\$71,045)	
Maintaining Current Levels (MCLs):	\$22,391		\$50,551		\$32,115		\$617		\$125,674	
Pay Inflation Adjustment	19,277		45,802		13,977		617		\$79,673	
Non-Pay Inflation Adjustment	3,114		4,749		38,138				\$46,001	
Efficiencies/Savings:	(\$18,208)	(251)	(\$56,605)	(460)	(\$150,051)	(146)	(\$30,000)		(\$254,864)	(857)
Increase e-File Savings	(4,969)	(101)			(71)		(30,000)		(5,040)	(101)
Business Systems Modernization (BSM) Savings					(57,500)				(57,500)	
Reduce Information Technology (IT) Infrastructure					(7,858)	(73)			(7,858)	(73)
Implement Human Capital Administrative Efficiencies					(7,922)	(73)			(7,922)	(73)
Targeted Personnel Savings	(13,239)	(150)	(56,605)	(460)	(76,700)				(76,700)	
Savings from Space Optimization					\$37,500				\$37,500	
Reinvestment:					37,500				37,500	
Implement Space Optimization to Achieve Savings										
Subtotal FY 2014 Changes to Base	(\$9,624)	(251)	(\$37,687)	(460)	(\$84,020)	(146)	(\$31,404)		(\$162,735)	(857)
FY 2014 Current Services (Base)	\$2,243,886	30,151	\$5,293,313	46,242	\$3,886,980	12,094	\$300,827	513	\$11,725,006	89,000
Program Changes:										
Program Increases Before Cap Adjustment:										
Promote Voluntary Compliance, Implement Legislative Changes, and Protect Revenue:										
Improve Taxpayer Service and Meet Increased Demand	130,306	1,863	3,250	32	43,501	40			177,057	1,935
Implement Foreign Account Tax Compliance Act (FATCA)			19,600	204	15,590	29			35,190	233
Implement Merchant Card and Basis Matching	7,643	153	30,275	370	12,361	13			50,279	536
Address Impact of Affordable Care Act (ACA) Statutory Requirements	1,124	8	26,084	223	17,212	52			44,420	283
Implement IT Changes to Deliver Tax Credits and Other Requirements					305,645	722			305,645	722
Improve Identification and Prevention of Refund Fraud and Identity Theft	19,269	236	48,361	538	33,468	76			101,098	850
Leverage Data to Improve Case Selection (Taxpayer Service portion)	10,348	164							10,348	164
Subtotal Promote Voluntary Compliance, Implement Legislative Changes, and Protect Revenue	\$168,690	2,424	\$127,570	1,367	\$427,777	932			\$724,037	4,723
Revolving Program Increases Before Cap Adjustment	\$168,690	2,424	\$127,570	1,367	\$427,777	932			\$724,037	4,723
Total Request Before Cap Adjustment	\$2,412,576	32,575	\$5,420,883	47,609	\$4,314,757	13,026	\$300,827	513	\$12,449,043	93,723
Cap Adjustment Program Increases:										
Enforcement Initiatives:										
Address International and Offshore Compliance Issues			43,311	329	6,043				49,354	329
Increase Audit Coverage to Address Tax Compliance Issues			71,453	773	39,482	24			110,935	797
Increase Collection Coverage			36,261	573	24,213				60,474	573
Expand Coverage of High-Wealth Individuals and Enterprises			29,456	242	4,509				33,965	242
Improve Coverage of Partnerships and Flow-Through Entities			39,136	320	5,877				45,013	320
Build Out Tax Return Preparer Compliance Activities			15,982	124	2,333				18,315	124
Leverage Data to Improve Case Selection			4,474	10	36,879	53			41,353	63
Leverage Digital Evidence for Criminal Investigation (CI)			831	7	3,708	1			4,539	8
Subtotal Enforcement Initiatives			\$240,904	2,378	\$123,044	78			\$363,948	2,456
Infrastructure Initiatives:										
Develop New Online Services					24,059	37			24,059	37
Develop Converged Telecommunication Networks					15,000				15,000	
Expand Virtual Services Delivery (VSD)					3,983	2			3,983	2
Subtotal Infrastructure Initiative					\$43,042	39			\$43,042	39
Alcohol and Tobacco Tax and Trade Bureau Program Integrity Transfer:										
Transfer to TTB for High-Retain on Investment (ROI) Tax Enforcement Activities			5,000						5,000	
Subtotal Alcohol and Tobacco Tax and Trade Bureau Program Integrity Transfer			\$5,000						\$5,000	
Subtotal FY 2014 Cap Adjustment	\$2,412,576	32,575	\$245,904	2,378	\$166,086	117	\$300,827	513	\$411,990	2,495
Total FY 2014 Budget Request	\$172,873	2,285	\$367,420	1,690	\$533,427	689	(\$29,383)	(92)	\$1,044,337	4,572
FY 2012 Enacted represents the approved FY 2012 Operating Plan.	7.72%	7.54%	6.93%	3.50%	13.51%	5.53%	-8.90%	-15.21%	8.84%	4.99%
Dollar/FTE Change FY 2014 Budget Request over FY 2012 Enacted										
Percent Change FY 2014 Budget Request over FY 2012 Enacted										

4.11 – Summary of IRS FY 2014 Budget Request

	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT		BSM		TOTAL	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
Bureau: Internal Revenue Service										
Summary of Proposed FY 2014 Request										
FY 2012 Enacted ¹	\$2,239,703	30,290	\$5,299,367	48,297	\$3,947,416	12,454	\$330,210	605	\$11,816,696	91,646
FY 2013 Annualized CR Rate	\$2,253,510	30,402	\$5,331,000	46,702	\$3,971,000	12,240	\$332,231	513	\$11,867,741	89,857
FY 2014 Changes to Base:										
Non-Recur CR Increase:	(\$13,807)		(\$31,633)		(\$23,584)		(\$2,021)		(\$71,045)	
Maintaining Current Levels (MCLs):	\$22,391		\$50,551		\$52,115		\$617		\$125,674	
Pay Inflation Adjustment	19,277		45,802		13,977		617		79,673	
Non-Pay Inflation Adjustment	3,114		4,749		38,138				46,001	
Efficiencies/Savings:	(\$18,208)	(251)	(\$56,605)	(460)	(\$150,051)	(146)	(\$30,000)		(\$254,864)	(857)
Increase e-File Savings	(4,969)	(101)			(71)				(5,040)	(101)
Business Systems Modernization (BSM) Savings					(57,500)		(30,000)		(30,000)	
Reduce Information Technology (IT) Infrastructure					(7,858)	(73)			(7,858)	(73)
Implement Human Capital Administrative Efficiencies					(7,922)	(73)			(7,766)	(683)
Targeted Personnel Savings	(13,239)	(150)	(56,605)	(460)					(76,700)	
Savings from Space Optimization										
Reinvestment:					\$37,500				\$37,500	
Implement Space Optimization to Achieve Savings					37,500				37,500	
Subtotal FY 2014 Changes to Base	(\$9,624)	(251)	(\$37,687)	(460)	(\$84,020)	(146)	(\$31,404)		(\$162,735)	(857)
FY 2014 Current Services (Base)	\$2,243,886	30,151	\$5,293,313	46,242	\$3,886,980	12,094	\$300,827	513	\$11,725,006	89,000
Program Changes:										
Program Increases:										
Taxpayer Service Initiatives:										
Improve Taxpayer Service and Meet Increased Demand	130,306	1,863	3,250	32	43,501	40			177,057	1,935
Subtotal Taxpayer Service Initiatives	\$130,306	1,863	\$3,250	32	\$43,501	40			\$177,057	1,935
Enforcement Initiatives:										
Implement Foreign Account Tax Compliance Act (FATCA)			19,600	204	15,590	29			35,190	233
Address International and Offshore Compliance Issues			43,311	329	6,043				49,354	329
Implement Merchant Card and Basis Matching	7,643	153	30,275	370	12,361	13			50,279	536
Address Impact of Affordable Care Act (ACA) Statutory Requirements	1,124	8	26,084	223	17,212	52			44,420	283
Improve Identification and Prevention of Refund Fraud and Identity Theft	19,269	236	48,361	538	33,468	76			101,098	850
Increase Audit Coverage to Address Tax Compliance Issues			71,453	773	39,482	24			110,935	797
Increase Collection Coverage			36,261	573	24,213				60,474	573
Expand Coverage of High-Wealth Individuals and Enterprises			29,456	242	4,509				33,965	242
Improve Coverage of Partnerships and Flow-Through Entities			39,136	320	5,877				45,013	320
Build Out Tax Return Preparer Compliance Activities			15,982	124	2,333				18,315	124
Leverage Data to Improve Case Selection	10,348	164	4,474	10	36,879	53			51,701	227
Leverage Digital Evidence for Criminal Investigation (CI)			831	7	3,708	1			4,539	8
Subtotal Enforcement Initiatives	\$38,384	561	\$385,224	3,713	\$201,675	248			\$605,283	4,522
Infrastructure Initiatives:										
Implement IT Changes to Deliver Tax Credits and Other Requirements					305,645	722			305,645	722
Develop New Online Services					24,059	37			24,059	37
Develop Converged Telecommunication Networks					15,000				15,000	
Expand Virtual Services Delivery (VSD)					3,983	2			3,983	2
Subtotal Infrastructure Initiatives					\$348,687	761			\$348,687	761
Alcohol and Tobacco Tax and Trade Bureau Program Integrity Transfer:										
Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities			5,000						5,000	
Subtotal Alcohol and Tobacco Tax and Trade Bureau Program Integrity Transfer			\$5,000						\$5,000	
Subtotal FY 2014 Program Changes	\$168,690	2,424	\$373,474	3,745	\$93,863	1,049			\$1,136,027	7,218
Total FY 2014 Budget Request	\$2,412,576	32,575	\$5,666,787	49,987	\$4,480,843	13,143	\$300,827	513	\$12,861,033	96,218
¹ FY 2012 Enacted represents the approved FY 2012 Operating Plan.										
Dollar/FTE Change FY 2014 Budget Request over FY 2012 Enacted	\$172,873	2,285	\$367,420	1,690	\$533,427	689	(\$29,383)	(92)	\$1,044,337	4,572
Percent Change FY 2014 Budget Request over FY 2012 Enacted	7.72%	7.54%	6.93%	3.50%	13.51%	5.53%	-8.90%	-15.21%	8.84%	4.99%