

Internal Revenue Service

FY 2015

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 2013 Operating Level ¹		FY 2014 Enacted ²		FY 2015 Request		\$ Change FY 2014 to FY 2015 Request		% Change FY 2014 to FY 2015 Request	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
	New Appropriated Resources:									
Taxpayer Services	29,700	\$2,135,553	28,996	\$2,156,554	31,481	\$2,317,633	2,485	\$161,079	8.57%	7.47%
Pre-Filing Taxpayer Assistance and Education	5,610	605,761	5,489	604,638	5,681	639,249	192	34,611	3.50%	5.72%
Filing and Account Services	24,090	1,529,792	23,507	1,551,916	25,800	1,678,384	2,293	126,468	9.75%	8.15%
Enforcement	44,325	\$4,949,178	42,805	\$5,022,178	45,757	\$5,371,826	2,952	\$349,648	6.90%	6.96%
Investigations	3,641	589,751	3,623	613,417	3,896	662,606	273	49,189	7.54%	8.02%
Exam and Collections	39,597	4,210,108	38,128	4,257,836	40,681	4,538,881	2,553	281,045	6.70%	6.60%
Regulatory	1,087	149,319	1,054	150,925	1,180	170,339	126	19,414	11.95%	12.86%
Operations Support	11,885	\$3,800,943	11,860	\$3,798,942	13,380	\$4,456,858	1,520	\$657,916	12.82%	17.32%
Infrastructure		886,535		842,064		913,677		71,613		8.50%
Shared Services and Support	5,120	1,111,317	5,091	1,154,960	5,425	1,269,176	334	114,216	6.56%	9.89%
Information Services	6,765	1,803,091	6,769	1,801,918	7,955	2,274,005	1,186	472,087	17.52%	26.20%
Business Systems Modernization	471	\$312,938	528	\$312,938	569	\$330,210	41	\$17,272	7.77%	5.52%
Subtotal New Appropriated Resources	86,381	\$11,198,612	84,189	\$11,290,612	91,187	\$12,476,527	6,998	\$1,185,915	8.31%	10.50%
Other Resources:										
Reimbursables	786	94,278	822	100,197	822	101,419		1,222		1.22%
Offsetting Collections - Non Reimbursables		16,589		27,408		27,408				
User Fees	676	395,684	676	395,684	676	395,684				
Recovery from Prior Years		13,629								
Unobligated Balances from Prior Years	417	335,648		291,657		265,301		(26,356)		-9.04%
Transfers In/Out ³		(1,204)				(5,000)		(5,000)		
Resources from Other Accounts ⁴	5		5		5					
Subtotal Other Resources	1,884	\$854,624	1,503	\$814,946	1,503	\$784,812		(\$30,134)		-3.70%
Total Budget Authority	88,265	\$12,053,236	85,692	\$12,105,558	92,690	\$13,261,339	6,998	\$1,155,781	8.17%	9.55%

¹ FY 2013 Operating Level represents the across-the-board recession and reductions required by sequestration and an interappropriation transfer \$73M transferred from the Enforcement appropriation to the Taxpayer Services (\$13M) and Operations Support (\$60M) appropriations.

² FY 2014 Enacted includes \$92M in funding (\$34 million in Taxpayer Services and \$58 million in Operations Support).

³ Resources from Transfers In/Out include FY 2013 transfers between IRS and the Office of National Drug Control Policy (ONDCP) High Intensity Drug Trafficking Area (HIDTA) Program (net transfer \$152K) and prior year user fees from the Operations Support and Business Systems Modernization (BSM) appropriations returned to the User Fees account (-\$1.356M), and a FY 2015 transfer out to the Alcohol and Tobacco Tax and Trade Bureau (TTB) (\$5M).

⁴ Resources from Other Accounts include Other Direct FTE funded from the Federal Highway Administration (5 FTE projected for FY 2013, FY 2014 and FY 2015).

1B – Vision, Priorities, and Context

The Internal Revenue Service (IRS) continues to focus on strengthening the public’s confidence in its effective administration of the nation’s tax system. The IRS has been engaged in a methodical, thorough, and persistent effort to identify, design, and implement management reforms that will benefit IRS programs and operations. The IRS mission statement is complemented by a vision for the IRS that describes the longer-term outcomes that we seek to achieve by fulfilling our mission.

IRS Vision

We will uphold the integrity of our nation’s tax system and preserve the public trust through our talented workforce, innovative technology, and collaborative partnerships.

The IRS Strategic Plan guides program and budget decisions and supports the Department of the Treasury *FY 2014 to 2017 Strategic Plan* and Agency Priority Goal, which focuses on expanding the availability and improving the quality of customer service options. The IRS Strategic Plan has been updated to recognize new realities, such as the evolving scope and increasing complexity of tax administration, the expanding global tax environment and changing business models, the increasing prevalence of refund fraud and identity theft, meeting taxpayer’s expectations to digitally interact in a secure manner, the growing use of tax preparation assistance, sustaining a skilled and talented work force, and meeting the needs of an increasingly more diverse U.S. population. The IRS Strategic Plan goals are:

IRS Strategic Goals

Deliver high quality and timely service to reduce taxpayer burden and encourage voluntary compliance.

Effectively enforce the law to ensure compliance with tax responsibilities and combat fraud.

The strategic objectives to deliver high quality and timely service to reduce taxpayer burden and encourage voluntary compliance are:

- Design tailored service approaches with a focus on digital customer service to meet taxpayer needs, preferences, and compliance behaviors in order to facilitate voluntary compliance;

- Deliver clear and focused outreach, communications, and education programs to assist taxpayer understanding of tax responsibilities and awareness of emerging tax laws;
- Provide timely assistance through a seamless, multichannel service environment to encourage taxpayers to meet their tax obligations and accurately resolve their issues;
- Strengthen refund fraud prevention and provide prompt assistance to support victims of identity theft;
- Reduce taxpayer burden and increase return accuracy at filing through timely and efficient tax administration processing;
- Improve service delivery and support effective tax administration by fostering strong relationships with our tax community and government partners; and
- Enhance the quality of tax services by strengthening the outreach, education, and tools provided to the tax professional community.

The strategic objectives to effectively enforce the law to ensure compliance with tax responsibilities and combat fraud are:

- Enforce domestic and international compliance by strengthening expertise, adopting innovative approaches, and streamlining procedures;
- Deter and promptly resolve noncompliance by protecting revenue from refund fraud and ensuring appropriate revenue collection;
- Build and maintain public trust by anticipating and addressing the tax-exempt sector's need for a clear understanding of its tax law responsibilities;
- Identify trends, detect high-risk areas of noncompliance, and prioritize enforcement approaches by applying research and advanced analytics;
- Address noncompliance by improving data, information, and knowledge sharing with tax community and government partners; and
- Improve compliance and reduce the risk of fraud through strong partnerships with the tax professional community.

To achieve the service and enforcement goals, the IRS builds on a strategic foundation consisting of the following objectives:

- Be the best place to work in government by building a highly talented, diverse workforce and cultivating an inclusive and collaborative environment;
- Ensure a secure environment that protects the safety of our people and security of our facilities;
- Implement and maintain a robust enterprise risk management program that identifies emerging risks and mitigates them before they impact performance;
- Realize operational efficiencies and effectively manage costs by improving enterprise-wide resource allocation and streamlining processes;

- Invest in innovative, secure technology needed to protect taxpayer data and support taxpayer, partner, and IRS business needs; and
- Implement enterprise-wide analytics and research capabilities to make timely, informed decisions.

FY 2015 Priorities

The IRS administers the nation's tax laws and collects the revenue that funds the Government. During FY 2013, the IRS processed 241 million tax returns and collected \$2.9 trillion in taxes (gross receipts before tax refunds), 91 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. Taxpayer service supports and protects the trillions of dollars in revenue that come into the Treasury each year voluntarily from taxpayers by helping them understand their obligations under the tax law. Enforcement pursues those who evade or misrepresent their tax responsibility. The IRS collected \$53.3 billion in enforcement revenue in FY 2013.

In the FY 2015 President's Budget, the IRS seeks funding for:

- **Taxpayer Service** to increase customer telephone level of service to address the projected growth in demand for traditional taxpayer services such as answering tax law questions and resolving accounts as well as providing assistance to taxpayers in the face of increased Affordable Care Act (ACA)-related demand, and improve service and returns processing through new online and virtual service options;
- **Enforcement** to implement enacted legislation; protect revenue by identifying fraud and preventing the issuance of questionable refunds, including tax-related identity theft; address offshore noncompliance; enforce return preparer compliance; expand criminal investigation capabilities; address compliance issues in the tax-exempt sector, including employee retirement plans, exempt organizations, and direct pay bonds; and provide appropriate and balanced coverage by improving examination audit and collection coverage rates;
- **Infrastructure** to continue investments to implement legislative mandates such as FATCA and the ACA; maintain the integrity of revenue financial systems; implement IT industry best practices; address physical infrastructure projects related to health and safety concerns at aging campuses; and implement eGovernment and other administration priorities; and
- **Business Systems Modernization** to continue migration from aging tax administration systems, including the addition of the Return Review Program to take fraud detection and prevention for the IRS into the next generation, and Online Services, to lead the IRS's transition to the future digital customer service.

FY 2015 Budget Request

The IRS FY 2015 President's Budget request is \$12,476.5 million, \$1,185.9 million or 10.50 percent more than the FY 2014 Enacted Budget of \$11,290.6 million.

The \$1,185.9 million increase consists of:

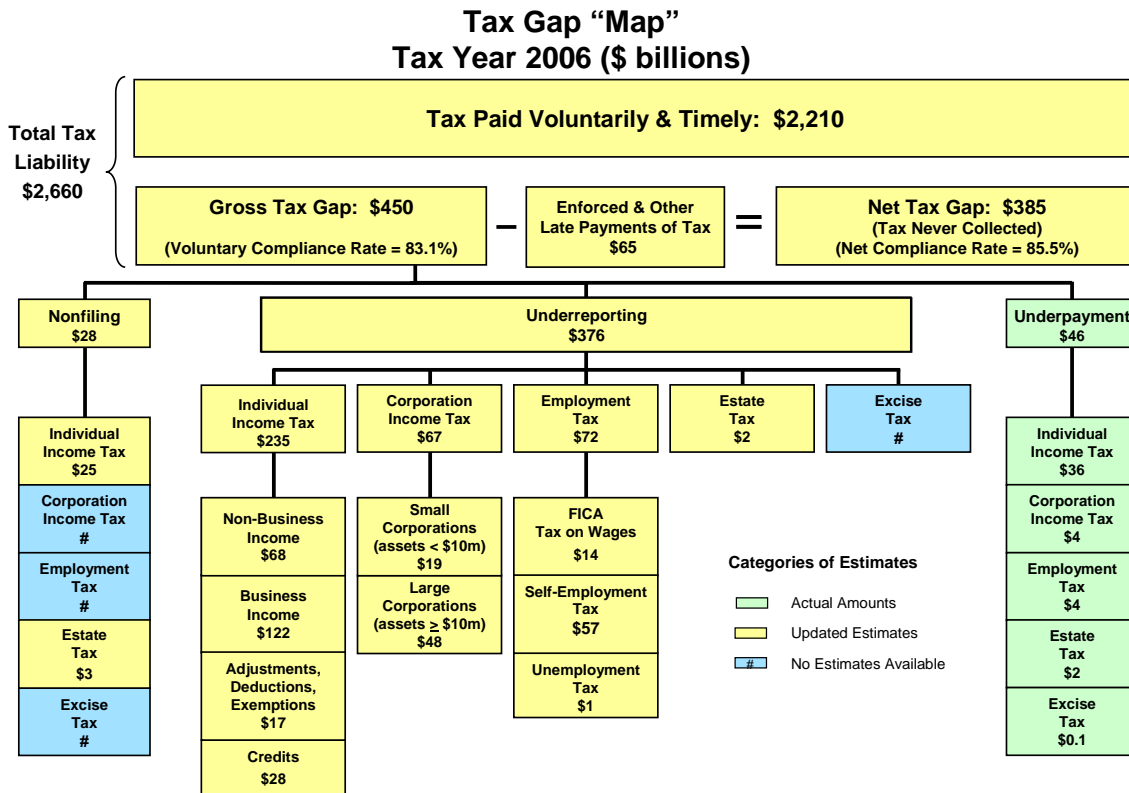
- +\$52 million net increase to the base:
 - -\$92 million to non-recur the FY 2014 additional appropriation increase;
 - +\$223.2 million to fund the pay raise, FERS contribution increase, and non-pay inflation adjustment;
 - -\$95.2 million for efficiency savings; and
 - +\$16 million for a reinvestment needed to expand telecommunications infrastructure to handle the increased toll-free telephone demand.
- +\$1,133.9 million for program changes:
 - +\$211.2 million to allow the IRS to help meet the expected demand increases for taxpayer services in FY 2015, including expected demand increases related to assisting taxpayers in understanding ACA tax issues;
 - +\$524.7 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, strengthen examination and collection programs including noncompliance among corporate and high wealth taxpayers, enforce return preparer compliance, expand criminal investigation capabilities, and address compliance issues in the tax-exempt sector;
 - +\$393 million to implement IT changes required to deliver legislative mandates such as FATCA and ACA tax credits, implement IT industry best practices and leverage technology to improve the efficiency of IRS operations and systems and meet taxpayer needs, protect the health and safety of IRS employees and security at IRS facilities, and continue migration from aging tax administration systems including the development of the Return Review Program and Online Services projects; 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

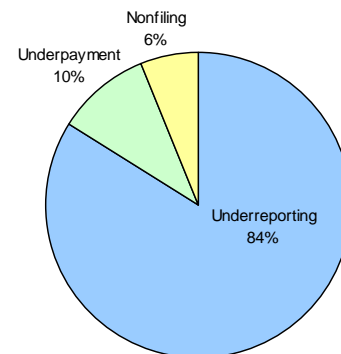
Investments in IRS enforcement programs have yielded significant increases in enforcement revenue. Enforcement revenue was \$53.3 billion in FY 2013 for a total IRS-wide ROI of \$4.8 to \$1. The ROI estimate does not include the revenue effect of the indirect deterrence value of these investments and 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 more than 241 million tax returns in 2013. 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

Providing taxpayers top-quality service and helping them understand and meet their tax obligations remain top priorities for the IRS.

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), and Tax Counseling for the Elderly (TCE) sites.

During FY 2013, the IRS updated forms to help taxpayers comply with filing requirements, including converting forms for visually impaired taxpayers, and translated more tax products into multiple languages. In addition, the IRS continued its effort to redesign taxpayer correspondence in plain language and in a consistent format to make it easier for taxpayers to understand their obligations. The IRS released 56 redesigned notices, bringing the total in production to 181.

Highlights of the 2013 Filing Season

The IRS delivered another successful filing season in 2013, rising to the challenges posed by tax legislation enacted on January 2, 2013. Despite the late legislation, the IRS took the necessary steps to minimize disruptions for taxpayers. The filing season began on January 30, 2013, less than one month after the passage of the legislation that affected over 600 tax products. Despite the sequestration cuts and three furlough days, the IRS achieved the following results in 2013:

- Processing over 147.6 million individual returns and issuing 118.7 million refunds totaling almost \$314 billion, compared to 121.6 million refunds totaling \$333 billion in 2012;
- Achieving a 60.5 percent telephone level of service;
- Answering 30.1 million assistor calls, a 2.2 percent increase from 2012;
- Answering 54 million calls through automated responses;

- Responding correctly to 95.7 percent of tax law questions and 96 percent of account questions received via the telephone; and
- Processing 49,202 Savings Bond requests, totaling \$21.8 million.

The IRS continued to provide alternative service options by increasing the amount of tax information and services available to taxpayers through IRS.gov. In FY 2013, taxpayers viewed IRS.gov web pages more than 1.87 billion times as they used the website and mobile application to:

- **Get forms and publications.** More than 217.5 million tax products were downloaded.
- **Link to the Electronic Federal Tax Payment System (EFTPS).** EFTPS processed nearly 145 million electronic tax payments totaling more than \$2.3 trillion.
- **Get answers.** Taxpayers made more than 2.4 million visits to the Interactive Tax Assistant introduction page where taxpayers can receive answers to tax law questions.
- **Check refund status.** Taxpayers used *Where's My Refund?* more than 200.5 million times to check on the status of their tax refunds, an increase of 51.6 percent from 2012.

In FY 2013, the IRS enhanced the “Where’s My Refund?” web tool to allow taxpayers to find out when their tax return was received, when the refund was approved, and when the refund was sent. The IRS also deployed a new telephone and web tool called “*Where’s My Amended Return?*” in both English and Spanish that allowed taxpayers to check the status of their Form 1040X amended tax returns for the current year and up to three prior years. The tool also provided taxpayers with information such as when their amended return was received, adjusted, and completed, as well as specific information regarding offset conditions such as a previous IRS tax liability or a past due obligation.

Taxpayer Education and Outreach

The IRS continues to improve and expand on its outreach and educational services through partnerships with State taxing authorities, volunteer groups, and other organizations. VITA and TCE sites provide free tax assistance for elderly, disabled, and limited English proficient individuals and families.

In FY 2013, more than 91,800 volunteers prepared over 3.4 million Federal returns, 95.3 percent of which were filed electronically, and over 2.5 million State returns. In addition, the IRS teamed up with its national partners to offer a remote filing method – Facilitated Self Assistance (FSA) -- at VITA sites. More than 82,000 FSA returns were filed at the 330 VITA sites offering the FSA remote filing model. Taxpayers with incomes of \$57,000 or less, basic computer skills, internet access with an e-mail address, and necessary tax preparation documents could file their taxes using this model.

The Earned Income Tax Credit (EITC) is one of the Federal Government’s largest benefit programs for low-income working families and individuals. In FY 2013, the IRS held its seventh annual EITC Awareness Day, promoting EITC awareness and free return preparation options. Through outreach activities, including news conferences, news releases, newsletters, e-mails, partnerships with community-based organizations, and an increased use of social media tools, the IRS achieved nationwide coverage in both English and Spanish markets, including over 15,000 hits on IRS.gov.

Enforcement

Return on Investment (ROI) for FY 2015 Enforcement Initiatives

FY 2015 Revenue-Producing Initiatives

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 2015 President’s Budget includes \$51.7 million to implement enacted legislation (traditional revenue-producing portion), \$73.8 million to protect revenue, and \$367.5 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 \$474.5 million in IRS program integrity cap adjustment funding includes \$362.4 million for traditional enforcement initiatives, \$4.5 million for a revenue-protecting enforcement initiative, \$36.8 million for a revenue-enhancing enforcement initiative, and \$70.8 million for other compliance-related initiatives in the Operations Support account (see Section 4.8, Summary of Program Integrity Cap Adjustment).

The FY 2015 traditional revenue-producing initiative, not included in the program integrity cap adjustment, will generate \$129.2 million in additional annual enforcement revenue by implementing enacted legislation, achieving a return on investment (ROI) of \$2.3 to \$1.

Return on Investment for IRS FY 2015 Enforcement Initiative to Implement Enacted Legislation

Dollars in Millions	First Year (FY 2015)			Full Performance (FY 2017)		
	Cost	Revenue	ROI	Cost	Revenue	ROI
Program Increase Before Cap Adjustment	\$51.7	\$50.2	1.0	\$55.9	\$129.2	2.3
Address Impact of Affordable Care Act (ACA) Statutory Requirements	51.7	50.2	1.0	55.9	129.2	2.3

The \$362.4 million requested for the IRS FY 2015 traditional enforcement initiatives funded through the program integrity cap adjustment will generate nearly \$2.1 billion in additional annual enforcement revenue, achieving a FY 2017 ROI of \$5.6 to \$1.

Return on Investment for IRS FY 2015 Cap Adjustment Enforcement Initiatives

Dollars in Millions

	First Year (FY 2015)			Full Performance (FY 2017)		
	Cost	Revenue	ROI	Cost	Revenue	ROI
Cap Adjustment Enforcement Initiatives	\$362.4	\$635.3	1.8	\$377.0	\$2,095.6	5.6
Immediate and Directly Measurable Revenue-Producing Initiatives	\$274.4	\$635.3	2.3	\$289.5	\$2,095.6	7.2
Address International and Offshore Compliance Issues	56.8	87.5	1.5	60.9	292.8	4.8
Expand Coverage of High Wealth Individuals and Enterprises	21.0	78.5	3.7	21.6	243.9	11.3
Expand Audit Coverage	93.3	210.3	2.3	94.8	674.3	7.1
Enhance Collection Coverage	66.8	174.6	2.6	72.6	616.8	8.5
Improve Coverage of Partnerships and Flow-Through Entities	36.5	84.4	2.3	39.6	267.8	6.8
Strategic Revenue-Producing Initiative <i>(which does not have immediately measurable ROI, but clear long-term revenue effects)</i>	\$88.0	\$0.0	0.0	\$87.5	\$0.0	0.0
Expand Compliance Coverage in the Tax-Exempt Sector	16.0	0.0	0.0	16.8	0.0	0.0
Pursue Fraud Referrals, Employment Tax, and Abusive Tax Schemes	17.8	0.0	0.0	16.0	0.0	0.0
Build Out Tax Return Preparer Compliance and Professional Responsibility Activities	17.6	0.0	0.0	17.9	0.0	0.0
Implement IT Changes to Deliver the Foreign Account Tax Compliance Act (FATCA)	32.2	0.0	0.0	32.2	0.0	0.0
Leverage Digital Evidence for Criminal Investigation (CI)	4.4	0.0	0.0	4.6	0.0	0.0

FY 2015 Revenue-Protecting Initiatives

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 more than \$1.6 billion in revenue at a lower cost than the downstream enforcement actions and achieve a FY 2017 revenue protection ROI of \$21.7 to \$1.

FY 2015 Revenue-Protecting Initiatives

Dollars in Millions

	First Year (FY 2015)			Full Performance (FY 2017)		
	Cost	Revenue	ROI	Cost	Revenue	ROI
Revenue-Protecting Initiatives <i>(which protects taxpayer information, prevents identity theft, and results in long-term revenue protection)</i>	\$73.8	\$604.0	8.2	\$75.6	\$1,640.1	21.7
Program Increase Before Cap Adjustment	\$69.3	\$570.2	8.2	\$70.4	\$1,533.5	21.8
Prevent Identity Theft and Refund Fraud	64.9	548.0	8.4	65.3	1,462.0	22.4
Address Impact of ACA Statutory Requirements (revenue-protecting portion)	4.4	22.2	5.0	5.1	71.5	14.0
Cap Adjustment Revenue-Protecting Initiative	\$4.5	\$33.8	7.5	\$5.2	\$106.6	20.5
Expand Audit Coverage (revenue-protecting portion)	4.5	33.8	7.5	5.2	106.6	20.5

FY 2015 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 2015 revenue-enhancing initiatives will increase revenue by \$75.4 million from technology investments that will analyze compliance data more efficiently and provide better case selection, issue identification, and treatment selection, achieving a FY 2017 revenue enhancement ROI of \$2 to \$1.

FY 2015 Revenue-Enhancing Initiative

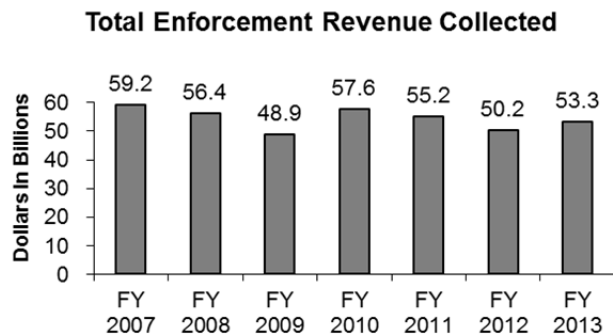
Dollars in Millions	First Year (FY 2015)			Full Performance (FY 2017)		
	Cost	Revenue	ROI	Cost	Revenue	ROI
Cap Adjustment Revenue-Enhancing Initiative <i>(which leverages technology to improve case selection and analysis)</i>	\$36.8	\$0.0	0.0	\$38.6	\$75.4	2.0
Leverage Data to Improve Case Selection	36.8	0.0	0.0	38.6	75.4	2.0

In addition to the new FY 2015 enforcement initiatives, the President's Budget also proposes new tax enforcement and compliance initiatives for IRS and TTB funded via cap adjustments through 2019 and sustained with additional adjustments through 2024. In total, the proposal entails 10 years of cap adjustments costing \$17 billion while saving \$52 billion, for a net savings of \$35 billion.

The IRS places mission-critical importance on enforcement of the tax law, especially as tax administration becomes increasingly complex. As a result of the impacts of sequestration and furloughs, the IRS delivered key enforcement programs below FY 2012 levels. Total individual audits fell 5 percent, from 1.48 million to 1.40 million, while audits of high-income individuals declined from 179,000 to 172,000. Business return audits dropped 13 percent, from 70,000 to 61,000.

In FY 2013, collections related to all enforcement activities totaled \$53.3 billion, the fourth consecutive year the IRS exceeded \$50 billion.

Total Enforcement Revenue Collected increased \$3.1 billion over FY 2012. Most of the increase came from a \$2.6 billion rise in revenue from Appeals which, due to the timing of the Appeals process, generally relates to examinations for much earlier years. Revenue from the Collection function, the levels of which also frequently rise and fall in tandem with the overall health of the economy, increased by nearly \$1 billion in FY 2013. While the overall receipts from enforcement increased in 2013 compared to the prior year, the total is still down by more than \$4.3 billion from four years ago. The reason for this decline is primarily due to a decline in revenue from



audits, which dropped nearly \$400 million in FY 2013 to \$9.83 billion, the lowest level in a decade. This decline in audit revenue is attributable to a decline in the number of returns audited.

The IRS strategic enforcement efforts and parallel Offshore Voluntary Disclosure Program (OVDP) gave U.S. taxpayers with undisclosed offshore assets or income an opportunity to become compliant with the U.S. tax system and avoid potential criminal charges. The OVDP program has resulted in the collection of more than \$6 billion in back taxes, interest, and penalties from more than 43,000 participants since the program was first established in 2009.

International compliance programs have provided the IRS with a wealth of information on various banks and advisors assisting people with offshore tax evasion. In FY 2013, the IRS continued to implement strategies to address international issues by improving intragovernmental coordination, expanding IRS presence in U.S. territories, and enhancing compliance measures. The following actions were completed in FY 2013:

- The IRS continued to lead the design and implementation of the Foreign Financial Institution registration and intergovernmental data exchange processes by working with foreign governments to develop a network of Intergovernmental Agreements; and
- The IRS required taxpayers with foreign financial accounts exceeding \$10,000 to file electronically through the Bank Secrecy Act E-File System.

In addition to recognizing the tax administration challenges presented by cross-border transactions, the IRS continued to focus on providing service to return preparers. Return preparers play a key role in increasing taxpayer compliance and strengthening the integrity of the U.S. tax system.

The IRS required anyone who prepared or assisted in preparing Federal tax returns for compensation to have a valid Preparer Tax Identification Number (PTIN). In FY 2013, the IRS held a successful PTIN renewal season offering enhanced PTIN system usability, troubleshooting tips, and other tools, resulting in over 76,000 fewer telephone inquiries answered during the peak season. As of September 30, 2013, there were 689,865 valid PTINs.

In FY 2013, the IRS continued to educate and inform paid return preparers on tax law compliance by:

- Conducting educational visits with return preparers to assist them in completing and filing tax returns;
- Visiting over 3,000 return preparers nationally, including 300 real-time EITC compliance visits; and
- Addressing egregious preparers through a variety of methods to ensure appropriate penalties and/or sanctions were pursued.

The IRS takes appropriate enforcement action against taxpayers who file fraudulently. The IRS criminal investigation program examines potential criminal violations of the Internal

Revenue Code and related financial crimes such as money laundering, currency violations, tax-related identity theft fraud, and terrorist financing that adversely affect tax administration. In FY 2013, the IRS:

- Completed 5,557 criminal investigations;
- Maintained a Department of Justice acceptance rate of 95.5 percent, which compares favorably with other Federal law enforcement agencies;
- Achieved a conviction rate of 93.1 percent; and
- Obtained 3,311 convictions.

Progress Made on Tax-Related Identity Theft

Identity theft continues to grow and touches nearly every part of the IRS. In FY 2013, the IRS continued to focus on a comprehensive and aggressive strategy to identify and combat tax-related identity theft. For FY 2013, the IRS:

- Deployed the Identity Protection Personal Identification Number (IP PIN) to over 770,000 taxpayers for the 2013 filing season;
- Conducted 191 Identity Theft outreach events with tax and accounting practitioners, the general public, and the media;
- Launched the Law Enforcement Assistance Program (LEAP) nationwide to facilitate sharing of information to support the investigation and prosecution of cases of identity theft. In FY 2013, 314 State and local law enforcement agencies from 35 states participated in the program; and
- Trained 35,000 employees to work with taxpayers and help them address their identity theft incidents and worked with victims to resolve and close more than 565,000 identity theft cases, more than three times the number of cases resolved in the previous year.

Business System Modernization

The IRS modernization efforts continued to focus on building and deploying advanced IT systems, processes, and tools to improve efficiency and productivity. FY 2013 modernization successes included:

- Customer Account Data Engine 2 (CADE 2). In Filing Season 2013, CADE 2 posted more than 139 million returns and issued more than 111 million refunds totaling \$281 billion. Daily processing and posting of individual taxpayer accounts enabled faster refunds (65.47 percent of individual returns that were due a refund and were processed daily increased in FY 2013 compared to 30 percent in FY 2011 (pre-CADE 2)).
- Modernized e-File (MeF). MeF Release 8 deployed for Filing Season 2013 and was the sole e-file platform used for the Filing Season, as the IRS processed 224.7 million individual Federal and State returns, and 16.8 million Business Master File returns.

- New Electronic Fraud Detection System (EFDS)/MeF interface was deployed in FY 2013, ensuring EFDS completed fraud detection before further processing. In FY 2013, EFDS processed over 138 million returns and stopped over \$10 billion in potentially fraudulent refunds.
- Information Return Document Matching (IRDM) System's full Case Management functionality became available for casework in January 2013. Case management matches new information returns (e.g., 1099-K) with both individual and business tax returns to identify potential income under reporting.
- New portal improves access to IRS.gov. The IRS transitioned one of the two internet portals used to access IRS.gov, the Public User Portal (PUP), to the new Integrated Enterprise Portal (IEP) environment allowing the IRS to increase IT services to meet taxpayers' changing needs. In FY 2013, the new IEP has accommodated a 22 percent increase in visits and a 6 percent increase in page views compared to FY 2012.

Opportunity, Growth, and Security Initiative

The FY 2015 Budget requests an additional \$165 million as part of the new Opportunity, Growth, and Security Initiative. This initiative will allow the IRS to provide additional IRS customer service improvements, including increasing toll-free telephone level of service by 11 percentage points to over 80 percent, driving responsiveness to taxpayers through correspondence inventory reduction, and bolstering resources to help tackle more highly burdensome identity theft and refund fraud cases. For more information, see Section 4C, *Opportunity, Growth, and Security Initiative*.

Section 2 – Budget Adjustments and Appropriations Language

The IRS President’s Budget request for FY 2015 is \$12,476,527,000 in direct appropriations and 91,187 FTE. This is an increase of \$1,185,915,000 or 10.50 percent and 6,998 FTE more than the FY 2014 Enacted budget of \$11,290,612,000 and 84,189 FTE.

2.1 – Budget Adjustments Table

Dollars in Thousands

Internal Revenue Service	FTE	Amount
FY 2013 Operating Level ¹	86,381	\$11,198,612
FY 2014 Enacted ²	84,189	\$11,290,612
Changes to Base:		
Non-Recur FY 2014 Additional Appropriation		(\$92,000)
Maintaining Current Levels (MCLs):		\$223,177
Pay Raise		102,082
FERS Contribution Increase		75,329
Non-Pay Inflation Adjustment		45,766
Other Adjustment:	573	
Base Adjustments	573	
Efficiencies/Savings:	(70)	(\$95,200)
Increase e-File Savings	(55)	(2,800)
Adjustment for FERS increase		(76,375)
HCTC Program Termination	(15)	(16,025)
Reinvestment:		\$16,025
Expand Telecom Infrastructure to Handle Increased Demand		16,025
Subtotal FY 2015 Changes to Base	503	\$52,002
FY 2015 Base	84,692	\$11,342,614
Program Changes:		
Program Increases:		
<i>Taxpayer Service Initiative:</i>		
Improve Taxpayer Service and Return Processing	2,391	211,258
Subtotal Taxpayer Service Initiative	2,391	\$211,258
<i>Enforcement Initiatives:</i>		
Address International and Offshore Compliance Issues	332	56,810
Expand Coverage of High Wealth Individuals and Enterprises	141	20,957
Prevent Identity Theft and Refund Fraud	457	64,876
Address Impact of ACA Statutory Requirements	399	56,099
Expand Audit Coverage	586	97,779
Enhance Collection Coverage	577	66,762
Improve Coverage of Partnerships and Flow-Through Entities	244	36,539
Expand Compliance Coverage in the Tax-Exempt Sector	119	16,095
Pursue Fraud Referrals, Employment Tax, and Abusive Tax Schemes	52	17,812
Build Out Tax Return Preparer Compliance and Professional Responsibility Activities	106	17,537
Implement Information Technology (IT) Changes to Deliver the Foreign Account Tax Compliance Act (FATCA)	140	32,223
Leverage Digital Evidence for Criminal Investigation (CI)	6	4,372
Leverage Data to Improve Case Selection	46	36,793
Subtotal Enforcement Initiatives	3,205	\$524,654
<i>Infrastructure Initiatives:</i>		
Implement Information Technology (IT) Changes to Deliver Tax Credits and Other Requirements	818	305,645
Implement Information Technology (IT) Services		10,000
Implement Campus Consolidation and Revitalization Strategy		10,000
Implement eGovernment and Other Administration Priorities	19	31,011
Maintain Integrity of Revenue Financial Systems	8	12,136
Expand Virtual Service Delivery (VSD)	13	7,701
Subtotal Infrastructure Initiatives	858	\$376,493
<i>Business Systems Modernization Initiative:</i>		
Continue Migration from Aging Tax Administration Systems - Enhance Online Services	41	16,508
Subtotal Business Systems Modernization Initiative	41	\$16,508
<i>Alcohol and Tobacco Tax and Trade Bureau Program Integrity Transfer:</i>		
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 Initiative		\$5,000
Subtotal FY 2015 Program Changes	6,495	\$1,133,913
Total FY 2015 Budget Request	91,187	\$12,476,527

¹ FY 2013 Operating Level represents the across-the-board recission and reductions required by sequestration and an interappropriation transfer \$73M transferred from the Enforcement appropriation to the Taxpayer Services (\$13M) and Operations Support (\$60M) appropriations.

² FY 2014 Enacted includes \$92M in funding (\$34 million in Taxpayer Services and \$58 million in Operations Support).

Initiative Costing Methodology

The IRS uses a variety of methods to calculate the cost of 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 of full-time equivalents (FTE) and type of staff are determined, the cost of the FTE is estimated using a Unit Cost Rate (UCR) calculator, a tool for projecting FTE salary and non-salary support costs and/or savings. The UCR calculator fully costs the salary, benefits, and support costs needed for each FTE.

The FY 2015 initiative FTE were estimated assuming a January 1 hire date except for front-line positions in Submission Processing and Account Management and Assistance – Electronic/Correspondence Assistance, which were estimated assuming an October 1 hire date. The primary function of the Submission Processing and Account Management and Assistance taxpayer service programs is to provide service to taxpayers during the filing season. These programs manage their workload using staff hours, not FTE. They are not as dependent on the traditional hiring and training process that is experienced in other IRS programs because they have a large existing seasonal workforce that is available to work additional hours as resources become available.

As in prior years, the IRS expects to work with the Administration and Congress on any changes necessary as a result of the timing of and funding levels for the actual enacted fiscal year budget. In prior years, this has included, but is not limited to, increased hiring to fully realize the FTE funded by the appropriators - to the extent that attrition in the subsequent year would hold total FTE within budgeted resources - or one time transfers (subject to Congressional approval) of projected surplus funds resulting from the timing of the funding availability.

2A – Budget Increases and Decreases Description

Total Changes to Base

+\$52,002,000 / +503 FTE

Non-Recur FY 2014 Additional Appropriation

-\$92,000,000 / 0 FTE

The \$92 million additional appropriation increase in the Consolidated Appropriations Act, 2014, to improve the delivery of services to taxpayers, improve the identification and prevention of refund fraud and identity theft, and address international and offshore compliance issues, is non-recurred.

Maintaining Current Levels (MCLs)

+\$223,177,000 / 0 FTE

Pay Raise +\$102,082,000 / 0 FTE

Funds are requested for the proposed January 2015 pay raise and to annualize the 2014 pay raise.

FERS Contribution Increase +\$75,329,000 / 0 FTE

Funds are requested for increases in agency contributions to the Federal Employee Retirement System based on updated actuarial estimates.

Non-Pay Inflation Adjustment +\$45,766,000 / 0 FTE

Funds are requested for inflation adjustments for non-labor costs such as travel, contracts, rent, supplies, and equipment.

Other Adjustment

\$0 / +573 FTE

This base adjustment transfers \$29.2 million and 244 FTE from the Enforcement appropriation to the Operations Support appropriation to reclassify Government Liaison & Disclosure (GLD) to better align with its role as a security function. The GLD program is part of Privacy, Governmental Liaison, and Disclosure (PGLD). The PGLD function is to protect the sensitive information and privacy of taxpayers and employees and to ensure only authorized disclosures and data sharing, and therefore, more appropriately belongs in the Operations Support appropriation.

The exception only hiring freeze implemented by IRS over the last several years has generated \$57.9 million in uncommitted enforcement resources. Starting in FY 2015, the IRS will use these base resources to provide the enforcement staff needed to implement changes required by enactment of the Foreign Account Tax Compliance Act (FATCA) (\$20.6 million and 204 FTE); administer the reporting provisions for merchant payment cards, third party reimbursements, and basis reporting on security sales (\$28.4 million and 322 FTE); and partially fund the expansion of the Criminal Investigation Identity Theft Clearinghouse, which processes all identity theft leads from field special agents and other external sources (\$8.9 million and 47 Special Agent FTE).

Efficiencies and Savings

-\$95,200,000 / -70 FTE

Increase e-File Savings

-\$2,800,000 / -55 FTE

These savings are a result of reduced paper returns. The IRS projects taxpayers will file 1,277,800 fewer paper returns (807,900 individual and 469,900 business returns) and instead choose to e-file. As a result, the IRS would need 55 fewer FTE in submission processing, generating a savings of \$2.8 million.

Adjustment for FERS Increase

-\$76,375,000 / 0 FTE

By continuing to closely manage personnel costs in FY 2014, the IRS will achieve the reductions needed in FY 2015 to absorb the cost of the FERS contribution increase.

HCTC Program Termination
-\$16,025,000 / -15 FTE

The Health Coverage Tax Credit (HCTC) program was enacted by the Trade Adjustment Assistance (TAA) Act of 2002, Public Law 107-210, and became effective August 2003. This program assisted dislocated workers with their health insurance premiums and the IRS was provided resources to administer the advance payment feature. This program was terminated January 1, 2014, as provided by the Trade Adjustment Assistance Extension Act of 2011 (TAA Reauthorization), Public Law 112-40. Termination of this program will result in a savings of \$16 million and 15 FTE.

Reinvestment
+16,025,000 / 0 FTE

Expand Telecom Infrastructure to Handle Increased Demand
+\$16,025,000 / +0 FTE

This reinvestment expands the Customer Service Representative (CSR) toll-free call center telecommunication infrastructure to allow the IRS to answer the additional telephone calls related to implementation of the Affordable Care Act (ACA) (Public Law 111-148). The expanded telecommunication infrastructure includes additional ports for the Customer Voice Portal (CVP) as well as licensing and configuration for Intelligent Contact Manager, CVP, Electronic Workforce Management, and Contact Recording. The requested funding covers hardware costs for high-speed internet connections, encryption technology, and telecommunications equipment.

Program Increases
+\$1,133,913,000 / +6,495 FTE

Improve Taxpayer Service and Return Processing
+\$211,258,000 / +2,391 FTE

Funding to Improve Taxpayer Service and Return Processing provides resources for the IRS to help meet the expected demand increases for taxpayer services in FY 2015. The additional resources requested in FY 2015 will allow the IRS to increase the Customer Service Representative (CSR) Level of Service (LOS) from the actual FY 2013 level of 60.5 percent to 71 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 providing taxpayer telephone assistance, correspondence services, and outreach to individuals, businesses, and third parties affected by the Affordable Care Act (ACA) (Public Law 111-148). Without the additional resources, the IRS expects the CSR LOS would be 53 percent. This initiative also provides advanced technology to improve telephone customer service and allow the IRS to begin the initial phase of enhancing the Account Management System (AMS) to electronically receive amended returns (Form 1040X, *Amended U.S. Individual Tax Return*) from Modernized e-File (MeF).

Position Type/Other Costs	FTE	Positions	\$000
Meet FY 2015 Expected Taxpayer Service Demand	1,562.00	1,572	\$137,311
Increase Level of Service (LOS)	1,533.00	1,533	117,835
Customer Service Representative (CSR)	879.00	879	73,698
CSR - Seasonal ¹	624.00	624	41,482
Manager and Analyst	30.00	30	2,655
Enhance Quality and Effectiveness of Services Provided to Taxpayers	6.00	8	653
Program Analyst	4.50	6	421
Business Modernization Office (BMO) Analyst	1.50	2	232
IT Projects	23.00	31	18,823
Customer Callback (formerly Virtual Hold)			3,327
AMS Acceptance of 1040X Amended Returns			4,108
Authentication Retention (AR) Technology			6,277
Computer Telephone Integration (CTI) Technology			1,783
IT Specialists	23.00	31	3,328
Assist Taxpayers in Understanding Affordable Care Act (ACA) Issues	829.00	870	\$73,947
Field Assistance (FA)	61.25	73	5,289
Individual Taxpayer Advisory Specialist	61.25	73	5,289
Process New and Revised Forms	230.00	230	13,985
Tax Examiner - Seasonal ¹	230.00	230	13,985
Joint Operations Center (JOC)	9.75	13	1,344
Analyst	9.75	13	1,306
High Speed Internet Connection			38
Program Management Office			1,700
Contractual Services			1,700
Taxpayer Assistance & Outreach	481.50	492	40,066
Customer Service Representative (CSR)	280.00	280	23,755
CSR - Seasonal	169.00	169	11,398
Manager and Analyst	27.25	36	3,718
Tax Technician	5.25	7	755
Contractual Services			440
Grants			6,000
ACA Grant Funds			6,000
Other Direct Costs	46.50	62	5,563
Taxpayer Advocacy Service Specialist	45.00	60	5,333
Program Analyst - Taxpayer Advocate	1.50	2	230
Total	2,391.00	2,442	211,258

¹The number of seasonal positions varies depending on the actual number of months and staff hours worked. For costing purposes, the number of seasonal FTE equals the number of positions.

Meet FY 2015 Expected Taxpayer Service Demand (+\$137.3 million / +1,562 FTE)

This initiative will allow the IRS to:

- Increase Level of Service (LOS)

This initiative will fund additional staffing to improve the level of service for the both the existing taxpayer service workload and anticipated increases related to ACA. These resources will allow the IRS to answer a greater number of taxpayer telephone calls and to timely address taxpayer claims and inquiries submitted through paper correspondence requests. The IRS plans to continue to maximize self-service options, increase efficiencies across existing service delivery channels, and expand the use of more innovative technologies to address the increased demand for services.

- Enhance Quality and Effectiveness of Services Provided to Taxpayers

This initiative will further fund activities to support enhanced service to taxpayers. The IRS will conduct qualitative research to understand taxpayer behaviors related to compliance and taxpayer comprehension of new tax laws. The data collected will be used to help formulate appropriate service responses. These resources also will support the design of enhancements to the Account Management System (AMS) to provide CSRs better tools to respond to taxpayer inquiries.

- Invest in IT Projects to Support Taxpayer Service

- Customer Callback (CC)

Customer Callback (CC) technology will allow taxpayers to choose how they interact with IRS toll-free services while waiting to speak with a CSR. Currently, taxpayers remain in the queue to hear announcements of estimated wait time. Investing in this technology will provide taxpayers with the option of remaining on hold or scheduling a callback. This will allow the IRS call sites to operate more efficiently, save telephone resources, and improve the taxpayer's experience with the IRS.

The CC technology will provide the follow benefits:

- Reduced circuitry and port costs, estimated to save \$1.5 million to \$1.9 million annually;
- Improved customer satisfaction and reduced taxpayer burden;
- Increased employee satisfaction; and
- Fewer abandoned calls.

- Account Management System (AMS) Acceptance of Individual Amended Returns

This project will enhance the AMS to electronically receive Form 1040X from Modernized e-File (MeF), resulting in more efficient tax return processing and improved taxpayer service. In 2013, the IRS processed 3.9 million paper amended

returns. The IRS plans to begin accepting electronic amended returns in Tax Year 2014/Processing Year 2015.

This enhanced AMS functionality will allow the IRS to receive tax data from MeF so that Form 1040X inventories can be routed and worked. This new capability will enhance business controls and create a virtual interface to all account and case information. Benefits include:

- Better customer service on toll-free lines, as information will be readily available to CSRs;
- Automated case processing, resulting in fewer manual actions;
- Increased identification of potential issues that could result in increased revenue collection or prevention of revenue loss;
- Reduced costs associated with maintaining redundant data stores and applications;
- Reduced time to route cases by immediately identifying and forwarding cases meeting relevant criteria to the appropriate area;
- Reduced need for scanning amended returns (in FY 2012 the IRS scanned and closed 1,317,637 amended return cases);
- Reduced number of paper amended returns received and stored by the IRS; and
- Better fraud and identity theft detection for Form 1040X.

○ 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 benefit more than 31 million callers annually. AR technology will allow the IRS to actively address 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.

Assist Taxpayers in Understanding Affordable Care Act (ACA) Issues
(+\$73.9 million / +829 FTE)

Beginning in FY 2015, taxpayers will file the first tax returns that will include the reconciliation of the Premium Tax Credit (PTC), the granting of individual exemptions from health insurance coverage requirements, and the assessment of individual responsibility payments. In addition, beginning in FY 2015, new information reporting will be required for certain employers and health insurance providers. The IRS must provide timely and accurate responses to taxpayers to help them understand their responsibilities under the new and complex ACA tax provisions.

- Field Assistance

This initiative will allow the IRS to hire additional staff to meet the increased demand for face-to-face assistance because of new filing and reporting requirements effective in 2015. The IRS plans to maximize self-service options, increase efficiencies across existing service delivery channels, and expand the use of innovative technologies to address the increased demand for services. Despite these efforts, the IRS expects a significant increase in the demand for face-to-face assistance due to the complexity of ACA. This initiative will fund additional permanent and seasonal CSRs to handle the increased walk-in traffic expected during the post filing season as notices begin to be mailed to taxpayers and the additional live-assisted contacts related to ACA that are anticipated in FY 2015.

- Process New and Revised Forms

This initiative will provide resources to process new and revised forms, including expanded transcription requirements and increased error resolution effective in the 2015 filing season. The IRS expects that the new forms will require a significant amount of transcription, result in a higher than normal error fallout rate because of unfamiliarity with the complex new laws, and increase the processing of paper amended returns filed with Form 1040X.

- Joint Operations Center (JOC)

The IRS JOC provides service, support, and technology for operating divisions and functional organizations to achieve their desired service levels for all telephone, correspondence, and electronic media inquiries. Additional staff is requested to address the expected increase in ACA-related demand.

- ACA Program Management Office (PMO)

Funding will allow the Project Management Office (PMO) to continue contractual support services and provide oversight of ACA implementation activities focusing on individual and information returns processing, customer service, outreach, and development of guidance.

- **User and Network Services (UNS) Internet and Telecommunications Support**
UNS Internet and Telecommunications support will be enhanced to handle the increase in ACA demand.
- **Taxpayer Assistance and Outreach**
Provide outreach efforts to inform taxpayers and associated third parties about ACA tax filing requirements.
- **Grants**
This initiative requests \$6 million to expand the 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.
- **Stakeholder Liaison and Communication**
Stakeholder liaison tax analysts and technicians will support ACA by researching customer needs; developing and managing educational programs; establishing partnerships with stakeholder groups; and disseminating tax information to taxpayers and the general public through a variety of media, including publications and mailings, websites, broadcasting, and advertising.

Other Direct Costs (+\$5.6 million / +46.50 FTE)

Dollars in Millions

IRS Activity	Cost	FTE	Positions	Explanation
Taxpayer Advocate Service	\$5.6	46.50	62	Handle additional case receipts.
Total	\$5.6	46.50	62	

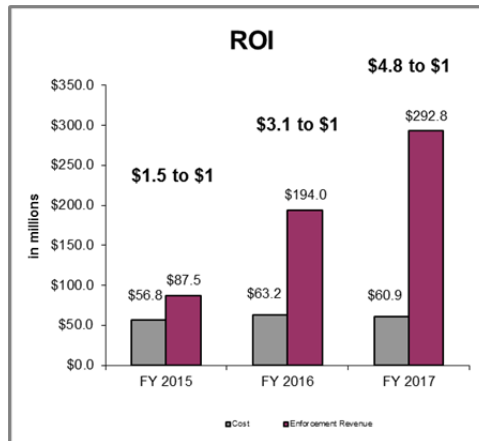
Address International and Offshore Compliance Issues
 +\$56,810,000 / +332 FTE

Funding to Increase Offshore Compliance will expand coverage of entities with undisclosed offshore accounts to comply with required U.S. tax reporting. This initiative will:

- Promote voluntary compliance with U.S. laws through strategic enforcement actions directed at identifying U.S. taxpayers involved in abusive offshore tax schemes through banks, other financial institutions, and third party structures;
- Allow the IRS to expand information gathering and data analysis to identify promoters or facilitators of abusive offshore schemes; and
- Expand Offshore Criminal Investigations in pursuit of international tax and financial crimes as well as grow the IRS attaché presence.

Position Type/Other Costs	FTE	Positions	\$000
Increase Offshore Compliance	206.00	274	\$30,702
Revenue Agents	149.25	199	24,958
Tax Examiners	21.75	29	2,065
Tax Technician	19.25	25	2,225
Support Staff	15.75	21	1,454
Expand Offshore Criminal Investigations	67.50	90	\$14,656
Special Agent	22.50	30	8,373
Investigative Analyst	22.50	30	2,817
IT Specialist	14.25	19	2,195
Computer Operations Administrator (COA)	8.25	11	1,271
Other Direct Costs	58.50	78	\$11,452
Revenue Agent - Appeals	0.75	1	94
Appeals Officer	9.75	13	1,689
Tax Examiner - Appeals	0.75	1	70
Attorney	44.25	59	9,330
Paralegal	0.75	1	96
Support Staff - Counsel	2.25	3	173
Total	332.00	442	\$56,810

This initiative will produce annual enforcement revenue of \$292.8 million, once the new hires reach full potential in FY 2017, an ROI of \$4.8 to \$1.



Major Activities	Projected Revenue \$M	Individual Closures	Business Closures	Investigations Completed
Increase Offshore Compliance	292.8	6,525	75	
Expand Offshore Criminal Investigations				38
Total	\$292.8	6,525	75	38

Increase Offshore Compliance (+\$30.7 million / +206 FTE)

- Increased Coverage of Offshore Individual 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 the use of soft letters to promote voluntary compliance.

- Enhance International Compliance Efforts

This funding will allow the IRS to identify emerging offshore compliance issues and handle the increased workload from cases with international issues and offshore transactions. This additional workload from the open-ended Offshore Voluntary Disclosure Program (OVDP), additional John Doe Summonses, and expanded information reporting required by the Foreign Account Tax Compliance Act (FATCA) is expected to result in increased individual and small business audits.

- Implementation of OVDP

In January 2012, the IRS reopened the previous Offshore Voluntary Disclosure Initiative (OVDI) 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 the collection of more than \$6 billion in back taxes, interest, and penalties from more than 43,000 participants.

- Issuance of John Doe Summonses

The purpose of a John Doe summons is to investigate the tax liability of a specific unidentified taxpayer (or a group of such taxpayers). The use of John Doe summonses has avoided the restrictions imposed by the international bank secrecy rules and resulted in over 725 primary treaty cases, equating to over 3,000 returns. A John Doe summons can only be served after approval by a Federal court. The IRS has seen an increase in the number of offshore voluntary disclosure filings when Department of the Treasury and/or Department of Justice announce legal actions against taxpayers after the issuance of John Doe summonses to foreign financial institutions (FFIs).

- Expanded Information Reporting under FATCA

In March 2010 FATCA legislation was enacted as part of the Hiring Incentives to Restore Employment (HIRE) Act of 2010 (Public Law 111-147). This legislation strengthens offshore compliance efforts by creating new information reporting requirements for FFIs with respect to U.S. accounts, establishing new withholding,

documentation, and reporting requirements for payments made to certain foreign entities, and requiring expanded information reporting for offshore assets held by U.S. taxpayers. Through both taxpayer voluntary identification of foreign assets and third party reporting by FFIs, the IRS expects to see an increase in the number of taxpayers with taxable offshore transactions and to identify taxpayers with previously undisclosed foreign holdings.

- Increase Timely Development of Quality Fraud Referrals

The IRS National Fraud Program ensures that areas of tax avoidance and fraud are promptly addressed and proactively identified. This program identifies and develops potential indicators for acts of fraud. These additional resources will allow technical advisors to:

- Provide technical support generated from the issuance of John Doe summonses;
- Address complex international issues;
- Proactively assist in developing potential fraud cases and streamline referrals to IRS Criminal Investigation (CI); and
- Provide assistance in obtaining international data and analyzing Suspicious Activity Reports (SAR) data. SARs are reports submitted to the Department of the Treasury by, among others, financial institutions, brokerage houses, money service businesses, and casinos. They provide additional information regarding suspicious movements of cash and wire transactions that are not included in a Currency Transaction Report (CTR).

Expand Offshore Criminal Investigations (+\$14.7 million / +67.5 FTE)

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

- Supporting 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 Support

The IRS is an integral part of the global fight against international tax evasion and other financial crimes. To fight transnational crime, CI must expand its support of overseas locations to meet the growing demand for criminal investigative cooperation and information sharing. Building CI's overseas enforcement support will facilitate an influx of international leads that will result in greater case development, prosecutions, and an increased deterrent effect for taxpayers who evade their U.S. tax obligations.

- Expanding the CI International Attaché Program

This initiative will provide additional resources for the International Attaché Program to expand attachés into other countries, sustain the deployment of an increased special agent cadre, and facilitate a broader partnership with other organizations. The current international locations are understaffed, with some offices covering over 50 different countries. With the large growth in the number of global financial transactions, this initiative will allow the IRS to respond better to investigative requests from the international law enforcement community.

Other Direct Costs (+\$11.4 million / +58.50 FTE)

Dollars in Millions

IRS Activity	Cost	FTE	Positions	Explanation
Appeals	\$1.8	11.25	15	Support examination efforts on key compliance areas focused on improving voluntary compliance.
Chief Counsel	\$9.6	47.25	63	Provide support to agents working offshore cases that will require assistance in case development, especially with respect to summonses, interviews of taxpayers, and other witnesses. Also, provide support for the Report of Foreign Bank and Financial Accounts.
Total	\$11.4	58.50	78	

Expand Coverage of High Wealth Individuals and Enterprises
 +\$20,957,000 / +141 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.

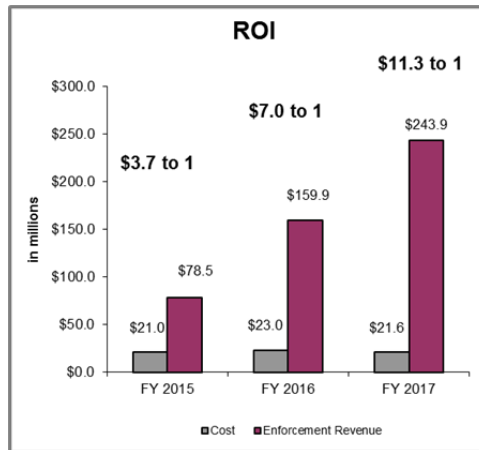
Position Type/Other Costs	FTE	Positions	\$ 000
Global High Wealth	141.00	188	\$20,957
Revenue Agents	96.00	128	17,029
Tax Examiners	24.00	32	1,962
Tax Technician	6.75	9	609
Support Staff	14.25	19	1,357
Total	141.00	188	\$20,957

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.

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 \$243.9 million once the new hires reach full potential in FY 2017, an ROI of \$11.3 to \$1.



Major Activities	Projected Revenue \$M	Individual Audits	Business Audits
Global High Wealth	243.9	139	186
Total	\$243.9	139	186

This request will increase audit 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 enterprises controlled by wealthy individuals 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 audit 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 audit coverage of international structures and cross-border transactions;
- Provide sufficient resources to ensure effective application of TEFRA procedures;
- Increase specialized expertise in conducting enterprise examinations;
- Improve identification of issues involving enterprise structures; and
- Improve audit coverage of international transactions involving offshore accounts and entities.

Other Direct Costs

There are no other direct costs associated with this initiative.

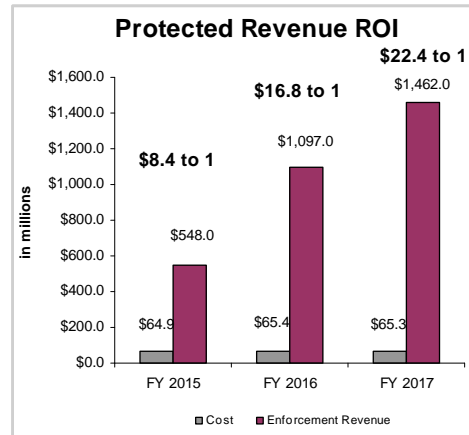
Prevent Identity Theft and Refund Fraud
 +64,876,000 / +457 FTE

Funding to Prevent Identity Theft and Refund Fraud provides additional staffing and advanced technologies to support the IRS's continued efforts to handle the increased workload associated with identity theft and refund fraud. The resources requested will help the IRS to:

- Answer telephone calls and adjust accounts for taxpayers who have been victims of identity theft;
- Reduce the number of identity theft returns posted, protect additional revenue and address some of the identity theft case backlog;
- Continue the expansion of the specialized Criminal Investigation (CI) Identity Theft Clearinghouse that processes identity theft leads; and
- Invest in information technology projects that will protect taxpayer information, help verify potentially fraudulent identity theft tax returns, and reduce erroneous payments.

While this initiative is not included in the IRS's traditional ROI calculations, investment in these activities is projected to protect nearly \$1.5 billion in revenue, once the new hires reach full potential in FY 2017, a protected revenue ROI of \$22.4 to 1.

Position Type/Other Costs	FTE	Positions	\$000
Improve Identification and Prevention of Refund Fraud			
Customer Service Representatives (CSR)	200.00	200	16,940
Prevent Identity Theft	159.00	212	\$17,311
Tax Examiner	90.00	120	7,347
Customer Service Representative	30.00	40	2,574
Revenue Agent	10.50	14	1,328
Program Analyst	9.00	12	1,576
Manager and Support Staff	9.00	12	820
Contractual Services			2,068
Project Manager, Analyst and Support Staff	10.50	14	1,598
Expand Identity Theft Clearinghouse	36.00	48	\$7,253
Special Agent	9.75	13	2,359
Investigative Analyst	6.75	9	1,040
IT Specialists	19.50	26	3,004
Contractual Services			850
IT Projects	51.00	68	\$21,583
Electronic Check Processing Technology (ECP)	5.25	7	3,324
Dishonored Check Processing (DCP)	9.75	13	2,840
Improved Access to SSA Data	12.00	16	1,801
Electronic Fraud	6.00	8	832
Integrated Automated Technology (IAT) Tools	12.75	17	1,998
Web-based AFOIA	5.25	7	3,688
Eliminate SSN from Taxpayer Mailings			7,100
Other Direct Costs	11.00	15	\$1,789
Attorney	9.50	13	1,639
Paralegal	1.50	2	150
Total	457.00	543	64,876



Major Activities	Calls	Tax Account	Accounts	Investigations
	Answered	Adjustments	Closures	Completed
Improve Identification and Prevention of Refund Fraud	90,000	108,000	13,000	20
Total	90,000	108,000	13,000	20

Improve Identification and Prevention of Refund Fraud (+\$16.9 million / +200 FTE)

In FY 2015, the IRS projects to receive more than 520,000 correspondence receipts related to identity theft. In addition to the correspondence receipts, the IRS projects approximately 658,000 telephone calls related to identity theft. The resources requested in this initiative will allow the IRS to answer an additional 90,000 identity theft-related telephone calls and adjust an additional 108,000 tax accounts for victims or potential victims of identity theft.

Prevent Identity Theft (+\$17.3 million / +159 FTE)

These resources will allow the IRS to expand programs to prevent identity-related refund fraud, protect taxpayer identities, and assist victims of identity theft. To improve the detection, prevention, and resolution of identity theft cases, this initiative provides funding for the following programs:

- Expand Taxpayer Protection Unit (TPU)

In FY 2012, the IRS implemented a set of filters to identify, before posting, suspicious returns that have a high likelihood of being identity theft returns and established a specialized TPU to address these returns. These resources will expand staffing for the TPU. Preventing tax returns determined to be identity theft returns from posting will avoid the need for adjustments and prevent delays when the true taxpayer files later. This will prevent an estimated 63,300 identity theft returns from posting, reduce post-processing adjustments, and protect approximately \$360 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 nearly 140,000 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.

- Expand Identity Protection Specialized Unit (IPSU)

Identity theft case work grew rapidly from FY 2012 through FY 2013 and is expected to remain at current levels in future years as the IRS continues to identify false tax returns and prevent fraudulent refunds from being issued. IPSU responds to IRS data loss notification inquiries from individuals by helping them understand what has occurred and answering any general incident-related inquiries about the data loss incident. Inventory in the IPSU grew from about 217,000 receipts in FY 2010 to more than 950,000 receipts in FY 2013. In FY 2015, based upon some process improvements, the IRS is projecting approximately 713,000 IPSU receipts. This funding will allow the IRS to close an estimated 13,000 additional IPSU cases in FY 2015.

- Establish IRS Campus Fraud Technical Advisors (FTAs)
IRS Campus FTAs and revenue agents will provide investigative leads and referrals to Federal, State, and local law enforcement agencies to solve identity theft cases.
- Protect Data Loss and Federal Tax 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 documentation required by Internal Revenue Code §6103 and protect Federal tax information within their control. Additional staff is critically needed to safeguard and effectively manage IRS information.

Additional resources also will improve IRS operations to protect sensitive information of taxpayers and IRS employees. IRS will continue to monitor information leaving the IRS for vulnerabilities and increase employee awareness of and accountability for protecting personally identifiable information (PII). Cybersecurity tools will 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.
- Implement Revenue Protection Strategy
The IRS continues to improve its ability to prevent 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 (RRP)
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 meet the needs of by affected IRS organizations.

Expand Identity Theft Clearinghouse (\$7.3 million / 36 FTE)

The initiative will expand the 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 monitors emerging identity theft refund schemes and tracks activity using compromised identifying information to assist in preventing the release of fraudulent refunds. The unit also combats 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.

IT Projects (+\$21.6 million / +51 FTE)

This initiative funds the following IT projects that will allow IRS to leverage technology to address refund fraud and identity theft:

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

These resources will leverage technology to improve protection of taxpayer information, enhance efficiency, and reduce erroneous refunds.

- ECP will provide 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 further supports efforts by the Bureau of the Fiscal Service (BFS) to modernize cash management practices through the use of Electronic Fund Transfer (EFT) for all collections. BFS collects an inefficiency charge of \$1.00 per transaction for transactions not converted to EFT. Converting IRS payment processing to ECP would not only improve efficiency, but also allow the IRS to avoid potential BFS charges.

- DCP will greatly improve the IRS's ability to efficiently process dishonored checks and prevent erroneous refunds caused by invalid payments. Currently, banks use a manual process to mail checks back to the IRS, taxpayer accounts are posted manually by the IRS, and the cases are assigned to tax examiners to research. DCP will leverage the Remittance Strategy for Paper Check Conversion (RS-PCC) system to provide a fast, systemic transfer of insufficient fund information to the IRS Dishonored Check File (DCF) with no manual process involved.

- 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.

- 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.

- Web-based Freedom of Information Act (FOIA)

The IRS processes over 66,000 annual requests for information through the FOIA and other channels and is able to complete 87 percent of the FOIA requests within the statutory period. This component will allow the IRS to migrate to a web platform to timely manage information requests through the FOIA and other channels. It will provide increased security of this information as well as increased responsiveness and IRS oversight. Additionally, the web platform will establish the foundation for taxpayers to submit, monitor, and track their requests for information online using an application similar to the current *Where's My Refund?* web application.

- Eliminate Social Security Number (SSN) from Taxpayer Mailings

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 2-dimensional barcode.

These funds will provide resources for software, infrastructure, and related support to further implement the Social Security Number (SSN) Elimination and Reduction 2-Dimensional (2D) Barcoding project. This phase of the project 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. This 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 (+\$1.8 million / +11 FTE)

Dollars in Millions

IRS Activity	Cost	FTE	Positions	Explanation
Chief Counsel	\$1.8	11.00	15	Provide legal guidance throughout the course of the investigations, evaluate the successful prosecution potential of cases, and work with the Department of Justice during the criminal trials. Also, work with CI and other Federal and State agencies on developing Memorandums of Understanding.
Total	\$1.8	11.00	15	

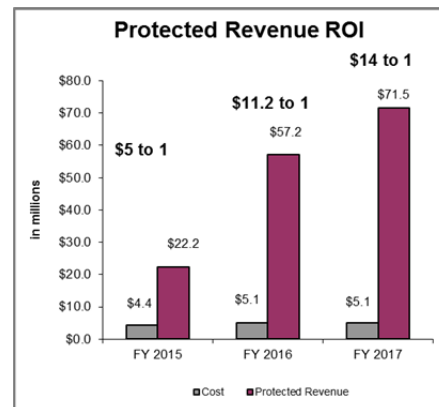
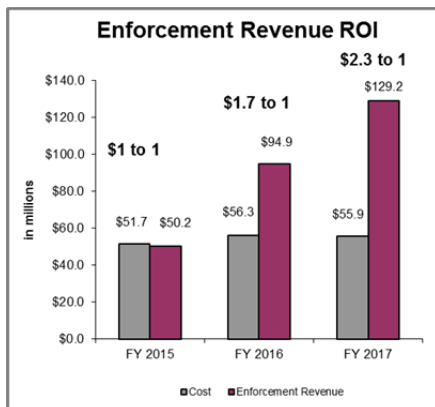
Address Impact of Affordable Care Act (ACA) Statutory Requirements
 +\$56,099,000 / +399 FTE

As tax laws change, 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 ACA tax provisions and will:

- Administer new fees on drug manufacturers and health insurers;
- Strengthen oversight of tax-exempt hospital organizations including refining the community benefit reviews and leveraging this data to conduct examinations;
- Expand coverage of new provisions related to the premium tax credit, individual responsibility requirement, and large employer insurance; and
- Address new audit requirements related to the shared employer responsibility payment.

Position Type/Other Costs	FTE	Positions	\$000
Address Impact of ACA Legislative Requirements	283.00	339	\$31,446
Administer New Fees on Drug Manufacturers and Health Insurers	9.00	9	\$1,308
Revenue Agent	7.00	7	1,127
Support Staff	2.00	2	181
Strengthen Oversight of Exempt Hospitals	55.50	65	\$7,188
Revenue Agent	30.75	36	4,461
Tax Law Specialist	5.00	6	852
Tax Technician	12.50	14	1,138
Support Staff	7.25	9	737
Promote Compliance with Other ACA Provisions	218.50	265	\$22,950
Revenue Agent	70.25	88	9,408
Tax Examiner	98.00	113	8,182
Manager	15.00	20	1,677
Analyst	2.75	3	349
Communication Specialist	3.50	4	525
Support Staff	29.00	37	2,809
Program Management Office (PMO)	34.00	34	\$10,229
Program Analyst	34.00	34	5,858
Contractual Services			4,371
Implement Statutorily Mandated Data Protection	12.25	13	\$3,236
Program Analyst	12.25	13	1,947
Contractual Services			1,289
Other ACA Direct Costs	69.75	82	\$11,188
Appeals Officer	15.75	20	2,484
Attorney	46.00	52	7,901
Support Staff	5.75	7	522
HR Specialist	2.25	3	281
Total	399.00	468	\$56,099

This initiative will annually produce additional enforcement revenue of \$129.2 million, once the new hires reach full potential in FY 2017, an ROI of \$2.3 to \$1, and protect revenue of \$71.5 million, a protected ROI of \$14 to \$1.



Major Activities	Projected Revenue \$M	Protected Revenue \$M	Pre-Refund Closures	Closures	Community Benefit Reviews	Additional Entity Closures
Administer New Fees on Drug Manufacturers and Health Insurers				1,750		
Strengthen Oversight of Exempt Hospitals				1,040		5
Promoting Compliance with Other ACA Provisions						
Field Exam	32.5			1,425		
Correspondence Exam	75.3	71.5	23,000	13,176		
Specialty Programs	21.4			2,451		
Total	\$129.2	\$71.5	23,000	19,842		5

Administer New Fees on Drug Manufacturers and Health Insurers (+\$1.3 million / +9 FTE)

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 billion for 2015, 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 continue to administer a new aggregate annual fee based on net premiums written by health insurance providers, set at \$11.3 billion for 2015.

Strengthen Oversight of Exempt Hospitals (+\$7.2 million / + 55.5 FTE)

The ACA establishes new requirements for tax-exempt hospitals, which comprise a majority of the hospitals in the United States. The 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 was completed in 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.

Promote Compliance with Other ACA Provisions (+\$23 million / +218.5 FTE)

This initiative requests resources 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. Existing individual and employer compliance processes have been modified to support implementation. This initiative provides resources for additional revenue agents and tax examiners to detect fraud and identify, and examine returns with the highest compliance risk. This includes:

- *New Tax on Net Investment Income and Additional Medicare Tax.* Filing Season 2014 marks the first processing year for 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 taxpayers filing jointly) and an additional Medicare Tax on wages above the same thresholds was established, for which employers implemented new withholding.

- *Small Business Health Tax Credit (SBHTC) and the Indoor Tanning Excise Tax.* These resources will allow the IRS to increase audit coverage on taxpayer returns claiming the SBHTC and taxpayers who may be subject to the excise tax on indoor tanning services.
- *Premium Tax Credit and Individual Shared Responsibility Payments.* These resources will provide correspondence examination staff to increase examination coverage and decrease the underreporting tax gap. The additional staff will process new notices and respond to taxpayer telephone and correspondence inquiries related to provisions in the ACA, which added the new premium tax credit (PTC) in Internal Revenue Code (IRC) §36B, individual responsibility payments in IRC §5000A, and related information returns required under IRC §36B and §6055. The PTC is a potentially large refundable credit and brings increased compliance risk. The IRS requests additional resources to address erroneous claims for the credit before refunds are issued.
- *Employer Shared Responsibility Payment.* Specialty Programs will administer the employer shared responsibility payment provision added by the ACA as IRC §4980H. These provisions apply for months after December 31, 2014, and are expected to be a high compliance risk.

Program Management Office (+\$10.2 million / +34 FTE)

With these resources, the ACA Program Management Office (PMO) will continue to prepare the IRS to process Form 1040, *U.S. Individual Income Tax Return*, modify existing business processes to address pre-refund and post filing compliance activities, and ensure business requirements are built in to regulations, forms, and IT systems.

Implement Statutorily-Mandated Data Protection (+\$3.2 million / +12.25 FTE)

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). These resources will allow the IRS to continue to administer IRC §6103, Safeguarding Federal Tax Information, for the new sharing of data with non-IRS recipients under the ACA, which will require advance inspections, data sharing agreements, and monitoring by the IRS.

This funding also will allow the IRS to provide oversight and outreach to State-based Marketplaces certified by the Department of Health and Human Services (HHS), the Federal Marketplace administered by HHS/Centers for Medicare & Medicaid Services (CMS), and State agencies who administer Medicaid programs. It will ensure that these new State and Federal agencies receiving Federal tax information are appropriately protecting Federal tax information within their control, as required.

Other Direct Costs (+\$11.2 million / +69.75 FTE)

Dollars in Millions

IRS Activity	Cost	FTE	Positions	Explanation
Appeals	\$2.5	15.75	20	Appeals case receipts will increase by new examination closures completed by initiative hires that will require adjudication in the appeals process.
Chief Counsel	\$8.4	51.75	59	Counsel will provide legal advice to identify pockets of noncompliance and equitable resolutions.
Human Capital Office	\$0.3	2.25	3	Handle increased workload to hire and support staff.
Total	\$11.2	69.75	82	

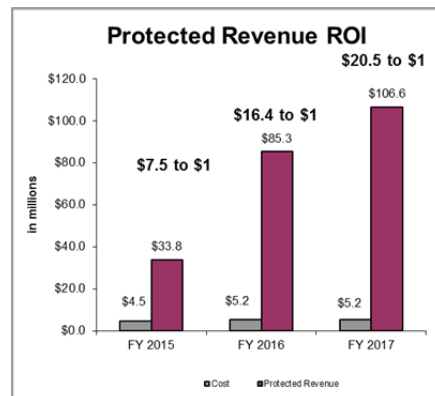
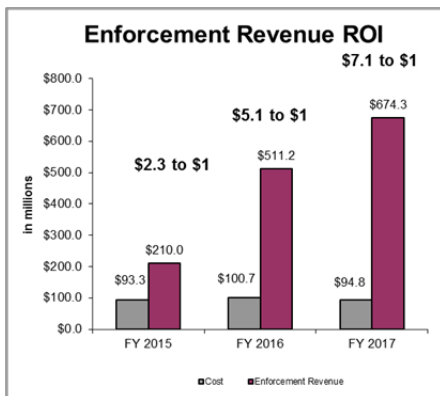
Expand Audit Coverage
 +\$97,779,000 / +586 FTE

This initiative will allow the IRS to improve individual examination coverage and effectively address critical noncompliance issues over a broad range of compliance priorities. Apart from detecting noncompliance directly, examination coverage 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:

- Provide additional field employees to improve the individual examination audit coverage rate;
- Expand correspondence examinations of individual taxpayers including increasing audits in the Individual Tax Identification Number (ITIN) program, tax return preparers, and the Individual Retirement Arrangement (IRA) pilot;
- Increase the coverage of the document matching program to reduce the number of taxpayers who misreport their income;
- Address increasing Appeals workload; and
- Provide investments in technology to increase data capture and improve examination efficiency.

Position Type/Other Costs	FTE	Positions	\$000
Field Examination	235.75	315	\$29,924
Revenue Agent	151.00	202	20,322
Tax Technician	84.75	113	9,602
Correspondence Examination	187.50	250	\$17,836
Tax Examiner	153.75	205	14,131
Manager	9.75	13	1,017
Support Staff	10.50	14	955
Tax Technician	12.00	16	1,512
Revenue Agent	1.50	2	221
Automated Underreporter (AUR)	60.00	80	\$5,486
Tax Examiner	60.00	80	5,486
Address Appeals Workload	22.50	30	\$3,093
Revenue Officer	15.00	20	2,006
Appeals Officer	7.50	10	1,087
IT Projects	45.00	60	\$36,357
Quickbooks	2.25	3	6,259
Document Imaging	38.25	51	21,668
2-Dimensional (2D) Barcoding	4.50	6	8,430
Other Direct Costs	35.25	47	\$5,083
Appeals Officer	12.75	17	1,858
Attorney	12.00	16	2,114
Paralegal	3.75	5	391
Revenue Agent	3.00	4	377
Tax Examiners	1.50	2	140
Support Staff	2.25	3	203
Total	586.00	782	\$97,779

This initiative will annually produce additional enforcement revenue of \$674.3 million, once the new hires reach full potential in FY 2017, an ROI of \$7.1 to \$1, and protect revenue of \$106.6 million, a protected ROI of nearly \$21 to \$1.



Major Activities	Projected Revenue \$M	Protected Revenue \$M	Pre-Refund Closures	Closures
Field Examination	239.4			16,587
Correspondence Examination	284.0	106.6	25,683	47,650
Automated Underreporter (AUR)	150.9			149,260
Address Appeals Workload				4,025
Total	\$674.3	\$106.6	25,683	217,522

Field Examination (+\$29.9 million / +235.75 FTE)

This initiative will increase field examinations to reduce the individual taxpayer portion of the underreporting compliance tax gap. Additional field examination resources (192 revenue agents and 113 tax technicians) will allow the IRS to improve examination coverage while achieving balance across taxpayer segments. These resources will ensure that the IRS can maintain broad-based coverage of the individual filing population.

In addition to providing resources for field examination, this initiative requests 10 revenue agents for the IRS Office of Penalties and Interest. This additional staff will provide subject matter expertise to the CADE 2 modernization project to strengthen the development, implementation, and maintenance of a common module to improve the accuracy of penalty and interest calculations across the IR addressing a long-standing material weakness in IRS financial reporting. This project will ensure the fair, equitable, and accurate administration of more than 170 civil penalties, with assessments exceeding \$30 billion annually. In addition, this project will provide enhanced data analysis to conduct both strategic and in-depth analysis that will help the IRS understand the effect civil penalties have on voluntary compliance and taxpayer behavior. The analysis and findings will drive improvements in penalty policy and frontline business operations.

Correspondence Examination (+\$17.8 million / +187.50 FTE)

This initiative will provide campus correspondence examination staff to increase examination coverage, decrease the underreporting tax gap, and expand the following programs:

- Expand Campus Examination Program

The Campus Examination program addresses the tax gap through increased enforcement presence in priority segments of individual reporting compliance, including itemized deductions and education credits. These resources will deter more taxpayers from evading their tax obligations, and thereby support the IRS goal of increased voluntary compliance and maintaining examination coverage of individuals.

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.

- Address Individual Taxpayer Identification Number (ITIN) Compliance

An ITIN is a tax processing number issued by the IRS to foreign nationals and others who have Federal tax reporting or filing requirements, but do not qualify for social security numbers. Additional resources in this area will allow the IRS to:

- Expand audit coverage on ITIN filers claiming the Advanced Child Tax Credit (ACTC) and American Opportunity Tax Credit (AOTC) which are not available for ITIN dependents residing outside the US;
 - Test filters in a pre-refund environment to identify ITIN noncompliance claiming these credits;
 - Address returns with new ITIN applications; and
 - Identify and address egregious ITIN return preparers.
- Real Time Preparer Expansion – Return preparers are a critical component of tax administration and provide a unique opportunity to improve taxpayer behavior and compliance with tax laws. The Real Time Preparer program seeks to improve compliance among return preparers by completing pre-refund and post-refund audits, conducting on-site visits, and preparing warning letters to preparers.
 - Individual Retirement Account (IRA) Soft Notices – In response to Treasury Inspector General for Tax Administration (TIGTA) audit 2010-40-043, *A Service-wide Strategy is Needed to Address Growing Noncompliance with Individual Retirement Account Contribution and Distribution Requirements*, the IRS is enhancing IRA compliance efforts. The IRS initiated a soft notice pilot in December 2013 to encourage taxpayers to voluntarily correct discrepancies and increase voluntary compliance among an estimated 15 million potential cases of underreporting related to IRAs that contribute to the tax gap each year. The IRA soft notice will remind taxpayers who are over 70 and a half years of age that they must take required distributions from their IRAs or be subject to penalties.

The IRS also plans to initiate another pilot to conduct audits on individuals who have not taken the required distributions or individuals who have made excess contributions. In FY 2015, when both of these pilots are expanded and become part of standard operations, additional staffing will be needed to handle the incoming mail and phone calls associated with the follow-up audits for individuals who have not complied with IRA distributions or contributions tax laws.

Automated Underreporter (AUR) (+\$5.5 million / +60 FTE)

The AUR program is highly successful in minimizing revenue loss through document matching of taxpayer account information. About 12 million taxpayers may currently misreport their income based on third-party information returns. The AUR program processes approximately 5 million taxpayer cases, leaving unaddressed 7 million taxpayers whose returns may have misreported income. The expansion of program coverage will increase voluntary compliance and reduce the number of taxpayers who underreport income in future tax years.

Address Appeals Workload (+\$3.1 million / +22.50 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.

IT Projects (+\$36.4 million / +45 FTE)

This initiative requests resources for the following IT projects:

- QuickBooks

This initiative requests resources to provide all revenue agents access to QuickBooks software. QuickBooks accounting software holds approximately 94 percent of the small business accounting software retail market and is frequently encountered in the examination of taxpayer returns. The purchase of this software will improve the efficiency of examinations by allowing revenue agents to accept electronic accounting records.

- 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 Service 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.

- Two Dimensional (2D) Barcode Project

The 2D Barcode project will allow the IRS to:

- Convert data from paper tax returns into electronic formats more efficiently and accurately by adding coded information to computer-generated paper returns;
- 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.

Other Direct Costs (+\$5.1 million / +35.25 FTE)

Dollars in Millions

IRS Activity	Cost	FTE	Positions	Explanation
Appeals	2.4	17.25	23	Support examination and collection efforts on key compliance areas focused on improving voluntary compliance.
Chief Counsel	2.7	18.00	24	Provide support for increases in requests for legal advice, litigation assistance, and published guidance on issues raised in audits such as those related to the Child Tax Credit and American Opportunity Tax Credit.
Total	\$5.1	35.25	47	

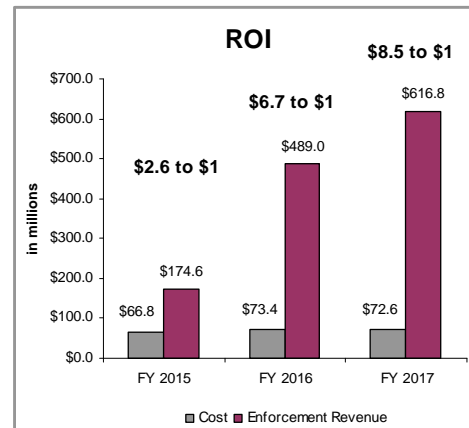
Enhance Collection Coverage
 +\$66,762,000 / +577 FTE

Funding to Enhance 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. This initiative provides resources for Campus Collection to take a more proactive role in reaching out to taxpayers earlier in the collection process and includes staffing to address:

- Increased number and value of employment tax cases in Field Collection;
- 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 \$616.8 million with an ROI of \$8.5 to \$1, once the new hires reach full potential in FY 2017.

Position Type/Other Costs	FTE	Positions	\$000
Filing and Payment Compliance	486.75	649	\$48,111
Field Collection	192.00	256	\$23,485
Revenue Officer	171.00	228	21,589
Tax Examiner	6.00	8	486
Support Staff	15.00	20	1,410
Automated Collection Systems Operations (ACS) and Support	192.75	257	15,364
Tax Examiner	21.75	29	1,770
Customer Service Representative	168.75	225	13,328
Support Staff	2.25	3	266
Compliance Service Collection Operations (CSCO)	42.75	57	\$4,231
Tax Examiner	37.50	50	3,665
Support Staff	5.25	7	566
Centralized Offers-in-Compromise (OIC)	59.25	79	5,031
Tax Examiner	45.00	60	3,647
Support Staff	13.50	18	1,266
Program Analyst	0.75	1	118
Expansion of Current Campus Collection	52.50	70	\$6,064
Program Analyst	1.50	2	222
Tax Examiner	47.25	63	4,248
Manager	3.00	4	328
Support Staff	0.75	1	66
Contractual Services			1,200
IT Projects	37.75	50	\$12,587
Predictive Analytics for the Collection Enterprise (PACE)	37.75	50	9,502
Compliance Data Warehouse (CDW)			3,085
Total	577.00	769	\$66,762



Major Activities	Projected Revenue		Calls Answered	Refund Hold Cases
	\$M	Closures		
Field Collection	148.3	44,863		
Automated Collection Systems	376.1	205,189		
Compliance Service Collection Operation	28.0	8,232	160,550	
Centralized Offers in Compromise	33.6	8,188		
Expansion of Current Campus Collection	30.8	22,000		24,231
Total	\$616.8	288,472	160,550	24,231

Filing and Payment Compliance (+\$48.1 million / +486.75 FTE)

This initiative provides resources for the Field Collection program, Automated Collection Systems (ACS) operation, and Compliance Services Collection Operation (CSCO) to reduce the nonfiling and underpayment tax gap.

- Field Collection

These resources will allow the IRS to hire additional Field Collection staff to address the increase in the number and value of employment tax cases. These cases have become an increasingly significant issue. Individual taxpayers receive credit for the taxes withheld from their paychecks, and may receive tax refunds based on those credits, when their employer may not have turned over that withheld tax to the Government. In 2013, the number of employment tax cases has increased 5.5 percent over the prior year to more than 928,000, representing a tax obligation exceeding \$7.4 billion.

- Automated Collection System (ACS)

The ACS call site operation is the most productive IRS program for revenue collection. The ACS program addresses incoming calls generated by the issuance of levies and the Predictive Dialer (PD) program, an automated system that places calls to taxpayers with delinquent returns and/or unpaid tax liabilities.

As of November 2013, there were 3.3 million cases in ACS, with approximately 1.8 million needing a levy or predictive dialer action. These additional resources will allow the IRS to increase dollars collected, close balance due cases, and resolve protected inventory cases (i.e., cases that are protected from enforcement action pending research or taxpayer requests for account and adjustment actions or explanation of complex account issues to determine correct balance due).

- Compliance Services Collection Operations (CSCO)

These funds will allow the IRS to expand CSCO to address nonfiling and underpayment of taxes in the notice process. New resources will address the increased balance due work and expand 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 preventing 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. 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.

- o Non-Streamlined Installment Agreement (NSIA) Phones –The NSIA phone line, worked by CSCO employees, replaces a paperwork handoff from Accounts Management to CSCO with a more efficient telephone process that evaluates Currently Not Collectible (CNC) and NSIA requests sooner. By eliminating the handoff and processing delays, time-sensitive collections can begin sooner.
- Centralized Offers in Compromise (COIC)

The Offers in Compromise (OIC) program processes taxpayer requests to reduce or eliminate their tax liabilities because of extreme circumstances or hardship. COIC receipts have increased 64 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 75 percent in October 2013. Further enhancements to the OIC program will encourage more unemployed taxpayers to file an OIC request in an effort to settle their tax debts. These resources will allow the IRS to help taxpayers experiencing hardship resolve their tax liabilities.

Expansion of Current Campus Collection (+\$6.1 million / +52.50 FTE)

Campus Collection is a correspondence and phone operation that addresses nonfiling and underpayment of taxes in the collection process. This includes:

- Campus Notice Program

By reaching out earlier in the collection process, Campus Collection more efficiently handles taxpayers who have received or are scheduled to receive a notice. Additional resources will allow the IRS to handle more balance due work, expand the Refund Hold program to secure delinquent returns by delaying issuance of a taxpayer income tax refund, and make more outbound calls prior to preparing an Automated Substitute For Return (ASFR) or to prevent installment agreement default.

- Campus State Payment Levy Program

The IRS requests additional staffing to explore ways to use the Bureau of the Fiscal Service (BFS) State Reciprocal Program (SRP) to collect State government vendor and Medicaid payments in order to pay delinquent Federal tax debt through its automated Treasury Offset Program and the Federal Payment Levy Program.

Under current tax law, the IRS can levy Federally funded state vendor and Medicaid payments but limitations in the law make it inefficient.

BFS and IRS Government Liaison and Disclosure offices are working together to assess the impact on state legislatures and the administrative process of centralizing the collection of State government payments to pay Federal tax debts. This proposed effort would support the recent recommendation from the GAO audit, GAO-12-857, *Medicaid: Providers in Three States with Unpaid Federal Taxes Received Over \$6 Billion in Medicaid Reimbursements*, dated July 2012.

- Campus Decedent Taxpayer Unit

The IRS requests additional staffing to establish the Campus Decedent Taxpayer Unit. Data from the prior six years indicates there were approximately 464,000 decedent accounts with total outstanding balances due at time of death of more than \$11 billion. Additionally, approximately 477,000 new cases accrued after death totaling another \$4.4 billion in unpaid taxes. The lack of timely action on decedent accounts has resulted in significant loss of revenue.

In order to protect the Government's interest and increase recovery of taxes owed by deceased taxpayers, the IRS needs notification of probate proceedings before estate assets are distributed to pay other creditors. The Campus Decedent Taxpayer Unit would establish a centralized location to notify the IRS to file probate claims. This unit would be able to quickly hand off cases needing a proof of claim to the appropriate office.

- Manually Monitored Installment Agreements (MMIA) and Federal Tax Deposit (FTD)

The IRS requests additional staffing to improve the MMIA and FTD Alerts programs. MMIA's are installment agreements that cannot be established and monitored systemically with automatic reminder notices. For MMIA's, extra steps and resources are required to mail reminder notice letters. The Predictive Dialer could be used for a "just in time" reminder and potentially reduce MMIA defaults while saving printing and mailing costs.

FTD Alert soft notices are issued to business taxpayers who have been identified as not having fulfilled a requirement to make Federal Tax Deposits. The additional staff will allow the IRS to utilize the Predictive Dialer system to contact taxpayers who have not responded to the notice. In addition, revenue from taxpayer payments will be received earlier in the collection process and reduce the impact of delayed action on enforcement resources.

- Civil Tax Assessment Cases Resulting from Criminal Restitution

The IRS requests additional staffing to coordinate the civil tax assessment cases resulting from criminal restitutions. Multiple individuals can be assessed a single liability requiring them to make payments, but the total liability can only be collected once. This work requires closely monitoring and applying court-generated payments of all parties, and cross-referencing them to reach a zero balance over the 10-year collection statute.

IT Projects (+\$12.6 million / +37.75 FTE)

These initiative resources will support the following IT projects:

- Predictive Analytics for the Collection Enterprise (PACE)

PACE will increase the effectiveness and efficiency of Collection through the design, development, and testing of models, communication, case routing, and case resolution tools and techniques. The system will provide decision support earlier in the collection process, build and incorporate new analytic models, and route cases to optimal treatment streams at an earlier stage. Through the results of continuous testing and evaluation, the IRS will be better able to define, measure, and work the most productive cases. Most productive case factors include long-term compliance, voluntary compliance impact, and revenue collected.

- Compliance Data Warehouse (CDW)

These funds will allow the IRS to purchase hardware and storage capacity to expand the data available from the CDW. The purpose of the CDW 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.

Other Direct Costs

There are no other direct costs associated with this initiative.

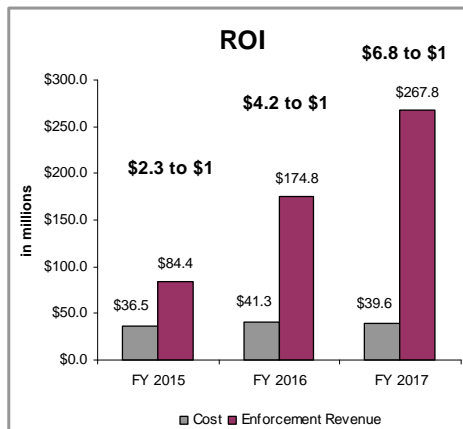
Improve Coverage of Partnerships and Flow-Through Entities
 +\$36,539,000 / +244 FTE

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 the number of auditors with specialized knowledge in partnership law;
- Strengthen enforcement activities relating to flow-through entities and improve compliance by enhancing Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) procedures; and
- Provide investment to replace the Partnership Control System (PCS) with enhanced technology that will increase productivity through the support of electronic processing.

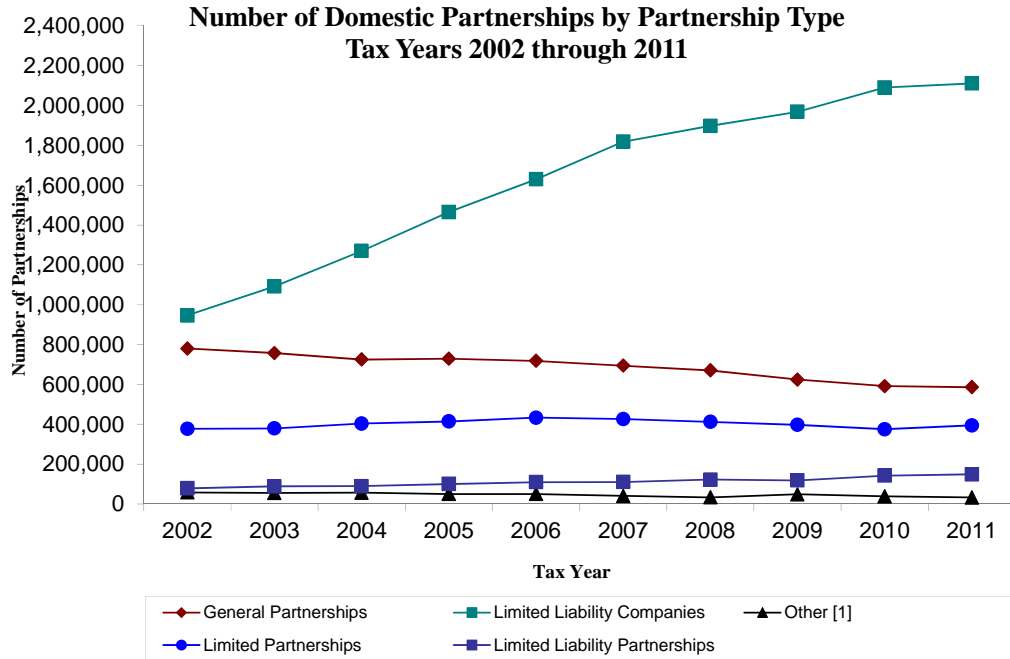
Position Type/Other Costs	FTE	Positions	\$ 000
Improve Identification and Coverage of Tiered Partnerships	###	161	\$21,453
Revenue Agent	104.25	139	19,536
Tax Examiner	3.00	4	245
Support Staff	9.75	13	905
Manager	3.75	5	767
Strengthen Enforcement Activities Related to TEFRA Workload	80.25	107	\$7,115
Revenue Agent	6.00	8	883
Tax Examiner	53.25	71	4,367
Tax Technician, Tax Compliance Officer	0.75	1	94
Support Staff	20.25	27	1,771
IT Projects	4.00	5	\$2,327
IT Specialist	4.00	5	615
Contractual Services			1,120
Hardware and Software			592
Other Direct Costs	###	52	\$5,644
Appeals Officer	15.75	21	2,283
Revenue Agent- Appeals	6.00	8	754
Tax Examiner- Appeals	3.75	5	349
Attorney	9.75	13	1,886
Paralegal	1.50	2	169
Support Staff- Counsel	2.25	3	203
Total	###	325	\$36,539

This initiative will produce additional annual enforcement revenue of \$267.8 million, once the new hires reach full potential in FY 2017, an ROI of \$6.8 to \$1.



Major Activities	Projected Revenue \$M	Closures
Improve Identification and Coverage of Tiered Partnerships	267.8	2,793
Total	\$267.8	2,793

There is a wide variety of business organizations operating in the United States and abroad with different filing requirements. These organizations include businesses, such as 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) 2013, approximately 3.7 million partnership returns were filed, an increase of 2.5 percent from CY 2010. This growth is projected to continue at an average rate of 2.4 percent per year, reaching 4.1 million returns filed by CY 2017.



[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.

The most significant factor affecting the growth in partnerships is the rise of limited liability companies (LLCs) filing as partnerships. Over the last 25 years, the number of pass-through LLCs rose from virtually zero to more than 600,000 in 2000, to more than 2.1 million by 2011. Total assets reported by these LLCs have grown from zero to \$7.8 trillion and their total income has grown from zero to \$2.7 trillion over the same period. This increase corresponds to an ongoing decline in the business activity of corporations, some of which has shifted to partnerships they control.

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 audit coverage of partnership returns.

Improve Identification and Coverage of Tiered Partnerships
(+\$21.5 million / +120.75 FTE)

This initiative funds additional revenue agents to be devoted to working partnership cases and, 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 tiered networks of partnership enterprises, it creates a significant challenge for the IRS to understand, recognize and address risk, and treat noncompliance.

The increased complexity associated with flow-through examinations requires a disproportionate amount of time and effort for a revenue agent to handle, even one who is sophisticated in tax matters. Complexity also provides an opportunity for taxpayers to 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 tiered partnerships will allow the IRS to:

- Enhance IRS-wide collaboration leading to efficiency and effectiveness in addressing compliance by tiered 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 tiered partnerships through issue-focused examinations by expert partnership examiners.

Strengthen Enforcement Activities Related to TEFRA Workload
(+\$7.1 million / +80.25 FTE)

TEFRA established unified audit rules applicable to all but certain small partnerships that meet the Small Partnership Exception. 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 by providing administrative assistance to the field examiners to identify the interrelated and tiered entities and provide notice requirements to investors within established timeframes.

IT Project (+\$2.3 million / +4 FTE)

- Examination Technology Enhancements

These resources will be dedicated to the replacement of the Partnership Control System (PCS), which 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.

Other Direct Costs (+\$5.6 million / +39 FTE)

Dollars in Millions

IRS Activity	Cost	FTE	Positions	Explanation
Appeals	\$3.4	25.50	34	Support examination efforts on key compliance areas focused on improving voluntary compliance.
Chief Counsel	\$2.2	13.50	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	\$5.6	39.00	52	

Expand Compliance Coverage in the Tax-Exempt Sector
 +\$16,095,000 / +119 FTE

Funding to Enhance Compliance Coverage in the Tax-Exempt Sector will help the IRS to continue focused oversight of the tax-exempt sector and improve service to make voluntary compliance easier. This initiative will:

- Enhance enforcement coverage of employee retirement plans, specifically those sponsored by small businesses, exempt organizations, and governments, which make up almost half of all retirement plans in the United States and control more than \$1.1 trillion in assets;
- Collect unrelated business income and employment taxes for exempt organizations, which GAO has estimated to be at almost \$1 billion in unpaid Federal taxes;
- Address the compliance of new exempt organizations with applicable tax laws by improving the service of the determination process, which is the IRS’s first compliance contact with these organizations;
- Detect potentially fraudulent claims for direct Federal credit payments from direct pay bonds, the payments of which are estimated to reach more than \$120 billion over the life of the bonds; and
- Provide voluntary correction opportunities for tax issues related to employment taxes and retirement plan failures.

Position Type/Other Costs	FTE	Positions	\$ 000
Expand Protection and Coverage of Small Business and Tax-Exempt	11.75	15	\$1,662
Revenue Agent	11.75	15	1,662
Address EO Noncompliance with UBI and ET	28.50	38	\$3,784
Revenue Agent	21.00	28	3,104
Tax Compliance Officer	7.50	10	680
Enhance Compliance by Applicants for Tax-Exempt Status	29.25	39	\$3,385
Revenue Agent	15.00	20	1,785
Tax Law Specialist	6.75	9	974
Support Staff	7.50	10	626
Ensure Direct Pay Bond Compliance	15.00	20	\$2,327
Revenue Agent	12.00	16	1,774
Tax Law Specialist	3.00	4	553
Strengthen Voluntary Compliance for Tax Exempt and Government Entities	29.25	39	\$4,014
Revenue Agent	11.25	15	1,641
Tax Technician	11.25	15	1,227
Tax Examiner	1.50	2	136
Tax Law Specialist	3.00	4	529
Attorney	2.25	3	481
Other Direct Costs	5.25	7	\$923
Appeals Officer	0.75	1	109
Attorney	4.50	6	814
Total	119.00	158	\$16,095

Major Activities	Additional Determination Applications Closed	Additional Voluntary Compliance Closures	Additional Returns Closed	Voluntary Correction Follow-up Exams
Expand Protection and Coverage of Small Business and Tax-Exempt Sponsored Plans			550	
Address EO Noncompliance with UBI and ET			1,145	
Enhance Compliance for Application for Tax-Exempt Status	5,800			
Ensure Direct Pay Bond Compliance		30	200	
Strengthen Voluntary Compliance for Tax Exempt and Government Entities		2,830		80
Total	5,800	2,860	1,895	80

Expand Protection and Coverage of Small Business and Tax-Exempt Sponsored Plans
(+\$1.6 million / +11.75 FTE)

Despite efforts over the last decade to educate small business and tax-exempt retirement plan sponsors and provide them opportunities to voluntarily correct plan failures, the noncompliance rate of retirement plans maintained by this sector remains high, more than 75 percent in the last few years. At the same time, the audit coverage rate for these types of plans is approximately one-fifth of that for plans sponsored by larger businesses.

Improving oversight of the retirement plan sector will serve to protect retirement plan assets and preserve plan participant benefits. This will be achieved by increasing the audit coverage of small business and tax-exempt entity-sponsored plans, which make up almost half of all retirement plans in the United States and hold more than \$1.1 trillion in assets. The additional revenue agents will support a 6 percent increase in audits, which is expected to result in an additional 550 examination closures annually and a 5 percent increase in overall enforcement coverage of retirement plans once the new hires reach the full performance level. Additional audit coverage of these plans is expected to yield a 30 percent increase in protected assets of small business and tax-exempt plans, from \$2 billion to \$2.6 billion by FY 2017. The IRS also will continue to balance this program by maintaining enforcement efforts of retirement plans for mid and large-size businesses and through continuing education, outreach, and self-correction programs.

Address Exempt Organization (EO) Noncompliance with Unrelated Business Income (UBI) and Employment Taxes (ET) (+\$3.8 million / +28.50 FTE)

While exempt organizations are exempt from income taxes for activities related to their exempt purposes, they are subject to many other taxes and related penalties if they fail to pay such taxes. The Government Accountability Office (GAO), in report GAO-07-1090T, *Thousands of Organizations Exempt from Federal Income Tax Owe Nearly \$1 Billion in Payroll and Other Taxes*, found that nearly 55,000 tax-exempt entities had almost \$1 billion in unpaid Federal taxes as of September 30, 2006. Of that amount, 71 percent consisted of payroll taxes and associated penalties dating as far back as the early 1980s. Approximately 10 percent of that amount consisted of unrelated business income, excise, and other types of taxes. The GAO found multiple instances in which exempt organizations diverted payroll taxes to fund operations or to pay hundreds of thousands of dollars in compensation to the organizations' top officials.

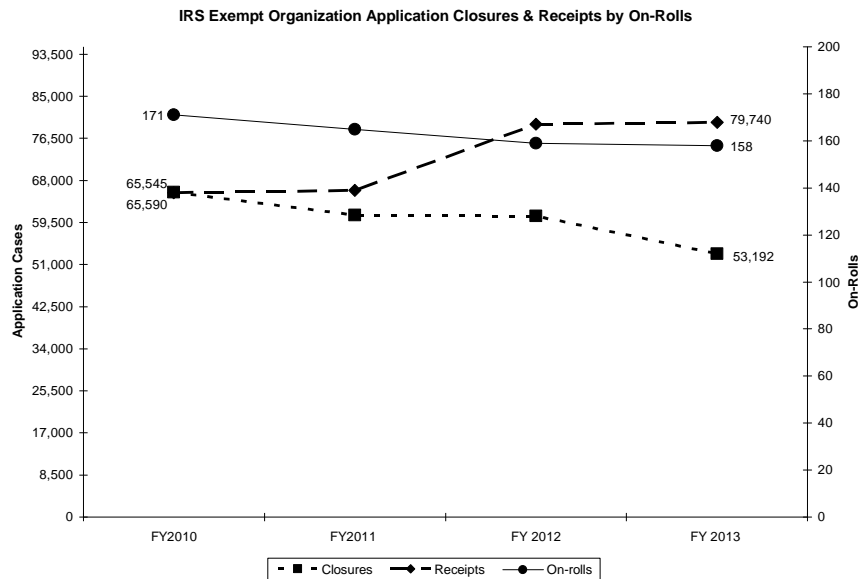
Currently, the IRS's enforcement efforts in the tax-exempt sector focus primarily on ensuring that exempt organizations follow the applicable laws and regulations to remain tax-exempt rather than on finding tax violations. This initiative funds additional staff to promote compliance and collect unpaid taxes for taxable activities by tax-exempt organizations. This will be achieved through a comprehensive program of face-to-face enforcement and remote compliance activities that address unreported and/or underreported employment taxes and unrelated business income taxes.

Without the requested resources, the IRS risks increased noncompliance with taxable activities in the exempt organizations sector, including the failure to secure substantial known revenues.

Enhance Compliance by Applicants for Tax-Exempt Status
 (+\$3.4 million / +29.25 FTE)

The determination process for organizations seeking tax-exempt status is the IRS’s first compliance contact with these entities. As such, it is a critical opportunity to ensure that these organizations are designed to safeguard future compliance and to detect and prevent potentially abusive schemes before they can manifest.

From FY 2010 to FY 2013, requests for tax-exempt status increased by 22 percent due in part to reapplications from organizations that had their tax-exempt status revoked as required by the Pension Protection Act of 2006 (Public Law 109-280). Meanwhile, the number of employees developing and closing these cases has decreased by 8 percent and the complexity and compliance risk of exempt organization applications has increased as more of these organizations operate like commercial entities (e.g., credit counseling, down payment assistance, and mortgage foreclosure assistance organizations).



These factors have led to:

- An increase in the open inventory of applications from over 15,500 in FY 2010 to over 53,000 in FY 2013;
- An increase in the average time it takes to complete an application from 104 days in FY 2010 to 222 days in FY 2013; and
- A 24 percent increase in the average time it takes to complete a complex application since FY 2007.

With these resources, the IRS will be able to promote the compliance of exempt organizations through the upfront regulatory determination process. These resources are expected to allow the IRS to close an additional 5,800 applications annually once the new hires reach their full

performance level and improve average processing times by 20 days. This will allow charitable resources to flow more quickly to where they are needed. In addition, taxpayers who make tax-deductible donations benefit from the assurance that their donations are going to a charitable organization recognized by the IRS as a tax-exempt organization. Without these resources, the exempt organization sector, and those who benefit from their services, will be adversely affected as the wait time for application closure increases.

Ensure Direct Pay Bond Compliance (+\$2.3 million / +15 FTE)

The American Recovery & Reinvestment Act of 2009 (ARRA) (Public Law 111-5) and the Hiring Incentives to Restore Employment Act of 2010 (HIRE) (Public Law 111-147) created several new types of tax-exempt bonds and tax-credit bonds under the Internal Revenue Code, known as direct pay bonds. These new bonds allow governmental issuers to elect a direct Federal credit payment equal to a percentage of the interest payments on these bonds, rather than treating the interest paid on the bonds as tax-exempt. Since the enactment of the ARRA and HIRE, the total amount of direct pay bonds issued grew from approximately 500 issuances, valued at \$37 billion in 2009, to more than 4,400 issuances, valued at more than \$157 billion in 2012.

The advent of direct pay bonds created new compliance risks because the issuers may opt to receive a direct Federal credit payment from the IRS equivalent to 35 percent or more of the interest costs of the bonds. In FY 2013, the IRS processed refundable credit requests of more than \$4.7 billion. Since inception of the program, nearly \$15.5 billion in direct Federal credit payments has been paid out and the IRS expects to pay more than \$4 billion annually through at least FY 2040. This creates additional risks to the IRS since the total amount of direct Federal credit payments may ultimately reach more than \$120 billion. Moreover, both the Administration and certain members of Congress have proposed new direct pay bonds legislation. If Congress enacts these or other new legislation, the value of direct Federal credit payments and the associated risks will continue to grow.

While the IRS has implemented pre-payment reviews for direct pay bonds, closing nearly 28,500 reviews through FY 2013, additional staff is critical to maintain post-issuance compliance coverage of the tax-exempt bond sector and to mitigate the high risks associated with direct pay bonds through their life cycle. With these resources, the IRS expects to:

- Continue to identify potentially unauthorized issuances of direct pay bonds;
- Conduct examinations as part of enforcement projects targeting identified trends of noncompliance; and
- Provide examination support to revenue officers performing pre-payment compliance reviews to ensure detection of potentially fraudulent claims for direct Federal credit payments.

The additional resources will allow the IRS to mitigate the risks of fraudulent direct Federal credit payments; assist the IRS in preventing, detecting, and remedying noncompliant direct pay bond transactions; and ensure that IRS enforcement and voluntary compliance programs keep pace with the projected growth of direct Federal credit payments of direct pay bonds.

Strengthen Voluntary Compliance for Tax Exempt and Government Entities
 (+\$4 million / +29.25 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 that 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 and improve compliance within retirement plans.

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; and
- 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).

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

Other Direct Costs (+\$0.9 million / +5.25 FTE)

Dollars in Millions

IRS Activity	Cost	FTE	Positions	Explanation
Appeals	\$0.1	0.75	1	Promote exam and compliance activities related to employee retirement plans, exempt organizations, and direct pay bonds.
Chief Counsel	\$0.8	4.50	6	Provide training, published guidance, and legal guidance to the IRS in addressing the ever more sophisticated taxable activities of exempt organizations, and to navigate potentially unexplored or undetected issues in the retirement plans of small businesses, exempt organizations and governments.
Total	\$0.9	5.25	7	

*Pursue Fraud Referrals, Employment Tax, and Abusive Tax Schemes
+\$17,812,000 / +52 FTE*

Funding to Pursue Fraud Referrals, Employment Tax, and Abusive Tax Schemes will enhance overall enforcement efforts, increase the number of convictions and assessments, and allow the IRS to apply social network analysis, also known as network analysis, to the investigation of fraud and abusive schemes. Network analysis is a powerful software tool being used by many law enforcement and other agencies to leverage data to detect illegal or other non-compliant behavior. By establishing and implementing a financial and criminal intelligence database, network analysis software will proactively identify potentially noncompliant taxpayers in multiple program areas by enabling the IRS to link multiple potentially abusive returns or information items together to identify the central figure behind a scheme versus applying resources to work individual returns one at a time. These resources will improve the sharing of information among IRS operating divisions, expand the IRS's capability to identify significant tax cases, increase cost savings, and standardize the fraud referral process.

Position Type/Other Costs	FTE	Positions	\$000
Fraud Referrals, Employment Tax & Tax Schemes	49.00	65	\$10,292
Special Agent	34.75	46	8,345
Investigative Analyst	7.50	10	814
IT Specialist	2.25	3	346
Manager	1.50	2	325
Support Staff	3.00	4	462
Network Analysis			\$7,158
Contractual Services			7,158
Other Direct Costs	3.00	4	\$362
Attorney	3.00	4	362
Total	52.00	69	\$17,812

Major Activities	Investigations Completed
Investigations	60
Total	60

Many core tax enforcement program areas, such as corporate fraud, employment tax, and abusive tax schemes, have become underserved in recent years due to the redirection of limited IRS resources to other areas, such as identity theft investigations, which increased by 660 percent between FY 2010 and FY 2013. During the same period, the amount of time devoted by investigators to these three areas declined by an average of 26 percent. In order to ensure that these areas do not become a major source of criminal activity and lost revenue, resources must be dedicated to reinforce the IRS's investigative efforts.

Fraud Referrals, Employment Tax, and Tax Schemes (+\$10.3 million / +49 FTE)

These additional resources will expand the IRS's capabilities in the following core tax enforcement areas:

- Corporate Fraud Program

This program concentrates on violations of the Internal Revenue Code and related statutes committed by large, publicly traded (or private) corporations and/or by their senior executives. These schemes are characterized by their scope, complexity, and the magnitude of their negative economic consequences for communities, employees, lenders, investors, and financial markets. Most corporate fraud investigations are joint

efforts involving many Federal agencies through partnership with the Department of Justice Financial Fraud Enforcement Task Force.

- Employment Tax Program

Employers are required by law to withhold employment taxes from their employees. Employment taxes include Federal income tax withholding, social security, and Medicare taxes.

This program investigates employers who may be subject to criminal and civil sanctions for willfully failing to pay employment taxes. Employees suffer in these situations because they may not qualify for Social Security, Medicare, or unemployment benefits when employers do not report or pay employment and unemployment taxes. The failure of these employers to properly remit withheld employment taxes increases the burden on compliant taxpayers whose taxes ultimately must cover these promised benefits.

- Abusive Tax Schemes Program

Abusive tax schemes have evolved from simple structuring of domestic and foreign trust arrangements into sophisticated strategies that take advantage of the financial secrecy laws of some foreign jurisdictions and the availability of credit/debit cards issued by offshore financial institutions. This program investigates these fraudulent domestic and foreign trust arrangements. One focus of the program is the identification and investigation of tax scheme promoters as well as those who facilitate abusive tax schemes (e.g., accountants, lawyers). The other, equally important focus is the investigation of investors who knowingly participate in abusive tax schemes.

Network Analysis (+\$7.1 million / 0 FTE)

To further efforts in these areas, the IRS will invest in a network analysis product, which will provide investigators with the capability to identify patterns of noncompliance and alleged criminal behavior through advanced data matching methods. Successful tests of network analysis have demonstrated the versatility of this technology to improve case selection by identifying networks as opposed to single cases. The benefit of identifying the network of related potentially abusive returns is the ability to identify the central point behind a scheme or related group of returns, such as in identity theft, which would enable the IRS address the central figure behind the scheme versus addressing individual returns one at a time. Specific features of network analysis include linking data from internal data sources and identifying networks, patterns, and characteristics that indicate noncompliant behavior. Examples of such data sources include filed returns; information reporting documents such as 1099s and K-1s; currency transaction reports; and return preparer data.

Network analysis software provides an opportunity for data-driven assessment of complex compliance issues. Investment in a permanent network analysis software tool can enhance issue detection, workload selection, and treatment options for some of the IRS's most challenging data problems, including identity theft.

Acquiring a network analysis tool will allow IRS operating divisions to be more effective and efficient in identifying compliance issues that are difficult and often impossible to detect with existing data matching processes. In 2011 and 2012 the IRS tested network analysis and determined that it can help the IRS to target issues better, for example, “ghost preparers”, employment tax, and education tax credit schemes. In addition, the IRS successfully matched identity theft cases to ghost preparer networks to test the potential for applying this technology to identity theft work. Network analysis demonstrated a superior data-driven alternative that can:

- Identify and more precisely classify case workload;
- Increase case selection rates;
- Estimate the potential dollars per tax return;
- Provide compliance staff with detailed information reporting documents; and
- Identify geographically driven issues.

Other Direct Costs (+\$0.4 million / +3 FTE)

Dollars in Millions

IRS Activity	Cost	FTE	Positions	Explanation
Chief Counsel	\$0.4	3	4	Provide legal guidance throughout the course of investigations, evaluate successful prosecutions, and work with the Department of Justice during criminal trials.
Total	\$0.4	3	4	

Build Out Tax Return Preparer Compliance and Professional Responsibility Activities
 +\$17,537,000 / +106 FTE

Funding to Build Out Tax Return Preparer Compliance and Professional Responsibility Activities will improve taxpayer compliance and the accuracy of returns filed by tax professionals and foster a stakeholder-driven culture that encourages voluntary compliance. With this request, the IRS will seek to ensure that tax preparers meet uniformly high ethical standards of conduct by enforcing preparer compliance with applicable IRS rules, increasing preparer examinations, and monitoring and pursuing

Position Type/Other Costs	FTE	Positions	\$ 000
Enforce Tax Return Preparer Compliance	59.50	79	\$8,906
Revenue Agent	45.25	60	7,413
Revenue Officer	1.50	2	182
Tax Examiner	4.50	6	368
Tax Compliance Officer	3.00	4	340
Attorney	0.75	1	153
Program Analyst	0.75	1	118
Support Staff	3.75	5	332
Pursue Tax Return Preparer Fraudulent Activity	18.75	25	\$4,436
Special Agent	18.00	24	4,354
Program Analyst	0.75	1	82
Ensure Ethical Standards of Conduct for Practitioners	27.75	37	\$3,896
Attorney	8.25	11	1,640
Paralegal	4.50	6	441
Program Analyst	15.00	20	1,815
Technology Enhancements			\$299
Contractual Services			299
Total	106.00	141	\$17,537

preparers engaged in fraudulent activities, including noncompliant Earned Income Tax Credit (EITC) return preparers. This initiative also provides resources for the IRS’s Office of Professional Responsibility (OPR) to conduct oversight of return preparers who represent taxpayers and are subject to Circular 230, *Regulations Governing Practice Before the Internal Revenue Service* (C230). This initiative is core to the IRS’s strategy to reduce the tax gap and will improve the IRS’s ability to deliver high-priority, preparer-related enforcement activities.

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 activities across IRS enforcement functions;
- 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		31
Total	2,000	31

Enforce Tax Return Preparer Compliance (+\$9 million / +59.50 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 will 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 include field visits by revenue agents and CI special agents to returns preparers with compliance-related concerns and dedicated reviews of the returns of the clients of those preparers to determine whether those clients owe additional taxes and whether it is appropriate to assert penalties. Providing adequate resources will ensure that these activities can be conducted without pulling resources from other high-value compliance activities.

Pursue Tax Return Preparer Fraudulent Activity (+\$4.4 million / +18.75 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 with the practitioner community to educate them on their legal responsibilities and develop leads on unscrupulous return preparers 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.

Ensure Ethical Standards of Conduct for Practitioners (+\$3.9 million / +27.75 FTE)

The population of those who are subject to the ethical standards contained in C230 will be expanding to include unlicensed tax return preparers who represent taxpayers in disputes involving returns and claims for refund which they prepared or signed, and others who represent taxpayers in tax collection matters. The nature of the cases being handled by OPR has evolved over the past five years from being primarily focused on a practitioner's own tax non-compliance (85 percent in 2009) to being primarily focused on complex practitioner conduct which violates substantive provisions in C230 involving due diligence, false and misleading information given to IRS personnel, conflicts of interest, advising conduct in violation of tax laws, and false and misleading advertising (71 percent in 2013).

These complex conduct cases, by their nature, require more extensive development, involve more sophisticated settlement negotiations and are more apt to result in commencement of an administrative proceeding before an Administrative Law Judge. Recent experience also suggests that the tax community is misinterpreting the recent *Loving v. Commissioner* decisions such that individuals are more apt to push the proceedings into litigation in lieu of settlement.

OPR estimates that the number of cases requiring litigation could triple over the next two years in line with OPR's expanded jurisdiction. The additional staffing will handle these complex conduct cases and the associated appeals, conferences, allegations, negotiations, and administrative hearing preparation, briefing and, when necessary, appeals of Administrative Law Judge decisions.

In addition, the increased staffing will handle:

- Anticipated increases in referrals of practitioner misconduct;
- Due process conferences;
- The new Appellate Authority functions delegated to OPR with respect to appeals from Return Preparer Office (RPO) determinations by C230 practitioners regarding compliance and suitability in the Preparer Tax Identification Number (PTIN) registration process; and
- Alleged violations of C230 standards by tax debt resolution companies that assist taxpayers with negotiations to abate penalties, enter into installment agreements, and compromise an assessed federal tax liability.

In addition, new field office locations will provide improved access for practitioners who desire an in-person conference within their geographical region. Currently, all practitioners must travel to Washington, D.C. to be afforded their right to an in-person conference. Satellite offices will allow employees to handle disciplinary case conferences and related negotiations at three satellite offices strategically located across the country.

Technology Expansion (+\$0.3 million / 0 FTE)

- Technology

E-TRAK Case and Correspondence Management System (CCMS) is the application utilized by OPR to input referrals, manage resulting cases, and produce management information reports. Currently, OPR's interactions with the IRS Return Preparer Office (RPO) and Centralized Authorization File (CAF) unit rely on a manual process including: PTIN application/renewal denials and revocations; Enrolled Agent enrollment/renewal disputes; Continuing Education Provider disputes; and notifications to/from the CAF unit when a practitioner is suspended/disbarred or rendered ineligible to practice.

OPR requires an interface from CCMS to RPO's 360 database, currently in the design phase. Interfacing CCMS with the 360 database will allow OPR research capability and the ability to exchange referrals and other pertinent information electronically, to include the revocation of PTINs and resulting CAF notifications.

Video Conference Capability

C230 provides due process throughout the disciplinary process. Due process protections include a practitioner's right to a notice of the allegation(s) and an opportunity for a conference with OPR. To reduce travel costs and enhance the ability to provide due process

remotely, OPR is seeking resources for video conferencing capability to conduct mandatory disciplinary conferences.

Other Direct Costs

There are no other direct costs associated with this initiative.

Implement Information Technology (IT) Changes to Deliver the Foreign Account Tax Compliance Act (FATCA)
 +\$32,223,000 / +140 FTE

This initiative is a multi-year project to address foreign withholding compliance and expand coverage of international tax return filings by providing the

Position Type/Other Costs	FTE	Positions	\$000
Implement IT Changes to Deliver Foreign Account Tax Compliance Act (FATCA)	140.00	140	\$32,223
IT Specialist	140.00	140	21,499
Contractual Services			10,724
Total	140.00	140	\$32,223

resources for IRS to implement the information technology (IT) changes required by enactment of FATCA included in the Hiring Incentives to Restore Employment (HIRE) Act of 2010 (Public Law 111-147). Many of these changes involve new technology systems or modifications to existing systems. 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 creates new information reporting requirements and imposes tax-withholding obligations 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 the information systems needed to support the enforcement of these reporting requirements.

FATCA 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 IRS will compile data and reports that will provide more complete background information during the initial set up of related audit case files. Further, funding for FATCA will help the IRS address potential under withholding of U.S. source income flowing to undisclosed jurisdictions and unknown recipients offshore.

The following IT projects support the delivery of FATCA:

- *FFI Registration* allows FFIs to electronically register and sign agreements with the IRS to report on their US-held accounts as specified by FATCA;
- *International Data Exchange Service (IDES)* receives Form 8966, *FATCA Report*, and Form 1042-S/T, *Annual Withholding Tax Return for U.S. Source Income of Foreign Persons*, input from FFIs through Intergovernmental Agreements and transmits forms in XML format to the Integrated Compliance Management Model (ICMM);
- *Integrated Compliance Management Model (ICMM)* receives, processes, stores, and manages FATCA data received from various sources and creates reports to conduct data analytics for future document matching and compliance activities;

- *Refund Processing and Fraud Detection* supports the development of processes to validate and issue refund payments against withheld taxes, and to identify and prevent refund fraud;
- *Compliance Solution* supports development and implementation of strategies to use FATCA data, taxpayer filings, and third party data to identify and treat noncompliance on the part of U.S. taxpayers, participating foreign financial institutions (PFFIs)/Host Country Tax Authorities (HCTAs), US withholding agents, and taxpayers requesting refunds;
- *Withholding Payment Processing (WPP)* supports the development of processes to collect withholding payments and associated reporting from US withholding agents and PFFIs as required under FATCA legislative mandates; and
- *Taxpayer Reporting* captures data to facilitate the usage of FATCA data and taxpayer filings (Form 8938, *Statement of Specified Foreign Financial Assets*, FinCen Report 114 (formerly TD F 90-22.1), *Report of Foreign Bank and Financial Accounts* (FBAR), and others) in compliance workload identification, return selection, and execution of examinations by resolving problems encountered during filing season and enabling transcription of Form 8938 data.

This initiative will fund investments in building and maintaining the technology necessary to deliver FATCA. These automated tools will reduce the response time needed to identify and resolve abusive tax-avoidance issues, provide unprecedented visibility into international tax compliance risks, and meet the legal and reporting requirements prescribed by the HIRE Act of 2010.

Other Direct Costs

There are no other direct costs associated with this initiative.

Leverage Digital Evidence for Criminal Investigation (CI)
 +\$4,372,000 / +6 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	Positions	\$000
Leverage Digital Evidence for CI	6.00	8	\$4,372
Special Agent	5.00	7	809
IT Specialist	1.00	1	124
Rent, Communications and Utilities			3,143
Contractual Services			296
Total	6.00	8	\$4,372

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 2015 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.

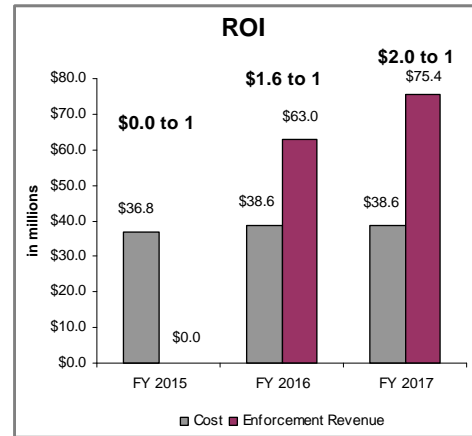
Leverage Data to Improve Case Selection
 +\$36,793,000 / +46 FTE

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.

Position Type/Other Costs	FTE	Positions	\$000
Improve Data Availability	25.50	35	\$10,881
IT Specialist	25.50	35	4,491
Returns			1,612
E-file Data Interface for CDE			4,778
Design and Pilot New Ways to Identify & Prioritize Cases	9.25	13	\$9,601
Analyst	7.00	10	1,198
Hardware & Software Acquisition	2.25	3	5,403
Contractual Services			3,000
Optimize Case Selection and Assignment to Appropriate Treatment Streams	11.25	15	\$16,311
IT Specialist	11.25	15	4,311
Hardware & Software Acquisition			6,500
Contractual Services			5,500
Total	46.00	63	\$36,793

This initiative will:

- 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 \$75.4 million in FY 2017, a revenue enhancing ROI of \$2 to \$1.

Improve Data Availability (+\$10.9 million / +25.50 FTE)

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

- Enhance Electronic Data Capture on Residual Paper Returns

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

- Expand the Compliance Data Environment (CDE) and the Modernized Taxpayer Return Database (MTRDB)

This initiative will expand CDE and 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.

- 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.

Design and Pilot New Ways to Identify and Prioritize Cases
(+\$9.6 million / +9.25 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
(+\$16.3 million / +11.25 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 to identify cases in production.

Other Direct Costs

There are no other direct costs associated with this initiative.

Implement Information Technology (IT) Changes to Deliver Tax Credits and Other Requirements
 +\$305,645,000 / +818 FTE

Funding to Implement Information Technology (IT) Changes to Deliver Tax Credits and Other Requirements will allow the IRS to continue to implement the new tax law provisions

Position Type/Other Costs	FTE	Positions	\$000
Implement IT Changes to Deliver Tax Credits and Other Requirements	818.00	818	\$305,645
IT Specialists	818.00	818	114,999
Contractual Services			190,646
Total	818.00	818	\$305,645

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 more than 45 specific tax provisions and numerous cross-agency sections related to tax administration. This investment supports the administration of one of the largest refundable tax credits the IRS has administered, the premium tax credit. The investment touches all submission, fraud, and compliance tax administration processes to receive, validate, and handle individual and business tax returns. Funding this investment will provide enhanced technology infrastructure and applications support and allow necessary major modifications to existing IRS tax administration systems.

The IRS IT organization uses industry best practices to design, develop, deploy, and manage ACA systems. The IRS developed a multi-year release strategy to support multiple concurrent releases. Some of these releases are operational and in production, while others are in various stages of development and are scheduled for implementation over the next several years. These releases include new technology implementation as well as modifications to the current production environment.

The IRS supported a pivotal component of the legislation when the health insurance Marketplaces opened on October 1, 2013. The IRS IT organization put in place hardware and software infrastructure, a new database, and applications to provide two completely new data service systems: Income and Family Size Verification and the Advance Premium Tax Credit Computation. This was a major achievement for the organization because it provides the capability to process and provide responses within seconds of receiving the requests. The enhanced performance and efficiency of these systems provides noteworthy value to the citizen when purchasing health insurance through the Federal and State exchanges (Marketplaces).

A major focus for the IRS going forward is the task of incorporating the administration and reconciliation of the premium tax credit into the individual tax filing processes and systems. IRS's strategic emphasis will include the introduction of new forms, receipt of new third party data, and data verification that will enhance fraud prevention efforts. This will leverage collected and stored data in 2014 as it is received from the Marketplaces. The IRS will facilitate prompt and accurate delivery of the premium tax credit to eligible taxpayers while protecting against erroneous and potentially fraudulent tax credit claims.

To continue supporting implementation of this critical legislation, the IT organization will design, build, and implement systems infrastructure; design, develop, and implement new IT systems and applications; implement security requirements and accreditation processes; test

and evaluate applications; modify numerous existing systems; operate integration components; build alternate production site capabilities; and maintain systems in operations and maintenance mode once production activities are complete.

Funding this IT initiative will support and ensure implementation of the following business capabilities:

- Premium tax credit claimed on individual tax returns filed in 2015;
- Penalties related to individual and employer responsibility provisions;
- Insurance Provider and Branded Prescription Drug Fees;
- Reporting requirements for Marketplaces, certain large employers, and insurance issuers; and
- Federal tax information provided to non-IRS entities.

Vital components of the investment include:

- Implementing new technology and modifying existing IT systems and infrastructure components to process tax returns claiming premium tax credits, reconcile advance payments, conduct consistency checks, and calculate estimated penalties and payments;
- Implementing new technology and maintaining IT systems and infrastructure to receive and process new forms and schedules or information reports from Marketplaces, insurance providers, and employers;
- Implementing new technology and modifying existing compliance systems to detect potential fraud and noncompliance activities associated with the refundable credits;
- Maintaining and expanding repositories that store data about household-level income to help determine eligibility for and reconciliation of the premium tax credit, and collecting and storing additional data, including periodic data received from the Federal and State exchanges that will be used to validate individual claims for the premium tax credit and ACA-related information returns data;
- Preparing IT systems to support the annual open enrollment and ongoing exchange eligibility process for financial assistance by providing income and family size information from recent tax returns;
- Modifying and updating tax account systems to assess and collect penalties and fees, such as the individual and employer responsibility payments; and
- Expanding tax account and case management systems to facilitate responding to taxpayer inquiries.

This initiative will fund significant revisions to existing tax administration systems and invest in building, maintaining, and operating the new infrastructure and applications technology needed to continue implementation of the tax law provisions contained in the ACA.

Other Direct Costs

There are no other direct costs associated with the initiative.

Implement Information Technology (IT) Services
 +\$10,000,000 / 0 FTE

Funding for Implement Information Technology (IT) Services will allow the IRS to continue to implement industry best practices to shape the future of IT development and ongoing operational support to provide a more robust foundation for expanding IT capabilities in the future.

Position Type/Other Costs	FTE	Positions	\$000
IT-wide Change Management			\$1,300
Contractual Services			1,300
End-to-End Monitoring			\$6,700
Contractual Services			5,400
Hardware & Software			1,060
Travel			240
Implementation of a Linux Operating System			\$2,000
Hardware & Software			2,000
Total			\$10,000

This initiative will provide resources for the IRS to implement two industry best practices for managing change and monitoring its complex computer environment and to convert its operating system to a less complex standard that decreases the need for hardware. This includes funding for three efforts: IT-wide change management, End-to-End monitoring, and the implementation of a Linux operating system. These investments will result in a more stable computing environment and reduced downtime to taxpayers.

IT-wide Change Management (+\$1.3 million / 0 FTE)

The objective of IT-wide change management is to ensure the use of standardized methods and procedures for efficient and prompt handling of all changes and alterations to computers, network components, and applications. Change Management is the process responsible for controlling the lifecycle of all IT changes and allowing beneficial changes to be made with minimal disruption to IT services. Change Management encompasses the transition of a change or new product from development/acquisition, through deployment, into the production environment, and culminates with end-of-life.

This initiative funds contractor services to configure a new, centralized IT-wide Change Management system installed to support this change process and to plan the transition of all IT organizations to this new system.

Change Management is a critical step toward providing world class IT services and will provide the following benefits:

- Reduce infrastructure and operation costs;
- Address TIGTA Audit 2006-30-003 Corrective Action 1.2.1 to *Implement an Enterprise-Wide Standard Configuration Management System by December 2010*;
- Reduce the risk of changes to all IRS environments (changes will be input once and visible to all IT organizations);
- Allow for the proper review and approval at the appropriate level;
- Improve stability and control over IT operations by having one IT-wide Change Management system that allows changes to be seen and assessed by all IT organizations;

- Allow for the retirement of several legacy Change Management systems;
- Improve customer experience and operation efficiency by having one consolidated system for all input; and
- Have one system managing, tracking, and reporting on all change-related metrics.

End-to-End Monitoring (+\$6.7 million / 0 FTE)

End-to-End monitoring allows the IRS to actively measure and monitor all infrastructure and application components that support a given IT service request. The program encompasses the entire process—from the time a user "presses enter" through the local LAN, to the server/mainframe, through the application, and back again—to ensure a quality user experience. The program will allow true End-to-End availability of services across IT.

End-to-End monitoring is an operational requirement for IT initiatives and is accomplished using servers running Commercial Off-The-Shelf (COTS) software that is heavily dependent on contractor services. This request will fund hardware, software, and contractor support.

Adopting End-to-End monitoring will allow IRS employees to identify and correct IT system issues immediately and reduce the scope of contractor support for problem assessment and correction.

Benefits of End-to-End:

- Anticipate outages before they occur, develop strategies to improve availability, and deploy infrastructure and application enhancements to maintain availability;
- Monitor the availability of service from end to end;
- Monitor systems and processes critical for a successful filing season; and
- Identify issues and problems quickly, enabling immediate action to resolve the problem before the customer is affected.

Implementation of the Linux Operating System (+\$2 million / 0 FTE)

The IRS is migrating applications from a legacy platform to an open source environment hosted on Enterprise Linux Infrastructure (ELI). This initiative will allow the IRS to:

- Standardize server configurations;
- Reduce software licensing and hardware costs;
- Provide a fully-featured, enterprise-strength operating system solution;
- Provide higher levels of performance and responsiveness;
- Improve security standards;
- Improve system support while reducing support costs; and
- Position the IRS to transition to a private or hybrid Cloud infrastructure.

In FY 2012 and FY 2013, the IRS allocated funding for this project and established an ELI in Martinsburg and Memphis. Capacity is managed using a supply/demand model based on a rolling, quarterly server demand forecast. The model forecasts significant additional capacity requirements through FY 2015 and beyond.

The ELI is a virtualized host infrastructure of HP servers that are more cost effective than the IRS's existing Oracle/Solaris servers. Additional investment in Linux operating system standardization and migration from Solaris to Linux will:

- Reduce projected server hardware costs by approximately \$25 million through FY 2020;
- Support provisioning of an additional 300 standardized virtual servers on the Linux platform;
- Support migration of 52 identified Solaris applications to the more cost effective Linux virtual platform;
- Retire and remove approximately 200 physical Solaris servers; and
- Provide an environment that is expandable in the future.

Other Direct Costs

There are no other direct costs associated with this initiative.

Implement Campus Consolidation and Revitalization Strategy
 +\$10,000,000 / 0 FTE

Funding for Implement Campus Consolidation and Revitalization Strategy will provide resources to fund lease consolidation in Atlanta, Georgia, and complete a preliminary design of a new, modernized submission processing facility at the IRS campus in Covington, Kentucky. In addition, the IRS requests funding for the Graphic Data Interface (GDI) system to enhance the IRS facilities management decision support.

Position Type/Other Costs	FTE	Positions	\$000
Consolidate and Modernize IRS Campuses			\$9,574
Space Renovation			9,574
IT Project			\$426
Graphic Data Interface Module			426
Total			\$10,000

Consolidate and Modernize IRS Campuses (+\$9.6 million / 0 FTE)

Based on the results of a thorough Net Present Value (NPV) analysis of all of the viable options for each campus location, this initiative requests resources to fund:

- Atlanta, Georgia Campus Consolidation

The IRS plans to replace the Atlanta campus main building with a new market lease building (versus build-to-suit); and then consolidate off-site functions into this new building, generating the lowest 30-year NPV. This will allow the IRS to achieve operational efficiencies resulting from the elimination of duplicate support spaces (space reduction), reduce overhead and operating costs, and decrease multiple building lease costs.

- Covington, Kentucky Preliminary Architecture & Engineering (A&E) Work

The IRS requests resources to complete a preliminary design of a new submission processing facility at the IRS campus in Covington, Kentucky. The lowest cost to the Government for the aging Covington submission processing building is to build a new facility in the vicinity of the existing building. The requested funds will provide A&E design support for the IRS customization requirements needed to accommodate submission processing operational needs.

IT Project - Graphic Data Interface (GDI) Module (+\$0.4 million / 0 FTE)

The IRS requests resources for the GDI system to enhance facilities management decision support capability. The purchase of a corporate asset management model will allow the IRS to maximize asset performance by analyzing and managing their interdependencies on operational, tactical, and strategic levels. The GDI system will allow the IRS to gain long-term efficiency by avoiding overall higher costs by computing on a NPV basis instead of a least (annual) cost up-front basis.

Other Direct Costs

There are no other direct costs associated with this initiative.

Implement eGovernment and Other Administration Priorities
 +\$31,011,000 / +19 FTE

Funding to Implement eGovernment and Other Administration Priorities will allow the IRS to maximize the effectiveness and efficiency of the procurement consolidation of the IRS Office of Procurement, Treasury Departmental Offices (DO), and the Bureau of Engraving and Printing (BEP) by investing in an external interface for the IRS Integrated Procurement System (IPS) and to protect IRS employees, facilities, operations, and information. These departmental priorities will:

Position Type/Other Costs	FTE	Positions	\$000
Implement Procurement Consolidation	4.75	6	\$6,209
IT Specialist	4.75	6	737
Contractual Services			5,009
Hardware & Software			463
Improve Security at IRS Facilities	14.25	19	\$24,802
IT Specialist	14.25	19	2,580
IT Contractual Labor			12,520
AR Software & Hardware			7,202
Leasehold Improvement			2,500
Total	19.00	25	\$31,011

- Reduce IPS operations and maintenance costs and realize efficiencies by integrating financial systems;
- Provide operations and maintenance resources for the Enterprise Physical Access Control System (ePACs) and expedite the deployment schedule; and
- Implement countermeasures for security risks identified during the FY 2010 Facility Risk Assessment.

Implement Procurement Consolidation
 (+\$6.2 million / +4.75 FTE)

In FY 2013 the IRS Office of Procurement assumed management responsibilities for all procurement activities for DO and the BEP, including contracts, orders, and interagency agreements. To maximize the effectiveness of this consolidation, the IRS requests resources to support the design, development, and implementation of an external interface between the IRS procurement and financial systems (IPS/Integrated Financial System (IFS) and Treasury’s Oracle Financials and the BEP Contract Life Management (CLM) System) simultaneously.

Currently, the IRS Office of Procurement staff must use three procurement systems. This interface is critical because it will allow IPS to access all three systems through a bi-directional web service interface. This investment will:

- Increase efficiency by allowing the IRS to better manage manpower across organizations;
- Reduce risks to data integrity by eliminating manual data entry of contractual actions completed in the DO Procurement Requests Information Systems Management (PRISM) and the BEP’s CLM system and then manually re-entered into IRS’s IPS system;
- Standardize reporting across Treasury and the IRS to better track open commitments, awarded obligations, and other contractual modifications;

- Allow Oracle Financial Tool Discoverer system to produce one active contract list for all three systems, which will improve acquisition planning and decrease risk of critical contract lapses;
- Allow PRISM and CLM to take advantage of IPS' clause generating capabilities, which will increase efficiency and improve compliance with mandatory clauses;
- Improve the training and user information available;
- Reduce licensing costs for multiple procurement systems and training costs, since staff will only have to be trained on a single system rather than across multiple systems; and
- Increase strategic sourcing opportunities across all IRS customers.

Improve Security at IRS Facilities (+\$24.8 million / +14.25 FTE)

This initiative requests resources to replace outdated security systems and implement solutions to vulnerabilities in IRS facilities.

- Enterprise Physical Access Control System (ePACs)

The IRS is requesting \$22.3 million and 14.25 FTE to update the ePACs. ePACs is critical to the IRS's ability to monitor and protect resources and support life safety activity for the public, employees, and contractors. The IRS legacy PAC systems originate from forty different vendors in multiple versions of hardware and software per vendor. All systems use retired operating systems, hardware, and PAC application software versions. The IRS has a growing list of systems that have totally failed. Some PAC application vendors have gone out of business. The IRS surveillance equipment also has reached the end of life and has serious performance issues. Existing Digital Video Recorders (DVR) lack the robustness and sophistication for integration with a modern access control system. Some of the most critical systems store video on VHS Tape, a retired technology. All systems are characterized as Federal Information Security Management Act (FISMA) non-compliant.

The IRS has updated 115 of 491 IRS facilities to the ePACs. The ePACs is a modern access control and surveillance system. The ePACs expansion is projected for completion in mid-FY 2022, but without sufficient resources the progress in replacing outdated legacy PAC systems has slowed and the IRS's ability to continue planned site upgrades is at risk.

- Implement Security Countermeasures

The IRS is also requesting \$2.5 million to implement security recommendations developed in response to the FY 2010 Facility Risk Assessment. These recommendations were made to mitigate the vulnerabilities identified in the Assessment and align security resources with updated facility risk levels.

These resources will provide for the purchase, implementation, and installation of countermeasures such as:

- Entry Control – Ensures the safety and security of IRS employees and assets;
- Intrusion Detection Systems – Detects criminal acts;
- Screening Equipment – Enables controlled access to specific areas of the facility;
- Barriers – Deters persons from engaging in criminal activities;
- Alarms – Provides security against loss from fire or mechanical failure; and
- Cameras at sites Nationwide – Reduces emergency situations involving the safety and security of the building.

Other Direct Costs

There are no other direct costs associated with this initiative.

Maintain Integrity of Revenue Financial Systems
 +\$12,136,000 / +8 FTE

Funding to Maintain Integrity of Revenue Financial Systems will support and improve the IRS's revenue financial accounting

Position Type/Other Costs	FTE	Positions	\$000
Maintain Integrity of Revenue Financial Systems	8.00	10	\$12,136
Program Analyst	8.00	10	981
Contractual Services			11,155
Total	8.00	10	\$12,136

systems to ensure timely and accurate reporting of tax data. The revenue financial and accounting systems include the general ledger, which is required to reconcile and report to the Department of the Treasury (Treasury) on \$2.9 trillion in revenue before refunds and \$364 billion in individual and business tax refunds in FY 2013; produce the annual audited financial statements; and perform other operational and financial reporting on unpaid tax assessments currently identified by GAO as a material weakness.

The current revenue financial system does not use commercial software and the IRS is reliant on internal funding to maintain its legacy system. This initiative will allow the IRS to make the necessary system and programming changes required to comply with Office of Management and Budget (OMB) and Treasury mandates, and to stay current with internal changes made to the IRS's tax processing systems for tax administration that also affect financial reporting. The investment plan includes funding to:

- Eliminate manual work-around processes;
- Make changes to ensure that the IRS's revenue financial systems comply with accounting and system requirements;
- Merge multiple financial systems into one repository to ensure the integrity of the IRS's financial data needed to improve analyses and reporting to address the long-standing GAO-reported material weakness related to unpaid tax assessments;
- Develop financial system requirements to ensure accurate accounting and reporting for both the operational and financial transactions recorded in the tax systems;
- Reduce or eliminate the need to support and maintain several separate systems supporting operational decision-making and the financial audit; and
- Allow the IRS to implement all required system changes resulting from accounting events when changes are made in the tax processing systems (master files) for key initiatives, including the Affordable Care Act (Public Law 111-148), CADE 2, identity theft, Automated Trust Fund Recovery Penalty, and foreign tax compliance (Foreign Account Tax Compliance Act (Public Law 111-147)).

Development of the new systems also will reduce or eliminate the need to support and maintain several separate systems supporting operational decision-making and the financial audit.

Other Direct Costs

There are no other direct costs associated with this initiative.

Expand Virtual Service Delivery (VSD)
 +\$7,701,000 / +13 FTE

Funding to Expand Virtual Services Delivery (VSD) will develop a unified communication platform through the internet to facilitate contact between IRS employees and taxpayers. VSD technology provides an alternative to face-to-face for taxpayers who are:

Position Type/Other Costs	FTE	Positions	\$000
Virtual Service Delivery - Taxpayer Digital Communication (VSD-TDC)	13.00	18	\$7,701
IT Specialist	13.00	18	2,229
Contractual Services			922
Hardware & Software			4,550
Total	13.00	18	\$7,701

- Undergoing an examination audit;
- Interacting with Appeals to resolve their tax issues without litigation;
- Needing assistance from the Taxpayer Advocate Service to solve their tax problems;
- Victims of identity theft; or
- Living outside of the United States.

Taxpayer Digital Communications (TDC) will create a secure, web-based, digital communications channel via secure online messaging that will lead to greater IRS efficiencies and improved taxpayer satisfaction.

TDC will include an online, web-based, secure message portal, allowing taxpayers and the IRS to communicate directly via secure messages. It is envisioned to be a one-hundred percent web-based solution only requiring a web-enabled device and an internet connection. The solution provides the ability for the IRS and taxpayers to send digital documents and both one-way and two-way secure messages, and it involves minimal integration with IRS systems. TDC is an iterative process and future expansions will include live chat, video meeting and co-browsing.

TDC paves the way for allowing taxpayers direct interaction on difficult tax-related issues while they are at work or at home, or using their mobile device. TDC will improve taxpayer service and compliance through faster, more efficient taxpayer interactions while providing necessary privacy and security.

The IRS will achieve significant savings through decreased calls and walk-ins while taxpayers will experience a greater level of service, consistent with their expectations when dealing with other online transactions.

The use of this technology is expected to save a considerable amount of time and travel costs for employees and taxpayers and will enhance the taxpayer experience in the following areas:

- Virtual Taxpayer Assistance Centers (TACs)

Some IRS 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. Use of online VSD technology will provide an alternative to “live” face-to-face service, expand availability of service to taxpayers, and maximize IRS resources.

- Virtual Taxpayer Advocate Service (TAS) Sites

TAS currently maintains 65 geographic locations nationwide for face-to-face interaction with taxpayers and taxpayer representatives, as well as 10 campus locations. 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. Use of online VSD technology will allow TAS to establish virtual sites to support the National Taxpayer Advocate’s goal of increasing taxpayer opportunities for face-to-face service options.

- Virtual Appeals Hearings

Appeals’ mission (to resolve tax controversies without litigation) frequently requires direct interaction with taxpayers through correspondence, telephone, and face-to-face meetings (often referred to as Appeals Hearings). In the past, when taxpayers dealing with Appeals Campus personnel requested face-to-face interaction, Appeals was required to transfer the case to a Field Appeals office, thus delaying the resolution of the matter and incurring shipping and transportation costs if the taxpayer did not reside close to an Appeals office. The use of VSD online capabilities will allow Appeals to resolve taxpayer tax issues in a more timely manner while saving travel and mailing costs.

- Virtual Tax Examinations

The IRS also is exploring the use of online VSD technology in the tax examination process. To ensure the success of virtually delivered audits, the IRS will need 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.

Other Direct Costs

There are no other direct costs associated with this initiative.

Continue Migration from Aging Tax Administration Systems - Enhance Online Services
 +\$16,508,000 / +41 FTE

The IRS is requesting an increase of \$16.5 million and 41 FTE (\$829,000 is funded in the Operations Support appropriation to fund corporate costs related to the new hires) to fund the development of online services projects.

The FY 2015 Business Systems Modernization (BSM) request will allow the IRS to expand the capabilities of CADE 2 relational database and address financial material weaknesses, and to complete the design, development, and testing of the Form 1040X, *Amended U.S. Individual Income Tax Return*, so IRS processing systems can accept the form electronically. Beginning in 2014 and continuing in 2015, the Return Review Program (RRP) and development of online services projects will be part of the BSM program.

The FY 2015 BSM request of \$330.2 million and 528 FTE will allow the IRS to continue the modernization of critical information technology systems that support the nation's revenue base. These resources will fund the projects listed in the table below:

FY 2015 BSM Project Activities

Dollars in Thousands

Business Systems Modernization	FY 2013 Enacted	FY 2014 Enacted	FY 2015 President's Budget Request
CADE 2 (Taxpayer Account Database) 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.	116,250	119,000	124,300
Enhance Online Services Lead the IRS transition to the future digital government and define the long-term vision. Provide an enhanced taxpayer experience, a broad range of self-service and innovative options, build internal capability, and strengthen the operating model.	0	10,000	16,829
Return Review Program Provide leading-edge technologies to advance IRS effectiveness in detecting, addressing, and preventing tax refund fraud and protecting US Treasury revenue. It will replace the legacy Electronic Fraud Detection System built in the mid-1990s.	0	43,475	24,679
Modernized e-File Fund the physical design, development, and testing of Release 10, Form 1040X, Amended U.S. Individual Income Tax Return and fund the initial requirements and design phases of Release 11, the implementation of technical improvements and assorted forms to be chosen by MeF's Business partner.	43,400	9,148	24,700
Core Infrastructure Provide shared infrastructure that leverages reusable engineering design patterns and best practices for standardized, virtual and secure environments. These environments allow multiple BSM projects to develop, test, deploy, operate and monitor in a common approach.	37,750	24,600	24,600
Architecture, Integration, and Management 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, and configuration/change management.	28,385	25,054	25,054
Management Reserve	5,286	1,701	4,191
Subtotal Capital Investments	\$231,071	\$232,978	\$244,353
Labor¹	79,645	78,779	84,688
Support	2,222	1,181	1,169
Total BSM	\$312,938	\$312,938	\$330,210

¹ The FY 2015 labor amount includes \$1.593M in inflation costs, but excludes \$829K of corporate costs, which is reflected in the Operations Support appropriation.

Customer Account Data Engine 2 (\$124.3 million)

In FY 2015, the IRS will focus on preparing the Customer Account Data Engine 2 (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 next transition state of the CADE 2 initiative, Transition State 2 (TS2), which addresses the risks associated with continued use of updated core taxpayer account processing systems to administer America's tax system. TS2 will build on earlier modernization efforts to establish a solid data foundation for the future and achieve long-term viability for the IRS's core tax processing systems. In FY 2015, the IRS will:

- Design and develop CADE 2 database conversion capability to prepare for Filing Season 2016;
- Implement enhancements to Penalty & Interest common code for Filing Season 2015;
- Design initial integrated framework for modernizing core taxpayer account processing functions that are currently performed by Individual Master File (IMF) (i.e. posting, financial settlement, and account analysis services);
- Develop a data distribution framework to define standard sets of CADE 2 information, as well as modernized data access methods to provide CADE 2 files to downstream systems; and
- Begin migration of initial interfaces to enable the CADE 2 database to become the authoritative source for all individual taxpayer account data. This will be accomplished by producing financial reports for consumption by downstream systems, enabling reporting capabilities, and deploying transcripts delivery capability.

Enhance Online Services (\$16.8 million)

Funding to Enhance Online Services will simplify the taxpayer's online experience, provide secure digital communications, and add more interactive capabilities to existing web self-service products. By providing taxpayers with the option to communicate digitally, the IRS estimates it will deliver a greater level of service and achieve significant savings by reducing call center phone calls and Taxpayer Assistance Center visits.

To keep up with the ever-changing state of web technology, the IRS must develop and enhance online capabilities and services to taxpayers, tax practitioners, and internal IRS stakeholders. In the future, taxpayers should be able to easily find the right tax answers from their mobile devices, receive and send digital messages within a secure framework, interact with IRS representatives online, and provide electronic documents.

This funding will deliver new taxpayer services and continue to foster the migration of service delivery from offline channels to the World Wide Web through the use of online services such as Online Account and Business Authentication, and through the migration of legacy applications to the Enterprise e-Authentication Platform. These improvements will help provide a better user experience, clearer content, an enhanced portal, and more robust analytics to continuously improve the taxpayer experience.

This request provides the potential for significant cost savings across the following customer service areas by reducing call center phone calls, Taxpayer Assistance Center visits, transcript requests, income verification requests, and the number of forms mailed or faxed to taxpayers.

- Online Account

Online Account is a multi-phase effort that will provide single sign-on capability for taxpayers to access account-related information with links to multiple products such as Online Payment Agreement, ACH Debit (Quick Pay), and *Where's My Refund?*.

Funding Online Taxpayer Account will provide the following strategic and operational benefits:

- Resolve account inquiries online, providing better taxpayer control;
- Create greater access to account actions and allot more time for IRS employees to focus on other taxpayer needs; and
- Increase IRS efficiency and taxpayer satisfaction.

Additional phases of Online Account will provide the following capabilities:

- Present an online view of transcripts (HTML version);
- Integrate solutions with eAuthentication Release 3 to provide single sign-on capability;
- Improve the account management page, allowing taxpayers to make updates to their address, contact and notice history, business account access, and account delegations to practitioners;
- Offer mobile browser support across the application;
- Integrate solutions with Third Party Application Programming Interface (APIs) to display refund status and summary of prior year tax information; and
- Provide Spanish language support across the application.

- Business Authentication Requirements

Business Authentication Requirements will allow the IRS to build out system functionality to authenticate corporate taxpayers and allow them to access online features and products. This funding will enhance the capability and potential audience for Electronic Authentication (e-Auth). The e-Auth program verifies and registers taxpayer identities and validates credentials for electronic access to IRS systems and applications. The current e-Auth enterprise-wide framework must be expanded to provide a secure web channel for corporate entities of all sizes to view, send, and receive information regarding their tax accounts.

- Migration of Legacy Applications to Enterprise e-Authentication Platform

Migration of Legacy Applications to Enterprise e-Authentication Platform will enhance the IRS's top three legacy applications – e-File, *Where's My Refund?*, and Online Payment Agreement (Installment Agreements) – by adding more interactive capabilities once taxpayers have been authenticated. The IRS will achieve economies of scale and reduce redundancy by consolidating the migration of these applications rather than handling each application independently.

Return Review Program (\$24.7 million)

The Return Review Program (RRP) delivers an integrated and unified system that enhances IRS capabilities to detect, resolve, and prevent criminal and civil tax noncompliance. The RRP provides a flexible and accessible system capable of supporting a cross-functional approach to address criminal and civil tax noncompliance. In addition, the RRP allows analysis and support of complex case processing requirements for compliance and criminal investigation programs during prosecution, revenue protection, accounts management, and taxpayer communications processes.

The RRP will replace the Electronic Fraud Detection System (EFDS) system that is obsolete and presents system limitations making it difficult to maintain, upgrade, or operate. Fundamental technology and design limitations of EFDS also render it incapable of supporting any significant business changes. As a result, without a replacement, the system is vulnerable to structural failure and the potential inability to detect up to \$1.5 billion in fraudulent refunds each year.

The RRP implementation will occur in multiple transition states (TS). RRP includes interfaces for receiving external data, in-line batch anomaly detection, off-line modifications of rules and simulations, a data warehouse, and reporting. Additional features include:

- Enhanced automatic identification of fraudulent and erroneous returns – with less impact on compliant taxpayers – using increasingly sophisticated models through entity-based research;
- Discernible flexibility and scalability to support changing business needs;
- Strategic identification of theft trends and detection;
- In-line processing capabilities that applies rules and scoring in several anomaly areas, including identity theft and frivolous filer; and
- Off-line processing capabilities that increase flexibility to implement new models or business rules to accommodate changes in process and legislation.

All functions associated with the In-Line environment, including the Operational Data Store (ODS), will be deployed in TS1 release 1.0 (R1.0) in February 2014. Once R1.0 is delivered, analysis will immediately start and the RRP can provide information to other IRS programs for evaluation, comparison, and use. The IRS will design and plan deployment of functions, such as the Solution Data Warehouse (SDW), to the Off-Line environment as part of RRP.

RRP will provide connectivity to IRS systems to support seamless workflow, expand user capabilities, and compare new taxpayer data. RRP will re-engineer and incorporate current EFDS business application functionality, including pre-refund capabilities allowing early detection of multiple issues, score card usability, new treatment stream determination (e.g., a predefined sequence of remedial steps), and identification and management of Return Preparer issues. RRP will deliver full capability for individual taxpayer returns, including Off-Line Prevention, In-Line Detection, Systemic Verification of third-party data, Integrated Data Warehouse, Management Information System (MIS), and User Interface; using the Employee User Portal (EUP).

RRP is expected to provide the following benefits:

- Increased fraud detection, resolution, and prevention;
- Improved case tracking, analysis, and reporting;
- Generation of a scorecard for questionable returns, evaluating consistency, and dependability;
- Reduction in the percentage of non-fraudulent refund claims frozen by the IRS;
- Establishment of capabilities to coordinate detection and resolution of criminal and civil compliance issues;
- Prevention of criminal and civil compliance issues;
- Promotion of increased taxpayer compliance through targeted educational information and deterrence activities; and
- Continued replacement of the current, obsolete EFDS platform.

Modernized e-File (MeF) (\$24.7 million)

MeF serves as the primary external point of interaction for all electronic tax filings. It validates and stores tax return data, allowing authorized IRS users the ability to view tax return data securely online. Electronic access to tax return data significantly reduces the handling/mailing of paper returns and increases service to the taxpayer.

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 increasing the operational metrics captured. These changes allowed MeF to support the Filing Season 2013 volume of e-filed returns.

In FY 2014, the IRS will complete the implementation of Form 94X, *Employment/Unemployment Tax*, and Form 1041, *U.S. Income Tax Return for Estates and Trusts* (Release 9) to the MeF platform and the RRP interface. In addition, MeF will begin the initial requirements and design phases of Release 10, to add Form 1040X, *Amended U.S. Individual Income Tax Return*, to the MeF application.

The FY 2015 request for MeF will initiate the design for development and deployment of Release 10, implementation of Form 1040X, *Amended U.S. Individual Income Tax Return*.

The FY 2015 request also will fund the initial requirements and design phases of Release 11, the implementation of technical improvements and assorted forms to be chosen by MeF's business partner.

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, third party tax provider, or tax software company when the IRS rejects the tax return;
- Form receipt acknowledgments provided to transmitters within minutes during non-peak days (within two 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 941, 1041, and 1040X forms, 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 responses to taxpayers more quickly by viewing the most current Forms 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.
- Enhancing the Production Volumes – Returns submitted through the MeF encounter fewer processing errors than paper returns.
- Retiring the Legacy 94X and 1041 e-File system – Adding Forms 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 is able to 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 (\$24.6 million)

This request will continue to provide 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 2015, 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 (\$25.1 million)

Provides engineering management capabilities, including systems strategy, architecture and engineering capabilities across IT Infrastructure, Business Applications, Data Management, and IT Security. Provides 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.

Management Reserve (\$4.2 million)

This activity maintains funds not otherwise designated for specific projects or programs to allow a degree of flexibility in responding to unexpected funding requirements.

Labor and Support (\$85.8 million / 528 FTE)

This request provides the labor and support costs associated with the development of projects within the BSM portfolio.

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 2015 Budget Submission.

Position Type/Other Costs	FTE	Positions	\$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 2013 Actuals	FY 2014 Enacted ¹	FY 2015 Request
FTE	85,881	84,189	91,187
Object Classification:			
11.1 Full-Time Permanent Positions	\$6,047,511	\$6,111,463	\$6,525,491
11.3 Other than Full-Time Permanent Positions	94,756	83,132	83,840
11.5 Other Personnel Compensation	171,507	256,874	283,325
11.8 Special Personal Services Payments	16,105	16,220	16,366
11.9 Personnel Compensation (Total)	\$6,329,879	\$6,467,689	\$6,909,022
12.0 Personnel Benefits	1,887,624	1,914,163	2,130,999
13.0 Benefits to Former Personnel	52,703	52,692	53,187
21.0 Travel	75,155	119,404	176,624
22.0 Transportation of Things	18,353	26,668	30,178
23.1 Rental Payments to GSA	646,857	614,882	633,438
23.2 Rent Payments to Others	13,193	13,606	13,862
23.3 Communications, Utilities, & Misc	348,896	345,664	393,395
24.0 Printing & Reproduction	33,004	34,770	37,746
25.1 Advisory & Assistance Services	627,351	681,322	828,898
25.2 Other Services	108,385	194,651	258,820
25.3 Purchase of Goods & Services from Govt. Accounts	184,118	181,102	195,869
25.4 Operation & Maintenance of Facilities	166,763	163,090	177,081
25.5 Research & Development Contracts	3,950	3,983	4,079
25.6 Medical Care	13,921	13,932	15,778
25.7 Operation & Maintenance of Equipment	75,549	88,377	98,530
25.8 Subsistence & Support of Persons	1,173	3,193	4,872
26.0 Supplies and Materials	42,482	52,687	60,571
31.0 Equipment	276,270	276,612	387,153
32.0 Lands and Structures	9,013	8,867	26,914
33.0 Investments & Loans			
41.0 Grants, Subsidies	15,863	27,893	33,893
42.0 Insurance Claims & Indemn	1,979	2,736	2,795
43.0 Interest and Dividends			
44.0 Refunds			
91.0 Unvouchered	3,630	2,629	2,823
Total Budget Authority	\$10,936,111	\$11,290,612	\$12,476,527
Appropriations:			
Taxpayer Services	\$2,119,859	\$2,156,554	\$2,317,633
Enforcement	4,923,683	5,022,178	5,371,826
Operations Support	3,694,364	3,798,942	4,456,858
Business Systems Modernization	198,205	312,938	330,210
Total Budget Authority	\$10,936,111	\$11,290,612	\$12,476,527

¹ FY 2014 Enacted includes \$92M in funding (\$34 million in Taxpayer Services and \$58 million in Operations Support).

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>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, [\$2,122,554,000,]\$2,317,633,000 of which not less than \$5,600,000 shall be for the Tax Counseling for the Elderly Program, of which not less than \$10,000,000 shall be available for low-income taxpayer clinic grants, of which not less than [\$12,000,000]\$18,000,000, to remain available until September 30, [2015]2016, shall be available for a Community Volunteer Income Tax Assistance matching grants program for tax return preparation assistance[, of which not less than \$203,000,000 shall be available for operating expenses of the Taxpayer Advocate Service: <i>Provided</i>, That of the amounts made available for the Taxpayer Advocate Service, not less than \$5,000,000 shall be for identity theft casework.]</p> <p style="text-align: center;">ENFORCEMENT</p> <p>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]100) 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, [\$5,022,178,000]\$5,371,826,000, [of which not less than \$200,000 shall be for intensive training of employees in the Exempt Organizations Unit and] of which not less than [\$60,257,000]\$57,493,000 shall be for the Interagency Crime and Drug Enforcement program: <i>Provided, That, of the amounts provided under this heading, not less than \$237,838,000, 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</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>The IRS supports adequate funding for the Taxpayer Advocate Service. Specifying the TAS funding level in law prevents the IRS from proposing an operating plan that allocates resources in the best interest of taxpayers.</p> <p>Beginning in FY 2013, most of the police-type vehicles were leased by IRS.</p> <p>The \$200,000 for intensive training of employees in the Exempt Organizations Unit was a one-time earmark in FY 2014.</p> <p>The Interagency Crime and Drug Enforcement program earmark was changed to reflect the reduced compensation as</p>

Section 251(b)(2) of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended.

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; [\$3,740,942,000]***\$4,456,858,000***, of which not to exceed \$250,000,000 shall remain available until September 30, [2015]***2016***, for information technology support; of which not to exceed \$65,000,000 shall remain available until expended for acquisition of equipment and construction, repair and renovation of facilities; of which not to exceed \$1,000,000 shall remain available until September 30, [2016]***2017***, 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, 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]***2016***, 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 \$241,689,000, 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.***

a result of the reductions in the appropriation since FY 2012.

The Budget Request for the Enforcement account is ***\$5,371,826,000*** including a program integrity cap adjustment of ***\$237,838,000*** which, when combined with the ***\$241,689,000*** cap adjustment in the Operations Support account, totals ***\$479,527,000*** in additional appropriation for tax enforcement and compliance activities.

The Budget Request for the Operations Support account is ***\$4,456,858,000*** including a program integrity cap adjustment of ***\$241,689,000*** which, when combined with the ***\$237,838,000*** cap adjustment in the Enforcement account, totals ***\$479,527,000*** 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, [~~\$312,938,000~~]**\$330,210,000**, to remain available until September 30, [~~2016~~]**2017**, 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, 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 [~~approval~~]**notification** of the Committees on Appropriations.

SEC. 102. The Internal Revenue Service shall maintain an employee training program, which shall include the following topics: taxpayers’ rights, dealing courteously with taxpayers, cross-cultural relations, ethics, and the impartial application of tax law.

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 improvements to the Internal Revenue Service

1-800 help line service a priority and allocate resources necessary to enhance the response time to taxpayer communications, particularly with regard to victims of tax-related crimes.

[SEC. 105. None of funds made available to the Internal Revenue Service by this Act may be used to make a video unless the Service-Wide Video Editorial Board determines in advance that making the video is appropriate, taking into account the cost, topic, tone, and purpose of the video.]

SEC. [106]**105**. The Internal Revenue Service shall issue a notice of confirmation of any address change relating to an employer making employment tax payments, and such notice shall be sent to both the employer's former and new address and an officer or employee of the Internal Revenue Service shall give special consideration to an offer-in-compromise from a taxpayer who has been the victim of fraud by a third party payroll tax preparer.

SEC. 106. Section 9503(a) of title 5, United States Code, is amended by striking the clause "before September 30, 2013" and inserting "before September 30, 2018".

[SEC. 107. None of the funds made available under this Act may be used by the Internal Revenue Service to target citizens of the United States for exercising any right guaranteed under the First Amendment to the Constitution of the United States.]

[SEC. 108. None of the funds made available under this Act may be used by the Internal Revenue Service to target groups for regulatory scrutiny based on their ideological beliefs.]

[SEC. 109. In addition to the amounts otherwise made available in this Act for the Internal Revenue Service, \$92,000,000, to be available until September 30, 2015, shall be transferred by the Commissioner to the "Taxpayer Services", "Enforcement", or "Operations Support" accounts of the Internal Revenue Service for an additional amount to be used solely to improve the delivery of services to taxpayers, to improve the identification and prevention of refund fraud and identity theft, and to address international and offshore compliance issues: *Provided*, That such funds shall supplement, not supplant any other amounts made available by the Internal Revenue Service for such purpose. *Provided further*, That such funds shall not be available until the Commissioner submits to the Committees on Appropriations of the House of Representatives and the Senate a spending plan for such funds: *Provided further*, That such funds shall not be used to support any provision of Public Law 111-148, Public Law 111-152, or any amendment made by either such Public Law.]

SEC. 107. 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".

Section 105 is no longer needed. In 2013 the IRS established policy and standards for video use and the Servicewide Video Editorial Board to review all video projects planned throughout the IRS.

Sections 107 and 108 are unnecessary since these behaviors are prohibited under existing, permanent law.

Section 109 was included in the Consolidated Appropriations Act of 2014 and is no longer necessary.

The IRS requests Streamlined Critical Pay (SCP) authority through September 30, 2018. This SCP authority expired September 30, 2013. Without SCP the IRS will not be able to continue paying, after expiration of their current appointment, approximately 30 senior employees at the salaries they have earned over several years. The high potential attrition, principally in information technology, jeopardizes the IRS's ability to continue modernizing its critical IT systems, which were just recently removed by GAO from its High-Risk list.

2C – Legislative Proposals

The legislative proposals included in the FY 2015 President’s Budget request are provided below. These legislative proposals are intended to reduce the tax gap and improve tax compliance with minimal taxpayer burden. The new tax gap proposals included in the FY 2015 President’s Budget are estimated by the Treasury Office of Tax Analysis (OTA) to increase revenue by \$74.5 billion over the next 10 years, which includes \$52 billion generated by program integrity cap adjustments. These proposals will reduce the tax gap by expanding information reporting and sharing, improving compliance by businesses, and strengthening tax administration. The IRS estimates the implementation cost for the FY 2015 President’s Budget tax gap proposals to be \$132.2 million (excluding the program integrity cap adjustment’s ten-year cost) over three years, including the initial startup, processing, and compliance operational costs (the cost for these legislative proposals is provided below). Note that in a few cases estimates are not yet available due to timing. If Congress enacts these provisions, the IRS will require additional funds to be included in the authorizing legislation in the amounts shown 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 2015-2024) of discretionary caps to permit program integrity cap adjustments costing \$17 billion and delivering \$52 billion in additional revenue, thereby generating \$35 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);
- Modify reporting of tuition expenses and scholarships on Form 1098-T, *Tuition Statement* (\$0.2 million);
- Provide for reciprocal reporting of information in connection with the implementation of the Foreign Account Tax Compliance Act (FATCA) (new in 2015); and
- Provide authority to readily share beneficial ownership information of U.S. companies with law enforcement (new in 2015).

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

- Require greater electronic filing of returns (\$0.6 million);
- Implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes (\$2.9 million);
- Increase certainty with respect to worker classification (\$1.9 million); and
- Increase information sharing to administer excise taxes (new in 2015).

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 to collect unpaid income taxes of applicable corporations (\$0.1 million);
- Increase levy authority for payments to Medicare providers with delinquent tax debt) (\$0.1 million);
- Implement a program integrity statutory cap adjustment for tax administration (\$17.1 billion);
- Streamline audit and adjustment procedures for large partnerships (\$2.5 million);
- Revise offer-in-compromise application rules (\$17.8 million);
- Expand the IRS access to information in the National Directory of New Hires for tax administration purposes (\$12 million);
- Make repeated willful failure to file a tax return a felony (\$0);
- Facilitate tax compliance with local jurisdictions (\$1.2 million);
- Extend statute of limitations where State adjustment affects Federal tax liability (\$0);
- Improve investigative disclosure statute (\$0);
- Require taxpayers who prepare their returns electronically but file their returns on paper to print their returns with a scannable code (\$14.6 million);
- Allow IRS to absorb credit and debit card processing fees for certain tax payments (\$9.6 million);
- Provide the IRS with greater flexibility to address correctable errors (\$1.4 million);
- Make e-filing mandatory for exempt organizations (\$18.2 million);
- Authorize the Department of Treasury to require additional information to be included in electronically filed Form 5500 annual reports and electronic filing of certain other employee benefit plan reports (\$11.2 million);
- Impose a penalty on failure to comply with electronic filing requirements (\$2.5 million);

- Provide whistleblowers with protection from retaliation (\$0);
- Provide stronger protection from improper disclosure of taxpayer information in whistleblower actions (\$0);
- Index all penalties for inflation (\$0.8 million);
- Extend paid preparer Earned Income Tax Credit (EITC) due diligence requirements to the child tax credit (\$20.2 million);
- Extend IRS authority to require a truncated Social Security Number (SSN) on Form W-2, *Wage and Tax Statement* (\$0.2 million);
- Add tax crimes to the Aggravated Identity Theft Statute (\$0);
- Impose a civil penalty on tax identity theft crimes (\$2.7 million);
- Allow states to send notices of intent to offset Federal tax refunds to collect State tax obligations by regular first-class mail instead of certified mail (new in 2015);
- Explicitly provide that the Department of Treasury and IRS have authority to regulate all paid return preparers (new in 2015);
- Rationalize tax return filing due dates so they are staggered (new in 2015);
- Increase the penalty applicable to paid tax preparers who engage in willful or reckless conduct (new in 2015);
- Enhance administrability of the appraiser penalty (new in 2015); and
- Enhance Unemployment Insurance (UI) program integrity (new in 2015).

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 2015 is \$2,317,633,000 in direct appropriations and 31,481 FTE. This is an increase of \$161,079,000, or 7.47 percent, and 2,485 FTE more than the FY 2014 Enacted Budget of \$2,156,554,000 and 28,996 FTE.

The performance measures reflected in the Taxpayer Services appropriation align to *Goal 3: Fairly and effectively reform and modernize Federal financial management, accounting, and tax systems, Objective 3.3: Pursue tax reform, implement the Patient Protection and Affordable Care Act and Foreign Account Tax Compliance Act, and improve the execution of the tax code* of the Department of the Treasury's Strategic Plan (FY 2014-2017).

2.1 – Budget Adjustments Table

Dollars in Thousands

	FTE	Amount
Taxpayer Services		
FY 2013 Operating Level ¹	29,700	\$2,135,553
FY 2014 Enacted ²	28,996	\$2,156,554
Changes to Base:		
Non-Recur FY 2014 Additional Appropriation		(\$34,000)
Maintaining Current Levels (MCLs):		\$46,483
Pay Raise		24,564
FERS Contribution Increase		18,724
Non-Pay Inflation Adjustment		3,195
Efficiencies/Savings:	(70)	(\$18,786)
Increase e-File Savings	(55)	(2,761)
HCTC Program Termination	(15)	(16,025)
Subtotal FY 2015 Changes to Base	(70)	(\$6,303)
FY 2015 Base	28,926	\$2,150,251
Program Changes:		
Program Increases:		
<i>Taxpayer Service Initiative:</i>		
Improve Taxpayer Service and Return Processing	2,355	153,482
Subtotal Taxpayer Service Initiative	2,355	\$153,482
<i>Enforcement Initiatives:</i>		
Prevent Identity Theft and Refund Fraud	200	13,900
Subtotal Enforcement Initiatives	200	\$13,900
Implement Information Technology (IT) Changes to Deliver Tax Credits and Other Requirements		
Subtotal FY 2015 Program Changes	2,555	\$167,382
Total FY 2015 Budget Request	31,481	\$2,317,633

¹ FY 2013 Operating Level represents the across-the-board recission and reductions required by sequestration and an interappropriation transfer \$73M transferred from the Enforcement appropriation to the Taxpayer Services (\$13M) and Operations Support (\$60M) appropriations.

² FY 2014 Enacted includes \$34M in funding.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Taxpayer Services	FY 2013 Actuals	FY 2014 Enacted ¹	FY 2015 Request
FTE	29,646	28,996	31,481
Object Classification:			
11.1 Full-Time Permanent Positions	\$1,495,078	\$1,513,047	\$1,611,008
11.3 Other than Full-Time Permanent Positions	49,914	36,333	36,629
11.5 Other Personnel Compensation	58,769	78,459	87,803
11.8 Special Personal Services Payments	1	1	1
11.9 Personnel Compensation (Total)	\$1,603,762	\$1,627,840	\$1,735,441
12.0 Personnel Benefits	366,923	340,788	395,836
13.0 Benefits to Former Personnel	12		
21.0 Travel	8,619	19,198	21,442
22.0 Transportation of Things	953	836	852
23.1 Rental Payments to GSA			
23.2 Rent Payments to Others	4	23	24
23.3 Communications, Utilities, & Misc	1,778	1,809	1,845
24.0 Printing & Reproduction	8,573	9,055	9,115
25.1 Advisory & Assistance Services	25,691	22,391	22,838
25.2 Other Services	20,336	39,627	27,411
25.3 Purchase of Goods & Services from Govt. Accounts	60,875	58,557	59,726
25.4 Operation & Maintenance of Facilities	2	2	2
25.5 Research & Development Contracts			
25.6 Medical Care			
25.7 Operation & Maintenance of Equipment			
25.8 Subsistence & Support of Persons	76	1,568	1,600
26.0 Supplies and Materials	5,926	5,677	6,291
31.0 Equipment	79	321	328
32.0 Lands and Structures	18	39	40
33.0 Investments & Loans			
41.0 Grants, Subsidies	15,863	27,893	33,893
42.0 Insurance Claims & Indemn	369	930	949
43.0 Interest and Dividends			
44.0 Refunds			
91.0 Unvouchered			
Total Budget Authority	\$2,119,859	\$2,156,554	\$2,317,633
Budget Activities:			
Pre-filing Taxpayer Assistance & Education	\$586,896	\$604,638	\$639,249
Filing & Account Services	1,532,963	1,551,916	1,678,384
Total Budget Authority	\$2,119,859	\$2,156,554	\$2,317,633

¹ FY 2014 Enacted includes \$34M in funding.

2.3 – Appropriation Detail Table

Dollars in thousands

Taxpayer Services Resources	FY 2013 Actuals		FY 2013 Operating Level ¹		FY 2014 Enacted ²		FY 2015 Request		\$ Change FY 2014 to FY 2015 Request		% Change FY 2014 to FY 2015 Request	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
	New Appropriated Resources:											
Pre-Filing Taxpayer Assistance and Education	5,474	\$586,896	5,610	\$605,761	5,489	\$604,638	5,681	\$639,249	192	\$34,611	3.50%	5.72%
Filing and Account Services	24,172	1,532,963	24,090	1,529,792	23,507	1,551,916	25,800	1,678,384	2,293	126,468	9.75%	8.15%
Subtotal New Appropriated Resources	29,646	\$2,119,859	29,700	\$2,135,553	28,996	\$2,156,554	31,481	\$2,317,633	2,485	\$161,079	8.57%	7.47%
Other Resources:												
Reimbursables	594	37,535	594	37,535	623	39,809	623	40,212		403		1.01%
Offsetting Collections - Non Reimbursables												
User Fees	558	190,999	558	190,999	558	190,999	558	190,999				
Recovery from Prior Years												
Unobligated Balances from Prior Years	182	19,303	182	19,304		11,373		11,372		(1)		-0.01%
Transfers In/Out												
Resources from Other Accounts												
Subtotal Other Resources	1,334	\$247,837	1,334	\$247,838	1,181	\$242,181	1,181	\$242,583		\$402		0.17%
Total Budget Authority	30,980	\$2,367,696	31,034	\$2,383,391	30,177	\$2,398,735	32,662	\$2,560,216	2,485	\$161,481	-2.59%	6.73%

¹ FY 2013 Operating Level represents the across-the-board recession and reductions required by sequestration and an interappropriation transfer \$73M transferred from the Enforcement appropriation to the Taxpayer Services (\$13M) and Operations Support (\$60M) appropriations.

² FY 2014 Enacted includes \$34M in funding.

3A – Pre-Filing Taxpayer Assistance and Education (\$639,249,000 in direct appropriations, and an estimated \$6,400,000 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 2015 Program Changes by Budget Activity

Dollars in Thousands

Taxpayer Services		
Pre-filing Taxpayer Assistance and Education	FTE	Amount
Taxpayer Service Initiative	192	\$22,062
Improve Taxpayer Service and Return Processing	192	22,062
Enforcement Initiatives		
Total FY 2015 Program Changes	192	\$22,062

3.1.1 – Budget and Performance Report and Plan

Dollars in Thousands

Pre-Filing Taxpayer Assistance & Education	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Resource Level ^{1,2}	Enacted	Enacted	Enacted	Enacted	Enacted	Operating Level ³	Enacted	Request
Appropriated Resources	\$645,253	\$661,000	\$679,924	\$678,204	\$625,189	\$605,761	\$604,638	\$639,249
Reimbursable Resources	774	796	862	1,135	96			
User Fees	12,827	18,700	5,514		22,460	6,400	6,400	6,400
Budget Activity Total	\$658,854	\$680,496	\$686,300	\$679,339	\$647,745	\$612,161	\$611,038	\$645,649

¹ The FY 2008 - FY 2012 Appropriated Resources represents the approved Operating Plan.

² The FY 2008 - FY 2012 columns represent realized resources for reimbursable and user fees.

³ FY 2013 Operating Level represents the across-the-board rescission and reductions required by sequestration.

Pre-Filing Taxpayer Assistance & Education	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Measure	Actual	Actual	Actual	Actual	Actual	Actual	Target	Request
Timeliness of Critical Filing Season Tax Products to the Public (Ot)	92.4%	96.8%	95.3%	96.3%	97.2%	58.9%	95.0%	95.0%
Timeliness of Critical TE/GE & Business Tax Products to the Public (Ot)	89.5%	95.2%	97.7%	96.4%	94.5%	83.6%	95.0%	95.0%
Taxpayer Self-Assistance Rate (E) (L)	66.8%	69.3%	64.4%	70.1%	78.5%	83.3%	85.0%	86.0%

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

Description of Performance

The IRS timely delivered 58.9 percent of the Critical Individual Filing Season Tax Products to the public by the fifth workday of January, falling short of the FY 2013 target of 95 percent. The American Taxpayer Relief Act of 2012 (ATRA) was enacted on January 2, 2013. The late passage of this legislation directly impacted critical tax products and hindered the IRS in meeting its target of 95 percent. As of January 25, 2013, only 16 business days after the ATRA enactment, the IRS was still able to post 107 of 112 critical filing season products for the January 30 official start date of the filing season. To achieve future targets the IRS will release products not expected to be affected by legislation early to have more time to analyze, develop, and post or print the tax products affected by legislation. In FY 2014 and FY 2015, the IRS expects to meet the target of 95 percent for Critical Individual Filing Season Tax Products to the Public.

The IRS Timeliness of Critical TE/GE and Business Filing Season Tax products to the Public reached 83.6 percent, falling short of the FY 2013 target of 95 percent. The timing of the passage of ATRA hindered the IRS in meeting the FY 2013 target. The IRS will continue to plan, monitor, and coordinate all product development and delivery activities. To ensure

future targets are met, the IRS also will continue to evaluate the processes so that mitigation strategies can be implemented quickly. In FY 2014 and FY 2015, the IRS expects to meet the target of 95 percent for the Critical TE/GE and Business Tax Products to the Public measure.

The Taxpayer Self-Assistance Rate reached 83.3 percent for FY 2013, exceeding the 80 percent rate target. This increase is attributed to an increase in web services, with more than 200 million taxpayers using the online *Where's My Refund?* application to check on their refund, a 52 percent increase compared to the same period in FY 2012. Demand for self-service assistance continues to increase due to shifting customer preferences 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. The IRS will continue to promote the use of self-service applications and expects to meet the FY 2014 target of 85 percent and the FY 2015 of 86 percent.

3B – Filing and Account Services (\$1,678,384,000 in direct appropriations, an estimated \$40,212,000 from reimbursable programs, and an estimated \$184,599,000 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. 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.
- *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 2015 Program Changes by Budget Activity

Dollars in Thousands

Taxpayer Services		
Filing and Account Services	FTE	Amount
Taxpayer Service Initiative	2,163	\$131,420
Improve Taxpayer Service and Return Processing	2,163	131,420
Enforcement Initiatives	200	\$13,900
Prevent Identity Theft and Refund Fraud	200	13,900
Total FY 2015 Program Changes	2,363	\$145,320

3.1.2 – Budget and Performance Report and Plan

Dollars in Thousands

Filing and Account Services	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Resource Level ^{1,2,3}	Enacted	Enacted	Enacted	Enacted	Enacted	Operating Level ⁴	Enacted ⁵	Request
Appropriated Resources	\$1,561,067	\$1,647,406	\$1,614,418	\$1,630,549	\$1,614,514	\$1,529,792	\$1,551,916	\$1,678,384
Reimbursable Resources	36,037	37,094	21,993	27,857	20,759	37,535	39,809	40,212
User Fees	139,109	108,300	115,998	128,966	152,136	184,599	184,599	184,599
Budget Activity Total	\$1,736,213	\$1,792,800	\$1,752,409	\$1,787,372	\$1,787,409	\$1,751,926	\$1,776,324	\$1,903,195

¹ The FY 2008 - FY 2012 Appropriated Resources represents the approved Operating Plan.

² The FY 2008 - FY 2012 columns represent realized resources for reimbursable and user fees.

³ FY 2012 and on 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.

⁴ FY 2013 Operating Level represents the across-the-board rescission and reductions required by sequestration and an interappropriation transfer \$13M transferred from the Enforcement appropriation to the Taxpayer Services appropriation.

⁵ FY 2014 Enacted includes \$34M in funding.

Filing and Account Services	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Measures	Actual	Actual	Actual	Actual	Actual	Actual	Target	Request Target
Percent Individual Returns Processed Electronically (Oe) (L)	57.6%	65.9%	69.3%	76.9%	80.5%	82.5%	84.1%	84.6%
Percent of Business Returns Processed Electronically (Oe) (L)	19.4%	22.8%	25.5%	31.8%	36.7%	40.2%	44.7%	46.5%
Customer Accuracy - Tax Law Phones (O)	91.2%	92.9%	92.7%	93.4%	93.2%	95.7%	93.0%	93.0%
Customer Accuracy - Accounts (Phones) (O)	93.7%	94.9%	95.7%	96.0%	95.6%	96.0%	95.0%	95.0%
Customer Contacts Resolved per Staff Year (E)	12,634	12,918	10,744	12,419	16,320	20,767	22,750	25,000
Customer Service Representative Level of Service (Oe) (L) *	52.8%	70.0%	74.0%	70.1%	67.6%	60.5%	61.0%	71.0%
Refund Timeliness - Individual (Paper) (O)	99.1%	99.2%	96.1%	99.4%	99.7%	99.0%	97.0%	98.0%
Cost per Taxpayer Served (\$) (HCTC) (E)	\$16.94	\$13.79	\$9.52	\$12.36	\$14.43	\$13.41	n/a	n/a
Sign-up Time (Days) - Customer Engagement (HCTC) (O)	94.0	91.3	124.0	117.0	116.0	125.2	n/a	n/a

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

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

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. For FY 2013 the IRS achieved an 82.5 percent individual e-file rate (target 80 percent) and a 40.2 percent business e-file rate (target 38 percent), exceeding the targets for both measures. Business e-file continued to grow due to requirements that certain businesses and exempt organizations file electronically and more forms have become available for electronic filing.

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 will increase the individual e-filing target to 84.1 percent for FY 2014 and 84.6 percent for FY 2015. The business e-filing target will increase to 44.7 percent for FY 2014 and 46.5 percent for FY 2015. Increases for both e file rates will be achieved by continuing to promote the benefits of e-filing.

In FY 2013, Customer Accuracy – Tax Law was at 95.7 percent, exceeding the target of 93 percent. IRS will continue to monitor results through data driven analysis of reports obtained from Embedded Quality Review System (EQRS) to ensure the achievement of future goals. Although responding to legislative changes in tax laws will continue to be a major challenge moving forward, the IRS will keep the tax law accuracy target for FY 2014 and FY 2015 at 93 percent.

In FY 2013, the IRS correctly answered 96 percent of account questions via the telephone, exceeding the FY 2013 target of 95 percent. The IRS expects to maintain high performance on Customer Accuracy – Accounts (Phones) through ongoing efforts to ensure consistent quality reviews and provide training to managers and employees to make sure the best service is provided to customers. For FY 2014 and FY 2015, the IRS will keep the target for Customer Accuracy – Accounts (Phones) at 95 percent.

The IRS Customer Contacts Resolved Per Staff Year reached 20,767 for FY 2013, exceeding the FY 2013 target of 16,754 and FY 2012 performance. This measure includes activities such as automated and assistor calls answered and web services completed. The increase is attributed to a significant increase in web usage, up 49 percent compared to last year. The primary contributor to the increase in Web Services was the Where's My Refund (WMR) application. Enhancements to WMR made it more "user friendly" and IRS experienced larger than expected traffic. The Customer Contacts Resolved Per Staff Year target will be 22,750 for FY 2014 and 25,000 for FY 2015. 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.

In FY 2013, the Customer Service Representative Level of Service was 60.5 percent, falling short of the FY 2013 target of 70 percent. The FY 2013 target for Customer Service Representative Level of Service was established prior to the notice of sequestration. When the sequester cuts took effect, the required funding adjustment severely hindered the IRS's ability to meet the original target. In addition, demand for toll-free service increased over last

year by almost 10 percent, further straining reduced resources. The Customer Service Representative Level of Service target is 61 percent for FY 2014 and 71 percent for FY 2015. 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 2013, the Refund Timeliness Rate remained strong at 99 percent, exceeding the FY 2013 target of 98 percent. Additionally, the total number of Individual Master File (IMF) paper refunds continued its downward trend, contracting 10 percent compared to 2012. The IRS will continue to monitor IMF return cycles and inventories through various reports and production meetings to ensure future targets are achieved. For FY 2014 the target is 97 percent and for FY 2015 the target is 98 percent.

For the Health Insurance Tax Credit Administration (HITCA) program, the IRS exceeded the FY 2013 target of \$15.00 for Cost per Taxpayer Served (CPTS) but fell just short in achieving the FY 2013 target of 125 days for Sign-Up Time. In FY 2013, CPTS was \$13.41 compared to \$14.43 for FY 2012, as fewer taxpayers were served while program costs increased. Sign-Up Time was higher, 125.2 days compared to 116 days in FY 2012. It is important to note that the Health Coverage Tax Credit (HCTC) program averaged only 15 days from receipt of registration to enrollment. However, this measure also included the variable time from when taxpayers are notified of their HCTC eligibility until they choose to register for the credit.

The Trade Adjustment Assistance (TAA) Extension Act of 2011 modified the IRS Internal Revenue Code, and the HCTC program terminated December 31, 2013. The program collected the last monthly payment from HCTC participants in November 2013 for December 2013 coverage. While 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.

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; and collecting unpaid accounts.

The Enforcement President's Budget request for FY 2015 is \$5,371,826,000 in direct appropriations and 45,757 FTE. This is a \$349,648,000, or 6.96 percent, and 2,952 FTE increase from the FY 2014 Enacted Budget of \$5,022,178,000 and 42,805 FTE.

To reduce future deficits, a portion of this appropriation, \$237,838,000, is requested as part of the \$479,527,000 total program integrity cap adjustment for the 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 Operations Support account, this increment will support tax compliance initiatives expected to generate high ROI in the form of increased tax revenues.

The performance measures reflected in the Enforcement appropriation support and align to *Goal 3: Fairly and effectively reform and modernize Federal financial management, accounting, and tax systems, Objective 3.3: Pursue tax reform, implement the Patient Protection and Affordable Care Act and Foreign Account Tax Compliance Act, and improve the execution of the tax code* of the Department of the Treasury's Strategic Plan (FY 2014-2017).

2.1 – Budget Adjustments Table

Dollars in Thousands

	FTE	Amount
Enforcement		
FY 2013 Operating Level ¹	44,325	\$4,949,178
FY 2014 Enacted	42,805	\$5,022,178
Changes to Base:		
Maintaining Current Levels (MCLs):		\$105,719
Pay Raise		57,260
FERS Contribution Increase		41,857
Non-Pay Inflation Adjustment		6,602
Other Adjustment:	329	(\$29,221)
Base Adjustments	329	(29,221)
Efficiencies/Savings:		(\$18,233)
Adjustment for FERS increase		(18,233)
Subtotal FY 2015 Changes to Base	329	\$58,265
FY 2015 Base	43,134	\$5,080,443
Program Changes:		
Program Increases:		
<i>Enforcement Initiatives:</i>		
Address International and Offshore Compliance Issues	332	49,037
Expand Coverage of High Wealth Individuals and Enterprises	141	17,684
Prevent Identity Theft and Refund Fraud	191	16,971
Address Impact of ACA Statutory Requirements	349	36,574
Expand Audit Coverage	541	53,581
Enhance Collection Coverage	540	41,692
Improve Coverage of Partnerships and Flow-Through Entities	240	28,690
Expand Compliance Coverage in the Tax-Exempt Sector	119	13,364
Pursue Fraud Referrals, Employment Tax, and Abusive Tax Schemes	52	9,275
Build Out Tax Return Preparer Compliance and Professional Responsibility Activities	106	14,765
Leverage Digital Evidence for Criminal Investigation (CI)	5	698
Leverage Data to Improve Case Selection	7	4,052
Subtotal Enforcement Initiatives	2,623	\$286,383
<i>Alcohol and Tobacco Tax and Trade Bureau Program Integrity Transfer:</i>		
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 Initiative		\$5,000
Subtotal FY 2015 Program Changes	2,623	\$291,383
Total FY 2015 Budget Request	45,757	\$5,371,826

¹ FY 2013 Operating Level represents the across-the-board recession and reductions required by sequestration and an interappropriation transfer \$73M transferred from the Enforcement appropriation to the Taxpayer Services (\$13M) and Operations Support (\$60M) appropriations.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Enforcement	FY 2013 Actuals	FY 2014 Enacted	FY 2015 Request
FTE	44,174	42,805	45,757
Object Classification:			
11.1 Full-Time Permanent Positions	\$3,428,416	\$3,407,302	\$3,560,242
11.3 Other than Full-Time Permanent Positions	34,951	37,732	38,069
11.5 Other Personnel Compensation	96,385	150,535	162,394
11.8 Special Personal Services Payments	16,104	16,219	16,365
11.9 Personnel Compensation (Total)	\$3,575,856	\$3,611,788	\$3,777,070
12.0 Personnel Benefits	1,128,180	1,138,229	1,248,331
13.0 Benefits to Former Personnel	25		
21.0 Travel	55,294	81,765	123,870
22.0 Transportation of Things	1,319	9,419	11,925
23.1 Rental Payments to GSA	10	10	10
23.2 Rent Payments to Others	402	525	556
23.3 Communications, Utilities, & Misc	3,053	3,732	4,062
24.0 Printing & Reproduction	2,951	3,872	3,939
25.1 Advisory & Assistance Services	47,914	56,927	62,163
25.2 Other Services	30,150	40,279	47,395
25.3 Purchase of Goods & Services from Govt. Accounts	47,490	44,534	49,029
25.4 Operation & Maintenance of Facilities	34	41	42
25.5 Research & Development Contracts	3,950	3,950	4,046
25.6 Medical Care	55	10	10
25.7 Operation & Maintenance of Equipment	1,247	126	237
25.8 Subsistence & Support of Persons	901	1,419	3,062
26.0 Supplies and Materials	18,019	19,473	22,327
31.0 Equipment	1,823	2,047	9,492
32.0 Lands and Structures	3	23	24
33.0 Investments & Loans			
41.0 Grants, Subsidies			
42.0 Insurance Claims & Indemn	1,377	1,380	1,413
43.0 Interest and Dividends			
44.0 Refunds			
91.0 Unvouchered	3,630	2,629	2,823
Total Budget Authority	\$4,923,683	\$5,022,178	\$5,371,826
Budget Activities:			
Investigations	\$587,944	\$613,417	\$662,606
Exam & Collections	4,188,328	4,257,836	4,538,881
Regulatory	147,411	150,925	170,339
Total Budget Authority	\$4,923,683	\$5,022,178	\$5,371,826

2.3 – Appropriation Detail Table

Dollars in thousands

Enforcement Resources	FY 2013 Actuals		FY 2013 Operating Level ¹		FY 2014 Enacted		FY 2015 Request		\$ Change FY 2014 to FY 2015 Request		% Change FY 2014 to FY 2015 Request	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Investigations	3,688	\$587,944	3,641	\$589,751	3,623	\$613,417	3,896	\$662,606	273	\$49,189	7.54%	8.02%
Exam and Collections	39,394	4,188,328	39,597	4,210,108	38,128	4,257,836	40,681	4,538,881	2,553	281,045	6.70%	6.60%
Regulatory	1,092	147,411	1,087	149,319	1,054	150,925	1,180	170,339	126	19,414	11.95%	12.86%
Subtotal New Appropriated Resources	44,174	\$4,923,683	44,325	\$4,949,178	42,805	\$5,022,178	45,757	\$5,371,826	2,952	\$349,648	6.90%	6.96%
Other Resources:												
Reimbursables	54	30,017	54	30,017	56	31,978	56	32,446		468		1.46%
Offsetting Collections - Non Reimbursables		16,579		16,579		27,408		27,408				
User Fees	117	17,500	117	20,409	117	20,409	117	20,409				
Recovery from Prior Years				2,552								
Unobligated Balances from Prior Years	77	19,248	77	20,447		5,510		2,781		(2,729)		-49.53%
Transfers In/Out ²		97		165				(5,000)		(5,000)		
Resources from Other Accounts ³	5		5		5		5					
Subtotal Other Resources	253	\$83,441	253	\$90,169	178	\$85,305	178	\$78,044		(\$7,261)		-8.51%
Total Budget Authority	44,427	\$5,007,124	44,578	\$5,039,347	42,983	\$5,107,483	45,935	\$5,449,870	2,952	\$342,387	6.87%	6.70%

¹ FY 2013 Operating Level represents the across-the-board rescission and reductions required by sequestration and an interappropriation transfer \$73M transferred from the Enforcement appropriation to the Taxpayer Services (\$13M) and Operations Support (\$60M) appropriations.

² Resources from Transfers In/Out include FY 2013 transfers between IRS and the Office of National Drug Control Policy (ONDCP) High Intensity Drug Trafficking Area (HIDTA) Program (net transfer \$152K) and prior year user fees from the Operations Support and Business Systems Modernization (BSM) appropriations returned to the User Fees account (-\$1.356M), and a FY 2015 transfer out to the Alcohol and Tobacco Tax and Trade

³ Resources from Other Accounts include Other Direct FTE funded from the Federal Highway Administration (5 FTE projected for FY 2013, FY 2014 and FY 2015).

3C – Investigations (\$662,606,000 in direct appropriations, an estimated \$30,903,000 from reimbursable programs, and an estimated \$4,709,000 from user fees): 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 2015 Program Changes by Budget Activity

Dollars in Thousands

Enforcement		
Investigations	FTE	Amount
Enforcement Initiatives	188	\$33,684
Address International and Offshore Compliance Issues	70	13,437
Prevent Identity Theft and Refund Fraud	42	6,380
Pursue Fraud Referrals, Employment Tax, and Abusive Tax Schemes	52	9,275
Build Out Tax Return Preparer Compliance and Professional Responsibility Activities	19	3,894
Leverage Digital Evidence for Criminal Investigation (CI)	5	698
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 2015 Program Changes	188	\$38,684

3.1.3 – Budget and Performance Report and Plan

Dollars in Thousands

Investigations	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Resource Level ^{1,2}	Enacted	Enacted	Enacted	Enacted	Enacted	Operating Level ³	Enacted	Request
Appropriated Resources	\$592,906	\$611,601	\$639,363	\$644,479	\$636,386	\$589,751	\$613,417	\$662,606
Reimbursable Resources	49,404	39,639	67,549	63,146	56,895	28,582	30,453	30,903
User Fees					6,935	4,709	4,709	4,709
Budget Activity Total	\$642,310	\$651,240	\$706,912	\$707,625	\$700,216	\$623,042	\$648,579	\$698,218

¹ The FY 2008 - FY 2012 Appropriated Resources represents the approved Operating Plan.

² The FY 2008 - FY 2012 columns represent realized resources for reimbursable and user fees.

³ FY 2013 Operating Level represents the across-the-board recession and reductions required by

Investigations	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Measure	Actual	Actual	Actual	Actual	Actual	Actual	Target	Request
Criminal Investigations Completed (O) (L)	4,044	3,848	4,325	4,697	4,937	5,557	4,440	4,440
Number of Convictions (Oe) (L)	2,144	2,105	2,184	2,350	2,634	3,311	2,450	2,450
Conviction Rate (Oe) (L)	92.3%	87.2%	90.2%	92.7%	93.0%	93.1%	92.0%	92.0%
Conviction Efficiency Rate (\$) (E) (L)	\$315,751	\$327,328	\$324,776	\$310,029	\$270,511	\$211,048	\$280,000	\$315,000

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

Description of Performance

Criminal Investigation (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.

FY 2013 year-end results for CI Completions (5,557) reflect 127.7 percent of the year-end target (4,350) and an increase of 12.6 percent compared to FY 2012. The finalization of a large number of investigations initiated in previous years contributed to these results in addition to an increase in Identity Theft investigations, which generally have a shorter cycle time. Continued management focus on the quality of cases selected led to 17.9 percent more

prosecution recommendations to the Department of Justice (DOJ), while resulting in a 3.5 percent decrease in discontinued investigations, compared to FY 2012. To ensure continued improvement, CI management will continue to leverage interagency partnerships and improve case selection methods using advanced technologies. The IRS expects to achieve its target of 4,440 completed investigations for FY 2014 and FY 2015.

FY 2013 year-end results for the Number of Convictions (3,311) reflect 138 percent of the year-end target (2,400) and an increase of 25.7 percent compared to FY 2012. A large number of quality investigations initiated in previous years now being processed by the DOJ contributed to this increase. To ensure continued improvement, CI management will continue to ensure appropriate and consistent contact with DOJ Tax Division and U.S. Attorney Offices regarding prosecutorial priorities and appropriate movement of pipeline investigations. The IRS expects to meet its target of 2,450 convictions for FY 2014 and FY 2015.

FY 2013 year-end results for Conviction Rate are slightly higher (0.07 percent) than FY 2012, and 1.2 percent above the year-end target of 92 percent. Appropriate case selection and effective field performance had a positive effect on the number of cases resulting in convictions. Since CI does not prosecute its own cases it must depend on the ability of DOJ to accept its cases for prosecution and move such cases through the courts. CI management will continue its current efforts - of appropriate and consistent contact with DOJ Tax Division and U.S. Attorney Offices regarding prosecutorial priorities and appropriate movement of pipeline investigations - to ensure a high rate of conviction. In FY 2014 and FY 2015, the IRS expects to achieve its target of 92 percent using this strategy.

The Conviction Efficiency Rate is defined as the cost of the Criminal Investigation program divided by the number of convictions. In FY 2013, the number of convictions (target 2,400) increased by 26 percent compared to last year and the Conviction Efficiency Rate exceeded the target (\$285,000) by 26 percent to \$211,048. A larger than expected number of convictions were completed due to a significant number of quality investigations initiated in previous years currently being processed by the DOJ and an increase in identify theft cases. CI will continue to monitor its budget and coordinate with DOJ Tax Division and U.S. Attorney Offices regarding prosecutorial priorities to ensure this measure is at or below future target. The FY 2014 target was lowered to \$280,000 to reflect a reduction in the CI financial plan, but is increasing to \$315,000 for FY 2015 due to proposed increases in Enforcement funding and total FTEs.

3D – Exam and Collections (*\$4,538,881,000 in direct appropriations and an estimated \$864,000 from reimbursable programs*): 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 Office* provides staffing, training, and direct support to process, assess, and analyze tips from individuals who identify potential tax problems.
- *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 2015 Program Changes by Budget Activity

Dollars in Thousands

Enforcement		
Exam and Collections	FTE	Amount
Enforcement Initiatives	2,310	\$236,063
Address International and Offshore Compliance Issues	255	34,240
Expand Coverage of High Wealth Individuals and Enterprises	141	17,684
Prevent Identity Theft and Refund Fraud	149	10,591
Address Impact of ACA Statutory Requirements	293	28,268
Expand Audit Coverage	540	53,366
Enhance Collection Coverage	540	41,692
Improve Coverage of Partnerships and Flow-Through Entities	239	28,442
Expand Compliance Coverage in the Tax-Exempt Sector	87	10,192
Build Out Tax Return Preparer Compliance and Professional Responsibility Activities	59	7,536
Leverage Data to Improve Case Selection	7	4,052
Total FY 2015 Program Changes	2,310	\$236,063

3.1.4 – Budget and Performance Report and Plan

Dollars in Thousands

Exam and Collections								
Resource Level ^{1, 2}	FY 2008 Enacted	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Operating Level ³	FY 2014 Enacted	FY 2015 Request
Appropriated Resources	\$4,037,812	\$4,355,186	\$4,700,345	\$4,689,220	\$4,504,885	\$4,210,108	\$4,257,836	\$4,538,881
Reimbursable Resources	8,302	8,970	8,729	11,163	6,385	804	854	864
User Fees	12,679	3,103	49					
Budget Activity Total	\$4,058,793	\$4,367,259	\$4,709,123	\$4,700,383	\$4,511,270	\$4,210,912	\$4,258,690	\$4,539,745

¹ The FY 2008 - FY 2012 Appropriated Resources represents the approved Operating Plan.

² The FY 2008 - FY 2012 columns represent realized resources for reimbursable and user fees.

³ FY 2013 Operating Level represents the across-the-board recission and reductions required by sequestration and an interappropriation transfer \$73M transferred from the Enforcement appropriation to the Taxpayer Services (\$13M) and Operations Support (\$60M) appropriations.

Exam and Collections								
Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Target	FY 2015 Request Target
Examination Coverage - Individual (Oe) (L)	1.0%	1.0%	1.1%	1.1%	1.0%	1.0%	0.8%	0.8%
Field Exam National Quality Review Score (Oe) (L)	86.0%	85.1%	84.9%	85.8%	87.4%	89.2%	89.6%	89.6%
Office Exam National Quality Review Score (Oe) (L)	90.0%	92.1%	91.6%	90.4%	91.3%	90.3%	90.2%	90.2%
Examination Quality - Large Business ¹ (Oe) (L) (New in FY 2013)						92.0%	90.0%	90.0%
Examination Coverage - Business (Assets > \$10 million) (Oe) (L)	6.1%	5.6%	5.7%	6.2%	6.2%	5.6%	4.2%	4.1%
Automated Underreporter (AUR) Efficiency (E) (L)	1,982	1,905	1,924	2,007	2,041	2,025	1,931	1,950
Automated Underreporter (AUR) Coverage (E) (L)	2.6%	2.6%	3.0%	3.3%	3.2%	2.8%	2.5%	2.7%
Examination Efficiency - Individual (E) (L)	138	138	140	139	142	142	133	124
Collection Coverage - Units (O) (L)	55.2%	54.2%	50.1%	50.0%	48.1%	47.0%	42.7%	45.0%
Collection Efficiency - Units (E) (L)	1,926	1,845	1,822	1,952	1,997	2,057	2,007	1,900
Field Collection National Quality Review Score (O) (L)	79.0%	80.5%	80.6%	80.3%	80.4%	81.4%	81.0%	81.0%
Automated Collection System (ACS) Accuracy (Oe)	95.3%	94.3%	95.9%	94.9%	94.7%	94.4%	94.0%	94.0%

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

¹ As a result of program changes that occurred in the Large Business and International (LB&I) organization, starting in FY 2013, a new Examination Quality - Large Business measure replaced the two previous LB&I quality measures - Examination Quality - Industry and Coordinated Industry.

Description of Performance

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 performance goals that the IRS uses to gauge the Examination program performance are discussed below.

The IRS met the FY 2013 Individual Exam Coverage target of 1 percent. There were over 77,000 fewer audits in FY 2013, a 5.22 percent decrease compared to FY 2012. Concurrently, total prior year calendar individual return filings increased by 2.01 percent, placing downward pressure on the coverage ratio. Future plans are to continue to decrease cycle times, identify workload with short cycle times, and emphasize Individual Master File related pickups from Business Master File returns. The IRS expects to achieve an Individual Exam Coverage rate of 0.8 percent in FY 2014 and FY 2015.

In FY 2013, Field Exam National Quality Review Score reached 89.2 percent, exceeding its target of 86.9 percent. This increase is due to improvement in 16 of the 17 quality attributes during FY 2013. Future efforts will focus on eliminating the leading errors within the weakest quality attributes. The IRS expects to achieve a quality score of 89.6 percent in FY 2014 and FY 2015.

The IRS achieved a score of 90.3 percent for the Office Exam National Quality Review Score target, missing the FY 2013 target of 91.1 percent by 0.8 percent. Although Office Exam showed improvement in 9 of the 17 quality attributes, declines in seven attributes offset the improvements and attributed to missing the target. FY 2014 efforts will focus on eliminating the leading errors within the weakest quality attributes. The IRS expects to achieve a quality score of 90.2 percent in FY 2014 and FY 2015.

As a result of program changes that occurred in the Large Business and International (LB&I) organization, starting in FY 2013, a new Examination Quality – Large Business measure replaced the two previous reported LB&I quality measures Examination Quality – Industry and Coordinated Industry. For FY 2013, Examination Quality – Large Business finished at 92 percent (baseline for measure), with FY 2014 and FY 2015 targets set at 90 percent. For FY 2014, LB&I will focus on the importance of meeting the target through direct feedback to field teams, partnering with the Industries in Quality Improvement Efforts, Quarterly Reports/Memos, and outreach to field teams.

The IRS exceeded the FY 2013 Business Examination Coverage (assets > \$10 million) target of 4.6 percent, achieving an Exam coverage rate of 5.6 percent. Exam coverage exceeded plan as Large Business Return (LBR) closures increased because the planned realignment of resources from working large business returns to supporting OVDI (Offshore Voluntary Disclosure Initiative) closures occurred later than expected in the fiscal year. In addition, an unexpected allocation of resources to Joint Committee led to an increase in Joint Committee return closures. LB&I is projecting a lower coverage rate for FY 2014 and FY 2015 to 4.2 and 4.1 percent, respectively, as a result of a lower FTE allocation for large business exams due to

no initiative hiring, no attrition hiring, and continued reallocation of resources to work OVDI returns.

The IRS did not achieve the FY 2013 Exam Efficiency (Individual) target of 145 due to budgetary challenges, more complex paid preparer cases, and delays in closing cases due to Hurricane Sandy. The measure demonstrate how effectively resources are expended in closing individual returns and is calculated by dividing the total number of individual 1040 returns closed by the Full-Time Equivalent (FTE) expended in relation to those individual returns. Although the government shutdown decreased closures, IRS-wide emphasis in FY 2014 is to continue to decrease cycle times and increase IMF related pickups from BMF returns. The IRS expects to achieve its FY 2014 target of 133 and FY 2015 target of 124.

For FY 2013, AUR efficiency finished at 2,025, below the target of 2,035. While closing over 4.1 million cases for the 4th consecutive year, AUR efficiency was not met due to budgetary challenges and shifting of resources to address non-closure type work such as identity theft. The IRS expects to achieve the FY 2014 target of 1,931 and the FY 2015 target of 1,950.

In FY 2013, Automated Underreporter (AUR) Coverage was 2.8 percent, below the FY 2013 target of 2.9 percent. Total contact closures decreased 9 percent while individual filings increased by 1.8 percent in FY 2013 compared to last year. Because of budgetary challenges faced during the year and resources being diverted to identity theft, the target was missed by roughly 3 percent. In FY 2014, AUR will continue, on a regular basis, to improve coverage through improving the case screening process and increasing notices issued and closures. The IRS expects to achieve the FY 2014 target of 2.5 percent and FY 2015 target of 2.7 percent.

Collection

The Collection program collects delinquent taxes and secures delinquent tax returns through the fair and equitable application of the tax laws and educate taxpayers to improve 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.

Through FY 2013, Collection Coverage was 47 percent, exceeding the FY 2013 target of 46.4 percent. In FY 2013, net dispositions decreased by 6.7 percent compared to FY 2012. Collection is working together to develop options to balance non-filer work with downstream capacity. The IRS continues to identify opportunities to improve alignment between cases created and capacity for plan delivery. The IRS expects to achieve the FY 2014 target of 42.7 percent and the FY 2015 target of 45 percent.

In FY 2013, Collection Efficiency finished at 2,057, above the FY 2013 target of 2,049. In FY 2014 Collection will place focus on marketing and promoting the online payment agreements increasing dispositions in the notice stream. Automated Clearing House (ACH) Debit went online in November which should improve notice dispositions by allowing taxpayers to pay online and modify Taxpayer Delinquency Investigation (TDI) creation. The IRS expects to achieve the FY 2014 target of 2,007 and the FY 2015 target of 1,900.

In FY 2013, the Field Collection National Quality Review Score (NQRS) reached 81.4 percent, exceeding the FY 2013 target of 80.4 percent. Field Exam showed improvement in 16 of the 17 quality attributes during FY 2013. Future efforts will focus on eliminating the leading errors within the weakest quality attributes. The IRS expects to achieve the FY 2014 and FY 2015 target of 81 percent.

FY 2013 year-end results for Automated Collection System Accuracy (ACS) 94.4 percent fell short of the target of 94.5 percent despite all sites' continued efforts to address the issues impacting Customer Accuracy, including identifying the top drivers impacting the measure and sharing and discussing these trends with all levels of management for proper changes. In addition, mandatory use of several of the Interactive Tax Assistant Tools became effective June 17th which helped reduce Customer Accuracy errors. Continuing Professional Education (CPE) is scheduled to be delivered in the first quarter of FY 2014 to address some of the greatest Customer Accuracy errors. The IRS expects to achieve the FY 2014 and FY 2015 target of 94 percent.

3E – Regulatory (*\$170,339,000 in direct appropriations, an estimated \$679,000 from reimbursable programs, and an estimated \$15,700,000 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 2015 Program Changes by Budget Activity

Dollars in Thousands

Enforcement		
Regulatory	FTE	Amount
Enforcement Initiatives	125	\$16,636
Address International and Offshore Compliance Issues	7	1,360
Address Impact of ACA Statutory Requirements	56	8,306
Expand Audit Coverage	1	215
Improve Coverage of Partnerships and Flow-Through Entities	1	248
Expand Compliance Coverage in the Tax-Exempt Sector	32	3,172
Build Out Tax Return Preparer Compliance and Professional Responsibility Activities	28	3,335
Total FY 2015 Program Changes	125	\$16,636

3.1.5 – Budget and Performance Report and Plan

Dollars in Thousands

Regulatory	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Resource Level ^{1,2}	Enacted	Enacted	Enacted	Enacted	Enacted	Operating Level ³	Enacted	Request
Appropriated Resources	\$149,282	\$150,480	\$164,292	\$159,293	\$158,096	\$149,319	\$150,925	\$170,339
Reimbursable Resources	435	469	574	654	660	631	671	679
User Fees	168			13,249	12,482	15,700	15,700	15,700
Budget Activity Total	\$149,885	\$150,949	\$164,866	\$173,196	\$171,238	\$165,650	\$167,296	\$186,718

¹ The FY 2008 - FY 2012 Appropriated Resources represents the approved Operating Plan.

² The FY 2008 - FY 2012 columns represent realized resources for reimbursable and user fees.

³ FY 2013 Operating Level represents the across-the-board recession and reductions required by

Regulatory	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Measure	Actual	Actual	Actual	Actual	Actual	Actual	Target	Request
TE/GE Determination Case Closures (Ot)	100,050	96,246	105,247	91,205	87,000	65,877	71,219	74,475

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. The IRS reviews applications to determine eligibility and closes them upon approval or disapproval.

For FY 2013, final year-end results for TEGE Determination Case Closures were 5.4 percent above the target of 62,473. The decline in determination case closures was largely due to working older Employee Plan (EP) cases, which required more time to complete, resulting in a 51 percent decrease in the number of EP closures. The IRS continues to apply resources to the in-process aged inventory. In Exempt Organizations (EO), the IRS continues to apply more time to cases that close quicker and EO technical specialists complete several hundred complex cases. TEGE will continue to review case processing procedures with the Lean Six Sigma Office to identify changes that will alleviate the inventory backlog and improve case processing efficiencies in the EP and EO programs. These efforts will assist in achieving the FY 2014 and FY 2015 targets of 71,219 and 74,475 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 2015 is \$4,456,858,000 in direct appropriations and 13,380 FTE. This is an increase of \$657,916,000, or 17.32 percent, and 1,520 FTE more than the FY 2014 Enacted Budget of \$3,789,942,000 and 11,860 FTE.

A portion of this appropriation, \$241,689,000, is requested as part of the \$479,527,000 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.

The performance measures reflected in the Operations Support appropriation align to *Goal 3: Fairly and effectively reform and modernize Federal financial management, accounting, and tax systems, Objective 3.3: Pursue tax reform, implement the Patient Protection and Affordable Care Act and Foreign Account Tax Compliance Act, and improve the execution of the tax code* of the Department of the Treasury's Strategic Plan (FY 2014-2017).

2.1 – Budget Adjustments Table

Dollars in Thousands

Operations Support	FTE	Amount
FY 2013 Operating Level ¹	11,885	\$3,800,943
FY 2014 Enacted ²	11,860	\$3,798,942
Changes to Base:		
Non-Recur FY 2014 Additional Appropriation		(\$58,000)
Maintaining Current Levels (MCLs):		\$69,382
Pay Raise		19,399
FERS Contribution Increase		14,014
Non-Pay Inflation Adjustment		35,969
Other Adjustment:	244	\$29,221
Base Adjustments	244	29,221
Efficiencies/Savings:		(\$58,181)
Increase e-File Savings		(39)
Adjustment for FERS increase		(58,142)
Reinvestment:		\$16,025
Expand Telecom Infrastructure to Handle Increased Demand		16,025
Subtotal FY 2015 Changes to Base	244	(\$1,553)
FY 2015 Base	12,104	\$3,797,389
Program Changes:		
Program Increases:		
<i>Taxpayer Service Initiative:</i>		
Improve Taxpayer Service and Return Processing	36	57,776
Subtotal Taxpayer Service Initiative	36	\$57,776
<i>Enforcement Initiatives:</i>		
Address International and Offshore Compliance Issues		7,773
Expand Coverage of High Wealth Individuals and Enterprises		3,273
Prevent Identity Theft and Refund Fraud	66	34,005
Address Impact of ACA Statutory Requirements	50	19,525
Expand Audit Coverage	45	44,198
Enhance Collection Coverage	37	25,070
Improve Coverage of Partnerships and Flow-Through Entities	4	7,849
Expand Compliance Coverage in the Tax-Exempt Sector		2,731
Pursue Fraud Referrals, Employment Tax, and Abusive Tax Schemes		8,537
Build Out Tax Return Preparer Compliance and Professional Responsibility Activities		2,772
Implement Information Technology (IT) Changes to Deliver the Foreign Account Tax Compliance Act (FATCA)	140	32,223
Leverage Digital Evidence for Criminal Investigation (CI)	1	3,674
Leverage Data to Improve Case Selection	39	32,741
Subtotal Enforcement Initiatives	382	\$224,371
<i>Infrastructure Initiatives:</i>		
Implement Information Technology (IT) Changes to Deliver Tax Credits and Other Requirements	818	305,645
Implement Information Technology (IT) Services		10,000
Implement Campus Consolidation and Revitalization Strategy		10,000
Implement eGovernment and Other Administration Priorities	19	31,011
Maintain Integrity of Revenue Financial Systems	8	12,136
Expand Virtual Service Delivery (VSD)	13	7,701
Subtotal Infrastructure Initiatives	858	\$376,493
<i>Business Systems Modernization Initiative:</i>		
Continue Migration from Aging Tax Administration Systems - Enhance Online Services		829
Subtotal Business Systems Modernization Initiative		\$829
Subtotal FY 2015 Program Changes	1,276	\$659,469
Total FY 2015 Budget Request	13,380	\$4,456,858

¹ FY 2013 Operating Level represents the across-the-board rescission and reductions required by sequestration and an interappropriation transfer \$73M transferred from the Enforcement appropriation to the Taxpayer Services (\$13M) and Operations Support (\$60M) appropriations.

² FY 2014 Enacted includes \$58M in funding.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Operations Support	FY 2013 Actuals	FY 2014 Enacted ¹	FY 2015 Request
FTE	11,610	11,860	13,380
Object Classification:			
11.1 Full-Time Permanent Positions	\$1,078,767	\$1,137,719	\$1,297,590
11.3 Other than Full-Time Permanent Positions	8,884	8,067	8,142
11.5 Other Personnel Compensation	15,259	26,380	31,496
11.8 Special Personal Services Payments			
11.9 Personnel Compensation (Total)	\$1,102,910	\$1,172,166	\$1,337,228
12.0 Personnel Benefits	378,964	412,262	461,427
13.0 Benefits to Former Personnel	52,666	52,692	53,187
21.0 Travel	11,126	17,487	30,242
22.0 Transportation of Things	16,081	16,413	17,401
23.1 Rental Payments to GSA	646,847	614,872	633,428
23.2 Rent Payments to Others	12,787	13,058	13,282
23.3 Communications, Utilities, & Misc	344,065	340,123	387,488
24.0 Printing & Reproduction	21,480	21,843	24,688
25.1 Advisory & Assistance Services	433,839	395,994	531,802
25.2 Other Services	57,899	114,630	183,858
25.3 Purchase of Goods & Services from Govt. Accounts	75,753	77,805	87,114
25.4 Operation & Maintenance of Facilities	166,727	163,047	177,037
25.5 Research & Development Contracts		33	33
25.6 Medical Care	13,866	13,922	15,768
25.7 Operation & Maintenance of Equipment	74,022	86,251	96,793
25.8 Subsistence & Support of Persons	196	206	210
26.0 Supplies and Materials	18,531	27,531	31,902
31.0 Equipment	257,380	249,376	346,687
32.0 Lands and Structures	8,992	8,805	26,850
33.0 Investments & Loans			
41.0 Grants, Subsidies			
42.0 Insurance Claims & Indemn	233	426	433
43.0 Interest and Dividends			
44.0 Refunds			
91.0 Unvouchered			
Total Budget Authority	\$3,694,364	\$3,798,942	\$4,456,858
Budget Activities:			
Infrastructure	\$874,627	\$842,064	\$913,677
Shared Services & Support	1,097,565	1,154,960	1,269,176
Information Services	1,722,172	1,801,918	2,274,005
Total Budget Authority	\$3,694,364	\$3,798,942	\$4,456,858

¹ FY 2014 Enacted includes \$58M in funding.

2.3 – Appropriation Detail Table

Dollars in thousands

Operations Support												
Resources	FY 2013 Actuals		FY 2013 Operating Level ¹		FY 2014 Enacted ²		FY 2015 Request		\$ Change FY 2014 to FY 2015 Request		% Change FY 2014 to FY 2015 Request	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Infrastructure		\$874,627		\$886,535		\$842,064		\$913,677		\$71,613		8.50%
Shared Services and Support	5,026	1,097,565	5,120	1,111,317	5,091	1,154,960	5,425	1,269,176	334	114,216	6.56%	9.89%
Information Services	6,584	1,722,172	6,765	1,803,091	6,769	1,801,918	7,955	2,274,005	1,186	472,087	17.52%	26.20%
Subtotal New Appropriated Resources	11,610	\$3,694,364	11,885	\$3,800,943	11,860	\$3,798,942	13,380	\$4,456,858	1,520	\$657,916	12.82%	17.32%
Other Resources:												
Reimbursables	138	26,726	138	26,726	143	28,410	143	28,761		351		1.24%
Offsetting Collections - Non Reimbursables												
User Fees	1	182,085	1	184,276	1	184,276	1	184,276				
Recovery from Prior Years		2,294		8,175								
Unobligated Balances from Prior Years	158	170,069	158	198,489		120,580		113,722		(6,858)		-5.69%
Transfers In/Out ³				(911)								
Resources from Other Accounts												
Subtotal Other Resources	297	\$381,174	297	\$416,755	144	\$333,266	144	\$326,759		(\$6,507)		-1.95%
Total Budget Authority	11,907	\$4,075,538	12,182	\$4,217,698	12,004	\$4,132,208	13,524	\$4,783,617	1,520	\$651,409	12.66%	15.76%

¹ FY 2013 Operating Level represents the across-the-board rescission and reductions required by sequestration and an interappropriation transfer \$73M transferred from the Enforcement appropriation to the Taxpayer Services (\$13M) and Operations Support (\$60M) appropriations.

² FY 2014 Enacted includes \$58M in funding.

³ Resources from Transfers In/Out include FY 2013 transfers between IRS and the Office of National Drug Control Policy (ONDCP) High Intensity Drug Trafficking Area (HIDTA) Program (net transfer \$152K) and prior year user fees from the Operations Support and Business Systems Modernization (BSM) appropriations returned to the User Fees account (-\$1.356M), and a FY 2015 transfer out to the Alcohol and Tobacco Tax and Trade Bureau (TTTB) (\$5MM).

3F – Infrastructure (\$913,677,000 in direct appropriations, an estimated \$760,000 from reimbursable programs, and an estimated \$5,414,000 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 2015 Program Changes by Budget Activity

Dollars in Thousands

Operations Support			
Infrastructure		FTE	Amount
Taxpayer Service Initiative			\$16,362
	Improve Taxpayer Service and Return Processing		16,362
Enforcement Initiatives			\$26,009
	Address International and Offshore Compliance Issues		2,962
	Expand Coverage of High Wealth Individuals and Enterprises		1,260
	Prevent Identity Theft and Refund Fraud		3,638
	Address Impact of ACA Statutory Requirements		2,190
	Expand Audit Coverage		5,240
	Enhance Collection Coverage		5,152
	Improve Coverage of Partnerships and Flow-Through Entities		2,178
	Expand Compliance Coverage in the Tax-Exempt Sector		1,058
	Pursue Fraud Referrals, Employment Tax, and Abusive Tax Schemes		462
	Build Out Tax Return Preparer Compliance and Professional Responsibility Activities		945
	Implement Information Technology (IT) Changes to Deliver the Foreign Account Tax		448
	Leverage Digital Evidence for Criminal Investigation (CI)		54
	Leverage Data to Improve Case Selection		422
Infrastructure Initiatives			\$10,632
	Implement Information Technology (IT) Changes to Deliver Tax Credits and Other		2,618
	Implement Campus Consolidation and Revitalization Strategy		7,659
	Implement eGovernment and Other Administration Priorities		167
	Maintain Integrity of Revenue Financial Systems		67
	Expand Virtual Service Delivery (VSD)		121
Business Systems Modernization Initiative			\$368
	Continue Migration from Aging Tax Administration Systems - Enhance Online Services		368
Total FY 2015 Program Changes			\$53,371

3.1.6 – Budget and Performance Report and Plan

Dollars in Thousands

Infrastructure	Resource Level ^{1,2}	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
		Enacted	Enacted	Enacted	Enacted	Enacted	Operating Level ³	Enacted	Request
	Appropriated Resources	\$826,313	\$875,538	\$895,202	\$926,190	\$929,634	\$886,535	\$842,064	\$913,677
	Reimbursable Resources	149	14,120	505	880	1,016	701	748	760
	User Fees	13,049			23,290	57,477	5,414	5,414	5,414
Budget Activity Total		\$839,511	\$889,658	\$895,707	\$950,360	\$988,127	\$892,650	\$848,226	\$919,851

¹ The FY 2008 - FY 2012 Appropriated Resources represents the approved Operating Plan.

² The FY 2008 - FY 2012 columns represent realized resources for reimbursable and user fees.

³ FY 2013 Operating Level represents the across-the-board recession and reductions required by sequestration and an interappropriation transfer of \$15.3M transferred from the Enforcement appropriation to Operations Support appropriation.

Description of Performance

In FY 2013, there were 89 space reduction projects completed that resulted in the release of 557,779 rentable square feet of space with annualized rent savings of \$15.7 million.

Approximately 30 space reduction projects have been approved for implementation in FY 2014, which would result in the release of 350,000 rentable square feet of space with annualized rent savings of approximately \$11.3 million. The IRS will continue to implement high priority projects in FY 2015 if funds become available. Project identification will continue during this budget year.

The IRS also intends 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 2014 and beyond.

3G – Shared Services and Support (*\$1,269,176,000 in direct appropriations, an estimated \$18,504,000 from reimbursable programs, and an estimated \$33,826,000 from user fees*):

This budget activity funds policy management, IRS-wide support for research, strategic planning, communications and liaison, protection of sensitive information and the privacy of taxpayers and employees, 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, business systems planning, embedded training, and the Treasury Franchise Fund. 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* 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 strategies to address taxpayer noncompliance.
- *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 2015 Program Changes by Budget Activity

Dollars in Thousands

Operations Support		
Shared Services and Support	FTE	Amount
Taxpayer Service Initiative	13	\$12,622
Improve Taxpayer Service and Return Processing	13	12,622
Enforcement Initiatives	69	\$41,149
Address International and Offshore Compliance Issues		2,804
Expand Coverage of High Wealth Individuals and Enterprises		1,154
Prevent Identity Theft and Refund Fraud	19	7,212
Address Impact of ACA Statutory Requirements	50	15,466
Expand Audit Coverage		4,927
Enhance Collection Coverage		4,769
Improve Coverage of Partnerships and Flow-Through Entities		1,952
Expand Compliance Coverage in the Tax-Exempt Sector		944
Pursue Fraud Referrals, Employment Tax, and Abusive Tax Schemes		579
Build Out Tax Return Preparer Compliance and Professional Responsibility Activities		885
Implement Information Technology (IT) Changes to Deliver the Foreign Account Tax		196
Leverage Digital Evidence for Criminal Investigation (CI)		34
Leverage Data to Improve Case Selection		227
Infrastructure Initiatives	8	\$8,565
Implement Information Technology (IT) Changes to Deliver Tax Credits and Other		1,096
Implement Campus Consolidation and Revitalization Strategy		192
Implement eGovernment and Other Administration Priorities		6,337
Maintain Integrity of Revenue Financial Systems	8	878
Expand Virtual Service Delivery (VSD)		62
Business Systems Modernization Initiative		\$191
Continue Migration from Aging Tax Administration Systems - Enhance Online Services		191
Total FY 2015 Program Changes	90	\$62,527

3.1.7 – Budget and Performance Report and Plan

Dollars in Thousands

Shared Services and Support								
Resource Level ^{1,2}	FY 2008 Enacted	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Operating Level ³	FY 2014 Enacted ⁴	FY 2015 Request
Appropriated Resources	\$1,291,296	\$1,269,642	\$1,311,127	\$1,291,568	\$1,214,514	\$1,111,317	\$1,154,960	\$1,269,176
Reimbursable Resources	30,796	20,763	20,315	19,957	31,486	17,175	18,268	18,504
User Fees	19,114		17,887	4,588	14,938	33,826	33,826	33,826
Budget Activity Total	\$1,341,206	\$1,290,405	\$1,349,329	\$1,316,113	\$1,260,938	\$1,162,318	\$1,207,054	\$1,321,506

¹ The FY 2008 - FY 2012 Appropriated Resources represents the approved Operating Plan.

² The FY 2008 - FY 2012 columns represent realized resources for reimbursable and user fees.

³ FY 2013 Operating Level represents the across-the-board recession and reductions required by sequestration and an interappropriation transfer of \$2.1M transferred from the Enforcement appropriation to Operations Support appropriation.

⁴ FY 2014 Enacted includes \$3.2M in funding.

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 2013, the IRS:

- Established a corporate strategy for employee engagement, endorsed by the Human Capital Board, supported by the IRS Oversight Board, and collaborated with the National Treasury Employees Union to focus on both Bargaining Unit and Non-Bargaining Unit employees.
- Continued to expand the Geographic Leadership Communities (GLCs), which are now available in 36 geographic areas. The GLCs are 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.
- Increased telework participation, which enhances employee satisfaction and engagement while enabling cost savings in other areas, has increased to 26 percent, surpassing the IRS’s goal of 24 percent for FY 2013.
- Implemented the Leadership Succession Review (LSR) IRS-wide, providing succession planning data on 4,400 managers and 5,651 employees (non-managers) interested in management. LSR also is being used to identify employees for GLC participation, systemic skill gap, and developmental opportunities.
- Increased use of online training courses, resulting in reduced travel costs and timely, convenient, and accessible training for all employees. There were over 1.2 million online courses completed in FY 2013 (not including briefings), an increase of 10 percent from FY 2012.

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.

Security

The IRS collects a tremendous amount of sensitive information, and protecting this information is vital to maintaining the public trust. In FY 2013, the IRS monitored, identified, and mitigated fraudulent schemes, to protect hardware, software, and taxpayers' information from increasing and evolving online fraud and identity theft schemes. The IRS improved threat intelligence gathering capabilities to quickly take down servers and web sites that were sending out fraudulent emails aimed at defrauding innocent taxpayers. In FY 2013, the IRS:

- Identified, mitigated, and responded to more than 1,300 cyber incidents and blocked over 5,800 websites to prevent access to malicious or compromised sites.
- Eliminated 3,119 fraudulent domestic websites including 2,790 fraudulent malware websites.
- Reduced the average elapsed time to notify taxpayers of a data loss from 48.4 days in FY 2012 to 40.8 days in FY 2013, a 15.7 percent decrease.
- Implemented a Safeguarding Personally Identifiable Information Data Extracts (SPIIDE) project to advance data protection and reduce inadvertent disclosures.
- Established a means for the IRS to systematically identify and categorize all personally identifiable information (PII) to ensure it is properly labeled and protected by implementing the PII Inventory and Classification Project (PIIC).
- Recognized and quickly shut down 3,542 phishing websites.

Research

The IRS National Research Program (NRP) continued to analyze reporting compliance data for various taxpayer populations, including Individual Income Tax, Corporate Income Tax, Employment Taxes, and Fuel Excise Taxes. NRP results enhance taxpayer service by improving IRS processes to reduce taxpayer burden and support enforcement activities by identifying issues with high risks for noncompliance. The IRS Joint Statistical Research Program (JSRP) uses Statistics of Income tax data to study the effects of existing tax policies on individuals, businesses, and the economy. The JSRP is responsible for several research projects that require collaborating with academia, non-profit research organizations, and other government agencies on important issues affecting tax administration. In FY 2013, the JSRP developed an IRS Databank, which provides a new way of looking at tax data at the individual level, rather than the return level. This key difference will facilitate better understanding of the impact of taxes on individuals. Another research effort under this program demonstrated a relationship between taxpayer searches for IRS and third-party information on capital gains reporting requirements and the taxpayer's capital gain realizations and reporting activity.

3H – Information Services (\$2,274,005,000 in direct appropriations, an estimated \$9,497,000 from reimbursable programs, and an estimated \$145,036,000 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:

- *Enterprise Program Management Office (EPMO)* provides oversight and project integration into daily IT processes for large scaled development, modernization, and enhancement projects. Enables a coordinated, cross functional project planning, implementation and performance assessment effort aimed at improving the quality, cost, and delivery schedule of IT systems.
- *Cybersecurity* delivers IT security services and ensures IRS compliance with federal statutory, legislative and regulatory requirements governing confidentiality, integrity and availability of IRS electronic systems, services and data. Cybersecurity tracks compliance, continuously monitors risk, provides remediation, and more to manage the IRS's IT Security Program in accordance with the Federal Information Security Management Act.
- *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 consolidates the resources achieved through efficiencies in various parts of IT to ensure that replacement of the aging infrastructure is addressed centrally.
- *Treasury Franchise Fund (TFF)* is a centralized functional area for separating from Information Services base budget the resources required to pay Treasury billings for services provided through the Treasury Franchise 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 2015 Program Changes by Budget Activity

Dollars in Thousands

Operations Support		
Information Services	FTE	Amount
Taxpayer Service Initiative	23	\$28,792
Improve Taxpayer Service and Return Processing	23	28,792
Enforcement Initiatives	313	\$157,213
Address International and Offshore Compliance Issues		2,007
Expand Coverage of High Wealth Individuals and Enterprises		859
Prevent Identity Theft and Refund Fraud	47	23,155
Address Impact of ACA Statutory Requirements		1,869
Expand Audit Coverage	45	34,031
Enhance Collection Coverage	37	15,149
Improve Coverage of Partnerships and Flow-Through Entities	4	3,719
Expand Compliance Coverage in the Tax-Exempt Sector		729
Pursue Fraud Referrals, Employment Tax, and Abusive Tax Schemes		7,496
Build Out Tax Return Preparer Compliance and Professional Responsibility Activities		942
Implement Information Technology (IT) Changes to Deliver the Foreign Account Tax	140	31,579
Leverage Digital Evidence for Criminal Investigation (CI)	1	3,586
Leverage Data to Improve Case Selection	39	32,092
Infrastructure Initiatives	850	\$357,296
Implement Information Technology (IT) Changes to Deliver Tax Credits and Other	818	301,931
Implement Information Technology (IT) Services		10,000
Implement Campus Consolidation and Revitalization Strategy		2,149
Implement eGovernment and Other Administration Priorities	19	24,507
Maintain Integrity of Revenue Financial Systems		11,191
Expand Virtual Service Delivery (VSD)	13	7,518
Business Systems Modernization Initiative		\$270
Continue Migration from Aging Tax Administration Systems - Enhance Online Services		270
Total FY 2015 Program Changes	1,186	\$543,571

3.1.8 – Budget and Performance Report and Plan

Dollars in Thousands

Information Services	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Resource Level ^{1,2}	Enacted	Enacted	Enacted	Enacted	Enacted	Operating Level ³	Enacted ⁴	Request
Appropriated Resources	\$1,723,500	\$1,721,831	\$1,877,555	\$1,838,958	\$1,803,268	\$1,803,091	\$1,801,918	\$2,274,005
Reimbursable Resources	14,310	14,612	17,231	16,286	5,154	8,850	9,394	9,497
User Fees	50,000	9,543	36,081	26,764	59,823	145,036	145,036	145,036
Budget Activity Total	\$1,787,810	\$1,745,986	\$1,930,867	\$1,882,008	\$1,868,245	\$1,956,977	\$1,956,348	\$2,428,538

¹ The FY 2008 - FY 2012 Appropriated Resources represents the approved Operating Plan.

² The FY 2008 - FY 2012 columns represent realized resources for reimbursable and user fees.

³ FY 2013 Operating Level represents the across-the-board recession and reductions required by sequestration and an interappropriation transfer of \$42.6M transferred from the Enforcement appropriation to Operations Support appropriation.

⁴ FY 2014 Enacted includes \$54.8M in funding.

Description of Performance

The IRS taxpayer service and enforcement programs rely heavily on information systems that fall into the non-business systems modernization (non-BSM) major products categories. These systems 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 2013, the IRS provided new applications and services to make it easier for taxpayers to get assistance and secure tax information.

- Enhanced the “Where’s My Refund?” web tool to allow taxpayers to find out when their tax return was received, when the refund was approved, and when the refund was sent. These enhancements reduced the time taxpayers had to wait to get a status of their tax returns from 72 hours to 24 hours. The IRS notified taxpayers of the enhanced “Where’s My Refund?” web tool by placing questions and answers on IRS.gov and producing two YouTube videos, “When Will I Get My Refund?” which had over 1.1 million views and “How to Use the Where’s My Refund?” tool, which had over 211,000 views.
- Deployed a new telephone and web tool called “*Where’s My Amended Return?*” in both English and Spanish that allowed taxpayers to check the status of their Form 1040X amended tax returns for the current year and up to three prior years. The tool also provided taxpayers with information such as when their amended return was received, adjusted, and completed, as well as specific information regarding offset conditions such as a previous IRS tax liability or a past due obligation.
- Continued to expand on its use of video technology that allows assistors to interact with taxpayers virtually at selected IRS walk-in Taxpayer Assistance Centers (TAC). The Virtual Service Delivery (VSD) project allowed taxpayers to have face-to-face interactions with IRS assistors working in remote locations using video monitors. This year, the IRS collaborated with internal and external stakeholders to deploy VSD systems in 14 new locations bringing the total to 26 sites and assisted over 22,000 taxpayers with accounts, tax law questions, and other inquiries.
- Offered a remote filing method – Facilitated Self Assistance (FSA) at VITA sites. More than 82,000 FSA returns were filed at the 330 VITA sites offering the FSA remote filing model. Taxpayers with incomes of \$57,000 or less, basic computer skills, internet access with an e-mail address, and necessary tax preparation documents could file their taxes using this model.
- Enhanced existing online and self-help service options by increasing the amount of tax information and services available to taxpayers through IRS.gov. Self-service applications on IRS.gov allowed taxpayers to exchange information online with the IRS, decreasing service requests from higher-cost channels like telephone assistance.

In FY 2013 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. Cost variances are primarily attributed to cost under runs as a result of budgets operating under Continuing Resolutions and Sequestration. 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
2013	68%	98%

In FY 2014, and beyond, the IRS will continue to focus efforts on expanding capabilities to identify fraudulent returns and hinder identity theft, enhance cyber monitoring and IT security controls, expand e-services to taxpayers and practitioners, and further modernize and consolidate our IT infrastructure as well as continue development and implementation of IRS-specific components of the Affordable Care Act legislation.

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 2015 is \$330,210,000 in direct appropriations and 569 FTE. This is an increase of \$17,272,000, or 5.52 percent, and 41 FTE more than the FY 2014 Enacted Budget of \$312,938,000 and 528 FTE.

The measures reflected in the Business Systems Modernization appropriation support and align to *Goal 3: Fairly and effectively reform and modernize Federal financial management, accounting, and tax systems, Objective 3.3: Pursue tax reform, implement the Patient Protection and Affordable Care Act and Foreign Account Tax Compliance Act, and improve the execution of the tax code* of the Department of the Treasury's Strategic Plan (FY 2014-2017).

2.1 – Budget Adjustments Table

Dollars in Thousands

Business Systems Modernization	FTE	Amount
FY 2013 Operating Level ¹	471	\$312,938
FY 2014 Enacted	528	\$312,938
Changes to Base:		
Maintaining Current Levels (MCLs):		\$1,593
Pay Raise		859
FERS Contribution Increase		734
Subtotal FY 2015 Changes to Base		\$1,593
FY 2015 Base	528	\$314,531
Program Changes:		
Program Increases:		
<i>Business Systems Modernization Initiative:</i>		
Continue Migration from Aging Tax Administration Systems - Enhance Online Services	41	15,679
Subtotal Business Systems Modernization Initiative	41	\$15,679
Subtotal FY 2015 Program Changes	41	\$15,679
Total FY 2015 Budget Request	569	\$330,210

¹ FY 2013 Operating Level represents the across-the-board rescission and reductions required by sequestration and an interappropriation transfer \$73M transferred from the Enforcement appropriation to the Taxpayer Services (\$13M) and Operations Support (\$60M) appropriations.

2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Business Systems Modernization			
	FY 2013 Actuals	FY 2014 Enacted	FY 2015 Request
FTE	451	528	569
Object Classification:			
11.1 Full-Time Permanent Positions	\$45,250	\$53,395	\$56,651
11.3 Other than Full-Time Permanent Positions	1,007	1,000	1,000
11.5 Other Personnel Compensation	1,094	1,500	1,632
11.8 Special Personal Services Payments			
11.9 Personnel Compensation (Total)	\$47,351	\$55,895	\$59,283
12.0 Personnel Benefits	13,557	22,884	25,405
13.0 Benefits to Former Personnel			
21.0 Travel	116	954	1,070
22.0 Transportation of Things			
23.1 Rental Payments to GSA			
23.2 Rent Payments to Others			
23.3 Communications, Utilities, & Misc			
24.0 Printing & Reproduction			4
25.1 Advisory & Assistance Services	119,907	206,010	212,095
25.2 Other Services		115	156
25.3 Purchase of Goods & Services from Govt. Accounts		206	
25.4 Operation & Maintenance of Facilities			
25.5 Research & Development Contracts			
25.6 Medical Care			
25.7 Operation & Maintenance of Equipment	280	2,000	1,500
25.8 Subsistence & Support of Persons			
26.0 Supplies and Materials	6	6	51
31.0 Equipment	16,988	24,868	30,646
32.0 Lands and Structures			
33.0 Investments & Loans			
41.0 Grants, Subsidies			
42.0 Insurance Claims & Indemn			
43.0 Interest and Dividends			
44.0 Refunds			
91.0 Unvouchered			
Total Budget Authority	\$198,205	\$312,938	\$330,210
Budget Activities:			
IT Investments	\$198,205	\$312,938	\$330,210
Total Budget Authority	\$198,205	\$312,938	\$330,210

2.3 – Appropriation Detail Table

Dollars in thousands

Business Systems Modernization												
Resources	FY 2013 Actuals		FY 2013 Operating Level ¹		FY 2014 Enacted		FY 2015 Request		\$ Change FY 2014 to FY 2015 Request		% Change FY 2014 to FY 2015 Request	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:												
Business Systems Modernization	451	\$198,205	471	\$312,938	528	\$312,938	569	\$330,210	41	\$17,272	7.77%	5.52%
Subtotal New Appropriated Resources	451	\$198,205	471	\$312,938	528	\$312,938	569	\$330,210	41	\$17,272	7.77%	5.52%
Other Resources:												
Reimbursables												
Offsetting Collections - Non Reimbursables				10								
User Fees				2,902								
Recovery from Prior Years				97,408								
Unobligated Balances from Prior Years		59,854		97,408		154,194		137,426		(16,768)		-10.87%
Transfers In/Out ²				(458)								
Resources from Other Accounts												
Subtotal Other Resources		\$59,854		\$99,862		\$154,194		\$137,426		(\$16,768)		-10.87%
Total Budget Authority	451	\$258,059	471	\$412,800	528	\$467,132	569	\$467,636	41	\$504	7.77%	0.11%

¹ FY 2013 Operating Level represents the across-the-board recession and reductions required by sequestration and an interappropriation transfer \$73M transferred from the Enforcement appropriation to the Taxpayer Services (\$13M) and Operations Support (\$60M) appropriations.

² Resources from Transfers In/Out include FY 2013 transfers between IRS and the Office of National Drug Control Policy (ONDCP) High Intensity Drug Trafficking Area (HDTA) Program (net transfer \$152K) and prior year user fees from the Operations Support and Business Systems Modernization (BSM) appropriations returned to the User Fees account (-\$1.356M), and a FY 2015 transfer out to the Alcohol and Tobacco Tax and Trade Bureau (TTB) (\$5M).

3I – Business Systems Modernization (\$330,210,000 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 2015 BSM request of \$330.2 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 the capability to view the taxpayer account data stored in the CADE 2 database, and will feed downstream systems such as the Integrated Data Retrieval System (IDRS) for online transaction processing by IRS customer service representatives and analytical reporting for more meaningful business intelligence and expanded opportunities to increase compliance.

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.

Enhance Online Services (OLS): Enhance Online Services will simplify the taxpayer's online experience, provide secure digital communications, and add more interactive capabilities to

existing web self-service products. By providing taxpayers the option to communicate digitally, the IRS estimates it will achieve significant savings through decreased calls and walk-ins and deliver a greater level of service.

Return Review Program (RRP): RRP delivers an integrated and unified system, which enhances IRS capabilities to detect, resolve, and prevent criminal and civil tax noncompliance. The RRP provides a flexible and accessible system capable of supporting a cross-functional approach to address criminal and civil tax noncompliance. In addition, the RRP allows analysis and support of complex case processing requirements for compliance and criminal investigation programs during prosecution, revenue protection, accounts management, and taxpayer communications processes.

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 2015, 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, 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 and support: This activity provides the labor and support costs associated with the development of projects within the BSM portfolio.

FY 2015 Program Changes by Budget Activity

Dollars in Thousands

Business Systems Modernization		
Information Technology Investments	FTE	Amount
Business Systems Modernization Initiative	41	\$15,679
Continue Migration from Aging Tax Administration Systems - Enhance Online Services	41	15,679
Total FY 2015 Program Changes	41	\$15,679

3.1.9 – Budget and Performance Report and Plan

Dollars in Thousands

Business Systems Modernization								
Resource Level ^{1,2}	FY 2008 Enacted	FY 2009 Enacted	FY 2010 Enacted	FY 2011 Enacted	FY 2012 Enacted	FY 2013 Operating Level ³	FY 2014 Enacted	FY 2015 Request
Appropriated Resources	\$267,090	\$229,914	\$263,897	\$263,369	\$330,210	\$312,938	\$312,938	\$330,210
Reimbursable Resources								
User Fees				88,948				
Budget Activity Total	\$267,090	\$229,914	\$263,897	\$352,317	\$330,210	\$312,938	\$312,938	\$330,210

¹ The FY 2008 - FY 2012 Appropriated Resources represents the approved Operating Plan.

² The FY 2008 - FY 2012 columns represent realized resources for reimbursable and user fees.

³ FY 2013 Operating Level represents the across-the-board rescission and reductions required by

Business Systems Modernization								FY 2015
Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Target	Request Target
Percent of BSM Projects within +/- 10% Cost Variance (E)	92.0%	60.0%	40.0%	71.4%	50.0%	0.0%	90.0%	90.0%
Percent of BSM Projects within +/- 10% Schedule Variance (E)	92.0%	90.0%	100.0%	100.0%	90.0%	83.3%	90.0%	90.0%

Key: E - Efficiency Measure

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 reports two budget level measures which track the percentage of major BSM projects that are within +/- 10 percent Cost and Schedule variance threshold. For FY 2013, the IRS did not meet its Schedule Variance and Cost Variance targets. As listed in the tables below, there were six project segments completed in FY 2013.

Zero out of six (0 percent) project segments met the cost variance threshold. Three of the six project segments came in lower than the projected costs.

- MeF R8 milestones 4b and 5 required additional funds to support unplanned and unfunded software/hardware costs, adding automated monitoring capabilities and to cover higher than anticipated costs of Unified Work Requests.
- MeF R9 milestone 2, 3 and 4a infrastructure support costs were significantly lower than planned.
- CADE 2 TS1 milestone 5 required additional funds for contracting support to optimize processes surrounding the CADE 2 database and for continued support for database implementation activities.

Cost Variance for Project Segments Completed in FY 2013							
Project	Release	MS	Planned Cost	Current Cost	Variance (\$000)	Variance (%)	Within Acceptable
MeF	R8	4b	13,900	25,749	11,849	85%	NO
MeF	R8	5	2,900	6,900	4,000	138%	NO
MeF	R9	2	4,000	1,283	(2,717)	-68%	NO
MeF	R9	3	7,500	3,117	(4,383)	-58%	NO
MeF	R9	4a	9,500	5,500	(4,000)	-42%	NO
CADE 2	Trans. State 1	5	30,000	37,977	7,977	27%	NO

In FY 2013, five out of the six (83.3 percent) projects were within the schedule variance threshold, as improved planning and project management continues to have a positive effect on the projects.

Schedule Variance for Project Segments Completed in FY 2013							
Project	Release	MS	Planned Finish	Current Finish	Variance (days)	Variance (%)	Within Acceptable
MeF	R8	4b	01/03/13	01/02/13	-1	-1%	YES
MeF	R8	5	05/17/13	05/07/13	-8	-9%	YES
MeF	R9	2	11/30/12	12/04/12	2	1%	YES
MeF	R9	3	02/22/13	02/25/13	1	2%	YES
MeF	R9	4a	05/14/13	05/14/13	0	0%	YES
CADE 2	Trans. State 1	5	09/30/12	11/05/12	24	15%	NO

- CADE 2 TS1 milestone 5 exit was delayed due to an unforeseen slow-down because of large volumes generated by TIN updates to the database. While the resulting schedule variance for CADE 2 TS1 MS 5 exceeds the acceptable threshold level, the overall schedule variance for CADE 2 TS1 is still within tolerance.

Going forward, CADE2 and MeF will continue to rigorously monitor program activities and address any issues associated with cost/schedule variance on a timely basis.

Section 4 – Supplemental Information

4.1 – Summary of Capital Investments

Dollars in Thousands

Internal Revenue Service FY 2015 Congressional Justification Submission Capital Investments							
Investments / Funding Source	FY 2012 Actuals	FY 2013 Actuals	% Change from FY12 to FY13	FY 2014 Enacted	% Change from FY13 to FY14	FY 2015 CJ Request	% Change from FY14 to FY15
Major IT Investments							
Account Management Services (AMS)	\$19,734	\$17,018	-13.8%	\$17,349	1.9%	\$27,208	56.8%
IRS Operations Support 015-45-0919	19,734	17,018		17,349		27,208	
Affordable Care Act (ACA)		\$248,336		\$344,952	38.9%	\$323,883	-6.1%
IRS Operations Support 015-45-0919		178,628		156,952		323,883	
IRS Operations Support User Fees 015-45-5432		69,708		188,000		000	
CADE 2	\$214,928	\$146,506	-31.8%	\$164,978	12.6%	\$170,514	3.4%
IRS BSM 015-45-0921	210,482	140,453		158,765		164,193	
IRS Operations Support 015-45-0919	4,446	6,053		6,213		6,321	
e-Services	\$13,093	\$10,649	-18.7%	\$10,838	1.8%	\$11,046	1.9%
IRS Operations Support 015-45-0919	13,093	10,649		10,838		11,046	
Electronic Fraud Detection System (EFDS)	\$17,832	\$18,132	1.7%	\$16,324	-10.0%	\$16,607	1.7%
IRS Operations Support 015-45-0919	14,318	14,502		12,694		12,915	
IRS EITC 015-45-0919-0	3,515	3,630		3,630		3,692	
Return Review Program (RRP)	\$23,740	\$42,849	80.5%	\$67,678	57.9%	\$49,465	-26.9%
IRS Operations Support 015-45-0919	23,739	22,879		14,624		14,936	
IRS BSM 015-45-0921	000	000		53,054		34,528	
IRS Operations Support User Fees 015-45-5432	000	19,970		000		000	
IRS EITC 015-45-0919-0	001	000		000		000	
Individual Master File (IMF)	\$8,055	\$11,293	40.2%	\$13,680	21.1%	\$13,947	2.0%
IRS Operations Support 015-45-0919	8,055	11,293		13,680		13,947	
Information Reporting and Document Matching (IRDM)	\$21,760	\$18,892	-13.2%	\$22,591	19.6%	\$23,014	1.9%
IRS Operations Support 015-45-0919	21,757	18,892		22,591		23,014	
IRS EITC 015-45-0919-0	003	000		000		000	
IRS End User Systems and Services (EUSS)	\$235,612	\$194,595	-17.4%	\$182,322	-6.3%	\$207,564	13.8%
IRS Operations Support 015-45-0919	235,605	193,394		182,306		207,549	
IRS EITC 015-45-0919-0	006	013		015		016	
IRS Operations Support User Fees 015-45-5432	000	1,188		000		000	
IRS Main Frames and Servers Services and Support (MSSS)	\$481,790	\$473,912	-1.6%	\$411,025	-13.3%	\$637,880	55.2%
IRS Operations Support 015-45-0919	432,328	460,297		380,821		425,057	
IRS BSM 015-45-0921	48,900	13,616		000		12,823	
IRS Private Collection Agent Program 015-45-5510	563	000		000		000	
IRS Operations Support User Fees 015-45-5432	000	000		30,204		200,000	
IRS Telecommunications Systems and Support	\$336,736	\$297,413	-11.7%	\$301,736	1.5%	\$338,221	12.1%
IRS Operations Support 015-45-0919	334,750	286,958		300,664		337,130	
IRS Operations Support User Fees 015-45-5432	000	9,383		000		000	
IRS Private Collection Agent Program 015-45-5510	764	000		000		000	
IRS EITC 015-45-0919-0	1,073	1,072		1,073		1,091	
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr. Health Care/ACA(09A9), Rcvry., Asset Forfeiture	149	000		000		000	
Integrated Customer Communications Environment (ICCE)	\$16,622	\$15,136	-8.9%	\$15,489	2.3%	\$15,797	2.0%
IRS Operations Support 015-45-0919	16,622	15,136		15,489		15,797	
Integrated Data Retrieval Systems (IDRS)	\$18,098	\$15,951	-11.9%	\$18,057	13.2%	\$18,432	2.1%
IRS Operations Support 015-45-0919	18,098	15,951		18,057		18,432	
Integrated Financial System/CORE Financial System (IFS)	\$17,495	\$16,705	-4.5%	\$15,449	-7.5%	\$15,995	3.5%
IRS Operations Support 015-45-0919	17,260	16,705		15,449		15,995	
IRS BSM 015-45-0921	234	000		000		000	
Integrated Submission and Remittance Processing System (ISRP)	\$16,087	\$11,891	-26.1%	\$10,167	-14.5%	\$10,350	1.8%
IRS Operations Support 015-45-0919	16,087	11,891		10,167		10,350	
Internal Revenue Service.gov (IRS.gov)	\$63,534	\$84,930	33.7%	\$16,250	-80.9%	\$23,703	45.9%
IRS Operations Support 015-45-0919	63,534	44,130		16,250		23,703	
IRS Operations Support User Fees 015-45-5432	000	39,165		000		000	
IRS BSM 015-45-0921	000	1,636		000		000	

4.1 – Summary of Capital Investments (Continued)

Internal Revenue Service FY 2015 Congressional Justification Submission Capital Investments							
Investments / Funding Source	FY 2012 Actuals	FY 2013 Actuals	% Change from FY12 to FY13	FY 2014 Enacted	% Change from FY13 to FY14	FY 2015 CJ Request	% Change from FY14 to FY15
Major IT Investments (Continued)							
Foreign Account Tax Compliance Act (FATCA)	\$7,120	\$8,575	20.4%	\$46,576	443.1%	\$39,305	-15.6%
IRS Operations Support 015-45-0919	7,120	4,906		46,576		39,305	
IRS Operations Support User Fees 015-45-5432	000	3,669		000		000	
Modernized e-File (MeF)	\$77,885	\$72,479	-6.9%	\$39,900	-44.9%	\$55,694	39.6%
IRS BSM 015-45-0921	57,186	52,167		19,364		34,783	
IRS Operations Support 015-45-0919	20,699	20,312		20,536		20,911	
Service Center Recognition/Image Processing System (SCRIPS)	\$18,209	\$12,062	-33.8%	\$9,256	-23.3%	\$16,523	78.5%
IRS Operations Support 015-45-0919	18,209	12,062		9,256		16,523	
Subtotal, Major IT Investments	\$1,608,329	\$1,717,325	6.8%	\$1,724,617	0.4%	\$2,015,147	16.8%
Non-Major IT Investments	\$869,734	\$567,503	-34.7%	\$683,629	20.5%	\$814,351	19.1%
TOTAL IT Investments	\$2,478,063	\$2,284,828	-7.8%	\$2,408,245	5.4%	\$2,829,498	17.5%
Major Non-IT Investments							
Criminal Investigations Capital Assets	\$756	\$399	-47.2%	\$600	50.2%	\$927	54.5%
IRS Enforcement (One Year)	043	000		000		327	
IRS Enforcement (Reimbursable)	714	000		000		000	
IRS Enforcement (Forfeiture)	000	399		600		600	
Security Equipment	\$2,500	\$1,684	-32.6%	\$1,206	-28.4%	\$2,644	119.3%
IRS Operations Support (One Year)	2,500	1,684		1,206		2,644	
Leasehold Improvements	\$12,400	\$5,989	-51.7%	\$3,405	-43.2%	\$18,169	433.6%
IRS Operations Support (One Year)	12,400	5,989		3,405		18,169	
Total Major Non-IT Investments	\$15,656	\$8,073	-48.4%	\$5,210	-35.5%	\$21,741	317.2%
Total Capital Investments	\$2,493,719	\$2,292,901	-8.1%	\$2,413,456	5.3%	\$2,851,239	18.1%

4A – Capital Investment Strategy

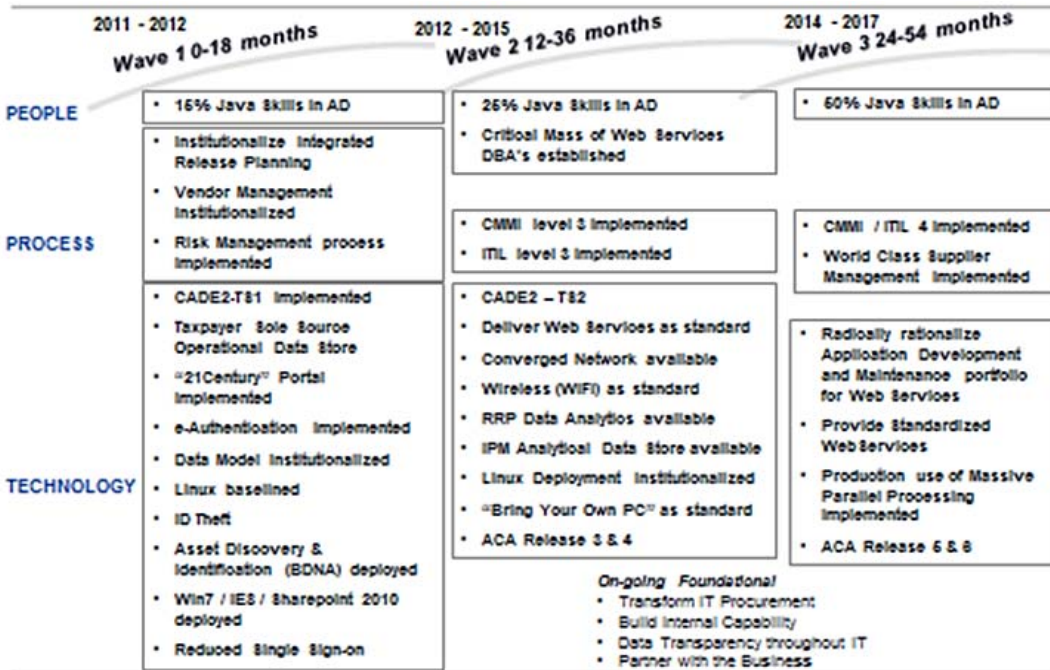
IT is a key enabler for efficient and effective tax administration. Today, the role of IT is more important than ever as the IRS faces the increasing complexity of tax administration, accelerating globalization, and an explosion in electronic data, online interactions, and related security risks. IRS 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 multi-year 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 to encompass a larger proportion of its IT investments each year. The IRP allows the IRS to assess proposed and current essential investments, ensuring 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 (illustration 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 the IRS's highest priorities each year, the IT strategy ensures that the IRS also explores new technologies in areas such as communications to complement its existing portfolio of IT investments. Projects such as *Bring Your Own Device*, for example, allow 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 that allow for 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 Exhibit 300B. 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

The following is a comprehensive list of assets that make up the foundation of the IRS’s investment strategy. Also included are details regarding the immediate and full life-cycle costs, actual obligations through FY 2013, 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 allows 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 2014 budget plus the FY 2015 request) as well as the full life cycle cost of the asset:

FY 2014 - FY 2015:	\$ 44,556,442
Life-cycle Cost:	\$204,421,463
Actual Obligations to Date:	\$ 10,570,857
Start Date of Investment:	2009

The projected useful life of the current asset: estimated 2017.

Timeframe for the “development, modernization, and enhancement” (DME) or “operations and maintenance” (O&M) phase of the investment for FY 2015:

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 8000 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; and
- **Telephone Level of Service:** The percent of time that taxpayers calling the IRS toll-free operations successfully reach a live assister.

Affordable Care Act (ACA) Administration

The ACA Administration investment encompasses the planning, development, and implementation of IT systems needed to support IRS's tax administration responsibilities associated with key provisions of the ACA legislation. The work is organized into 6 major releases. Each release encompasses multiple projects that need to be delivered at a specific point in time. ACA 1.0 and 2.0, already in production, involve changes to existing systems, along with the initial release of the Branded Prescription Drug (BPD) Industry Fee project. ACA 3.0 through 6.0 addresses work to support the Health Insurance Exchanges and tax compliance activities as well as annual updates for non-exchange provisions in the law. ACA 3.0, also in production, provides the technical solution to support Health Insurance Exchange open enrollment. This includes establishing the secure connection between IRS and the Department of Health and Human Services (HHS)/Centers for Medicare and Medicaid Services (CMS) for transactional data exchange. ACA 4.0 will increase data flows from the HHS Hub into the IRS Coverage Data Repository (CDR), allowing the IRS to prepare for filing/post-filing compliance activities in 2015 and beyond. ACA 4.1 will support information returns and many non-exchange provisions. ACA 5.0 would enable at-filing checks of a tax return for reporting a premium tax credit, leveraging third party data from the Health Insurance Exchanges. ACA 6.0 will focus on pre-refund compliance activities related to healthcare credits claimed by citizens.

The immediate cost (defined as the base FY 2014 budget plus the FY 2015 request) as well as the full life cycle cost of the asset:

FY 2014 – FY 2015:	\$ 668,834,453
Life-cycle Cost:	\$1,986,808,331
Actual Obligations to Date:	\$ 650,646,000
Start Date of Investment:	2010

The projected useful life of the current asset: estimated 2018

Timeframe for the “development, modernization, and enhancement” (DME) or “operations and maintenance” (O&M) phase of the investment for FY 2015:

- Release ACA 3.0 went live October 2013. It supports the eligibility and enrollment of the exchange programs by providing income and family size information from the most recently filed tax return and by providing a calculation of maximum advanced premium tax credit upon request from the HHS/CMS data services hub. This includes establishing the secure connection between the IRS and HHS/CMS for transactional data exchange;
- Release ACA 4.0 will go live June 2014 to support the increased data flows from the HHS/CMS data hub into the IRS’s CDR, allowing the IRS to prepare for filing and post filing activities. A key component of this release is the receipt of the exchange periodic data; and
- Release ACA 4.1 will go live March 2014 to support Information Sharing and Reporting (IS&R) by implementing non-exchange provisions that require new builds and modifications to existing systems, including the BPD Industry Fee and the Insurance Provider Fee (IPF).

The anticipated benefit(s) of the investment:

This investment is needed to ensure the full implementation of the Affordable Care Act (ACA), which was passed by Congress and signed into law by the President in March of 2010. The ACA legislation represents landmark reform and changes to the healthcare system in the United States. The IRS IT organization will provide data models, databases, and information technology systems and operations to support the implementation of the ACA. If this investment is not fully funded, the IRS will not be able to fulfill the requirements as specified in the law.

How performance will be measured and evaluated:

- ACA applications in production requiring software code changes via P1/P2 defects;
- Percent of successful transactions;
- Response Time Performance - Average Response Time in Seconds;
- Branded Prescription Drug Fee Statutory "Allocated Amount" Collected; and
- End-to-End Metric - Branded Prescription Drug.

Customer Account Data Engine 2

The Customer Account Data Engine 2 (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 more than 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 most complex and 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 allow the IRS to do sophisticated searches and comparisons to identify trends revealing critical areas of noncompliance.

The immediate cost (defined as the base FY 2014 budget plus the FY 2015 request) as well as the full life-cycle cost of the asset:

FY 2014 - FY 2015:	\$ 335,491,315
Life-cycle Cost:	\$1,022,222,962
Actual Obligations to Date:	\$ 686,730,962
Start Date of Investment:	2009

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

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 the 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 percentage 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
- **Faster updates to account information.** Percent of taxpayer accounts updated in Refund Information File and posted to the Web by the next day. Seasonal metric.

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 2014 budget plus the FY 2015 request) as well as the full life-cycle cost of the asset:

FY 2014 - FY 2015:	\$ 21,884,277
Life-cycle Cost:	\$207,262,021
Actual Obligations to Date:	\$172,707,218
Start Date of Investment:	1999

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:

- Number of TIN Matching Requests processed through the TIN Matching application;
- Number of transcripts processed through the Transcript Delivery System (TDS);
- Percentage of scheduled eServices availability per the approved Service Level;

- Agreement as documented monthly by IRS Enterprise Services;
- Number of defect transmittals to the production environment; and
- Number of Priority 2 tickets opened and are related to eServices applications.

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 2014 budget plus the FY 2015 request) as well as the full life-cycle cost of the asset:

FY 2014 - FY 2015:	\$ 32,930,986
Life-cycle Cost:	\$162,410,866
Actual Obligations to Date:	\$110,552,937
Start Date of Investment:	1996

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

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 December 6, 2013, the EFDS has processed 138,764,018 returns and a total of \$13.08 billion in fraudulent refunds have been stopped during Filing Season 2013.

How performance will be measured and evaluated:

- Number of confirmed fraudulent returns identified by the data models, expressed as percent of the seasonal target;
- Percentage of Questionable Refund Program refunds identified as false that are stopped by Return Integrity and Correspondence Services (RICS);
- Percentage of scheduled system availability per the approved Service Level Agreement;
- Percentage of completed verifications which are potentially fraudulent; and
- Percentage of primary investigations that are 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 2014 budget plus the FY 2015 request) as well as the full life-cycle cost of the asset:

FY 2014 - FY 2015:	\$ 85,880,850
Life-cycle Cost:	\$162,402,883
Actual Obligations to Date:	\$ 16,591,581
Start Date of Investment:	2011

The projected useful life of the current asset: estimated 2020

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 IRS 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.

Individual Master File

The Individual Master File (IMF) is the authoritative data source for individual taxpayer accounts. Within the IMF, accounts are updated, taxes are assessed, and refunds are generated as required during 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 towards its target state of a more modern system architecture based on relational database technologies.

The immediate cost (defined as the base FY 2014 budget plus the FY 2015 request) as well as the full life-cycle cost of the asset:

FY 2014 - FY 2015:	\$ 27,627,707
Life-cycle Cost:	\$165,981,764
Actual Obligations to Date:	\$ 81,845,499
Start Date of Investment:	1999

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 on-line 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.” – Customer Account Services (CAS) sets the yearly target for this measure in January;
- The percentage of scheduled system availability per the approved Service Level Agreement, as documented monthly by IRS Enterprise Services in the IT Performance Report;
- Interest paid on taxpayer refunds per 1 Million Dollars. This figure represents total Refund Interest divided by total refund dollars issued on original settlement. Measurement data is provided by W&I and SB/SE in the SMART database. The Business target for this measure is established by 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; 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 SB/SE in Submission Processing (SMART) database. The Business target for this measure is established by 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; it 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 2014 budget plus the FY 2015 request) as well as the full life-cycle cost of the asset:

FY 2014 - FY 2015:	\$ 45,605,553
Life-cycle Cost:	\$185,665,750
Actual Obligations to Date:	\$ 70,056,892
Start Date of Investment:	2009

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:

- Production Problem Resolution and Reporting - Number of high priority trouble tickets (P1) not closed within 4 hours;
- Production Problem Resolution and Reporting - Number of priority trouble tickets (P2) not closed timely within 24 hours;
- Percentage of scheduled system availability per the approved Service Level Agreement, as documented monthly by IRS Enterprise Services in the IT Performance Report;
- SB/SE Business Underreporter (BMF-AUR) Contact Closures per FTE – Number of contact closures by BMF-AUR divided by the total FTEs expended during the same timeframe; and
- SB/SE Business Underreporter (BMF-AUR) Contact Closures - Sum of all contact closures by BMF-AUR.

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 on-line 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 (EIN) application is a component of ICCE Web Applications and the Business Web Application Servers. It allows the general public to apply for an EIN 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 Institutions to register and enter into an agreement with the IRS to comply with FATCA regulations.

The immediate cost (defined as the base FY 2014 budget plus the FY 2015 request) as well as the full life-cycle cost of the asset:

FY 2014 - FY 2015:	\$ 31,286,645
Life-cycle Cost:	\$524,296,910
Actual Obligations to Date:	\$482,418,165
Start Date of Investment:	1992

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:

- 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. This is a periodic measure;

- 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;
- The percentage of scheduled system availability per the approved Service Level Agreement, as documented monthly by IRS Enterprise Services in the IT Performance Report;
- Customer Satisfaction (IRS.gov American Customer Satisfaction Index Score); 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, Internal Data Retrieval Systems (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 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 compliance, both domestically and internationally.

In addition to IRS employees, IRS internet applications depend on IDRS to provide back-end services to allow 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 allows businesses providing payroll services to submit tax data on behalf of millions of taxpayers and collaborates with tax practitioners registered with IRS 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, Bureau of the Fiscal Service (BFS), State and local governments, and tax practitioners.

The immediate cost (defined as the base FY 2014 budget plus the FY 2015 request) as well as the full life-cycle cost of the asset:

FY 2014 - FY 2015:	\$ 36,488,254
Life-cycle Cost:	\$336,080,692
Actual Obligations to Date:	\$201,782,240
Start Date of Investment:	1973

The projected useful life of the current asset: estimated 2020

The anticipated benefit(s) of the investment:

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

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, taxpayer-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 assistance of a Federal employee instead of mailing form SS-4 "Application for EIN." It reduces the expense and difficulty of doing business with the Government and environmental impact. 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, calculate 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 Federal 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 2014 budget plus the FY 2015 request) as well as the full life-cycle cost of the asset:

FY 2014 - FY 2015:	\$ 31,444,182
Life-cycle Cost:	\$493,762,670
Actual Obligations to Date:	\$414,083,740
Start Date of Investment:	2001

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

The anticipated benefit(s) of the investment:

- Allows the IRS to make informed and timely performance-based business and budgetary decisions; and
- 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 2014 budget plus the FY 2015 request) as well as the full life-cycle cost of the asset:

FY 2014 - FY 2015:	\$ 20,517,006
Life-cycle Cost:	\$187,655,308
Actual Obligations to Date:	\$143,347,049
Start Date of Investment:	1998

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; and
- 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 2014 budget plus the FY 2015 request) as well as the full life-cycle cost of the asset:

FY 2014 - FY 2015:	\$ 389,886,003
Life-cycle Cost:	\$1,932,771,995
Actual Obligations to Date:	\$ 705,367,363
Start Date of Investment:	1970

The projected useful life of the current asset: estimated 2019

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:

- Call Handle Time - Average time it takes a Customer Service Representative to complete a service call;
- EUSS Percent on Time Priority 3 - Timeliness of resolution against the standards contained in the Master Service Level Agreement (MSLA). Includes both Interactions and EUSS worked Incidents closed within a specified time period with a category of “Incident”;
- United States Government Configuration Baseline (USGCB) Compliance - Percentage of workstations that have settings configured that are compliant to pass baseline security scans;
- First Level Resolution - Percentage of IT interactions closed at the First Level (i.e. by the Enterprise Service Desk (ESD)). Includes closed non-escalated interactions plus ESD worked Incidents and ESD worked Line Items; and
- Service Desk Speed of Answer - Average time a customer waits in the Service Desk queue before reaching a Service Desk Representative. The time does not include the time an employee spends listening to the Front End Message (FEM).

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 2014 budget plus the FY 2015 request) as well as the full life-cycle cost of the asset:

FY 2014 - FY 2015:	\$ 968,816,600
Life-cycle Cost:	\$7,317,261,494
Actual Obligations to Date:	\$4,093,693,794
Start Date of Investment:	1970

The projected useful life of the current asset: estimated 2019

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 on-going 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 Telecommunications Systems and Support (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 related to 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 such as the shared workspaces initiative, universal workspace design, and 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. Enterprise eFax 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 more than 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 2014 budget plus the FY 2015 request) as well as the full life-cycle cost of the asset:

FY 2014 - FY 2015:	\$ 639,957,783
Life-cycle Cost:	\$2,387,578,466
Actual Obligations to Date:	\$1,007,403,330
Start Date of Investment:	1970

The projected useful life of the current asset: estimated 2019

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 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 Communication Gateways (CCG);
- LAN Availability - Availability based on KISAM tickets and the customer impact on making the network available. Percent is derived from multiplying the total number of hours per month with the total number of sites divided by the 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 multiplying the total number of hours per month with the total number of sites divided by the hours a site is not available; and
- 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.

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. The 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 to the new 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 in FY 2013.

The immediate cost (defined as the base FY 2014 budget plus the FY 2015 request) as well as the full life-cycle cost of the asset:

FY 2014 - FY 2015:	\$ 39,952,561
Life-cycle Cost:	\$650,872,562
Actual Obligations to Date:	\$487,488,652
Start Date of Investment:	1996

The projected useful life of the current asset: estimated 2017

The anticipated benefit(s) of the investment:

- Improves web environment, efficiencies, effectiveness, quality, and process maturity;
- Provides visibility into program cost drivers; and
- 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; and
- 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 2014 budget plus the FY 2015 request) as well as the full life-cycle cost of the asset:

FY 2014 - FY 2015:	\$ 95,593,982
Life-cycle Cost:	\$638,630,949
Actual Obligations to Date:	\$375,955,489
Start Date of Investment:	2001

The projected useful life of the current asset: estimated 2020

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 percent of individual tax returns processed electronically; and
- Total quarterly cost savings derived from electronically filed tax returns. Percentage of savings achieved is based on \$3.5M target savings per quarter. This is a periodic metric.

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 Criminal Investigation (CI) 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 2014 budget plus the FY 2015 request) as well as the full life-cycle cost of the asset:

FY 2014 - FY 2015:	\$117,142,552
Life-cycle Cost:	\$252,541,945
Actual Obligations to Date:	\$102,919,393
Start Date of Investment:	2010

The projected useful life of the current asset: estimated 2020

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.

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-1s (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 2014 budget plus the FY 2015 request) as well as the full life-cycle cost of the asset:

FY 2014 - FY 2015:	\$ 25,778,834
Life-cycle Cost:	\$202,734,527
Actual Obligations to Date:	\$157,291,609
Start Date of Investment:	1991

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:

- Maintain a character recognition error rate on scanned forms of no more than 4 percent per month;
- The percent of tax return image print requests fulfilled within 2 days;
- The percentage of time the SCRIPS system is available per month for processing (system up-time);
- The average number of tax return-related documents processed per hour;
- Number of High Priority (P1) trouble tickets not closed within 4 hours; and
- Number of Moderate Priority (P2) trouble tickets not closed within 24 hours.

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.

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 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 addition to space reduction associated rent savings, 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 can be viewed/downloaded here:

<http://www.treasury.gov/about/budget-performance/Pages/summary-of-capital-investments.aspx>.

4.2 – Summary of Cost and Schedule Performance for Major IT Systems

Investment	Funding Type ¹	Cost Variance %	Schedule Variance %
Account Management Services (AMS)	O	0.00%	0.00%
Affordable Care Act Administration (ACA)	D	0.00%	0.00%
Customer Account Data Engine 2 (CADE 2)	B	-2.22%	-6.86%
Electronic Fraud Detection System (EFDS)	O	0.00%	0.00%
e-Services (e-SVS)	B	0.00%	0.00%
Foreign Account Tax Compliance Act (FATCA)	D	1.66%	0.00%
Individual Master File (IMF)	B	-5.41%	0.00%
Information Reporting and Document Matching (IRDM)	B	0.97%	0.00%
Integrated Customer Communication Environment (ICCE)	B	0.00%	0.00%
Integrated Data Retrieval System (IDRS)	B	2.06%	0.00%
Integrated Financial System/CORE Financial System (IFS)	B	-8.02%	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%	-2.66%
IRS Telecommunications Systems and Support (TSS)	O	10.50%	-4.36%
IRS.GOV - Portal Environment	B	0.00%	0.00%
Modernized e-File (MeF)	B	0.00%	0.00%
Return Review Program (RRP) - (Replaces EFDS)	D	0.00%	0.00%
Service Center Recognition/Image Processing System (SCRIPS)	B	0.35%	2.70%

Based on data submitted to Treasury, January 2014

¹ D – Development/Modernization/Enhancement (DME)

O – Operations and Maintenance (O&M)

B – Both DME and O&M

4.3 – IRS Performance Measure Table

Performance Measures	Type of Measure	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Planned	FY2015 Planned
Customer Service Representative Level of Service (LOS) ¹	Oe, L	52.8%	70.0%	74.0%	70.1%	67.6%	60.5%	61.0%	71.0%
Customer Contacts Resolved per Staff Year	E	12,634	12,918	10,744	12,419	16,320	20,767	22,750	25,000
Customer Accuracy - Tax Law (Phones)	Ot	91.2%	92.9%	92.7%	93.4%	93.2%	95.7%	93.0%	93.0%
Customer Accuracy - Accounts (Phones)	Ot	93.7%	94.9%	95.7%	96.0%	95.6%	96.0%	95.0%	95.0%
Timeliness of Critical Filing Season Tax Products to the Public	Ot	92.4%	96.8%	95.3%	96.3%	97.2%	58.9%	95.0%	95.0%
Timeliness of Critical TE/GE & Business Tax Products to the Public	Ot	89.5%	95.2%	97.7%	96.4%	94.5%	83.6%	95.0%	95.0%
Percent Individual Returns Processed Electronically	Oe, L	57.6%	65.9%	69.3%	76.9%	80.5%	82.5%	84.1%	84.6%
Cost per Taxpayer Served (\$) (HCTC)	E	\$16.94	\$13.79	\$9.52	\$12.36	\$14.43	\$13.41	n/a	n/a
Sign-Up Time (Days) - Customer Engagement (HCTC)	Ot	94.0	91.3	124.0	117.0	116.0	125.2	n/a	n/a
Percent of Business Returns Processed Electronically	Oe, L	19.4%	22.8%	25.5%	31.8%	36.7%	40.2%	44.7%	46.5%
Refund Timeliness - Individual (Paper)	Ot	99.1%	99.2%	96.1%	99.4%	99.7%	99.0%	97.0%	98.0%
Taxpayer Self-Assistance Rate	E, L	66.8%	69.3%	64.4%	70.1%	78.5%	83.3%	85.0%	86.0%
Examination Coverage - Individual	Oe, L	1.0%	1.0%	1.1%	1.1%	1.0%	1.0%	0.8%	0.8%
Field Exam Nat'l Quality Review Score	Oe, L	86.0%	85.1%	84.9%	85.8%	87.4%	89.2%	89.6%	89.6%
Office Exam Nat'l Quality Review Score	Oe, L	90.0%	92.1%	91.6%	90.4%	91.3%	90.3%	90.2%	90.2%
Examination Quality - Large Business ² (new for FY13)	Oe, L						92.0%	90.0%	90.0%
Examination Coverage - Business (Assets > \$10 million)	Oe, L	6.1%	5.6%	5.7%	6.2%	6.2%	5.6%	4.2%	4.1%
Examination Efficiency - Individual	E, L	138	138	140	139	142	142	133	124
Automated Underreporter Efficiency	E, L	1,982	1,905	1,924	2,007	2,041	2,025	1,931	1,950
Automated Underreporter Coverage	E, L	2.6%	2.6%	3.0%	3.3%	3.2%	2.8%	2.5%	2.7%
Collection Coverage (Units)	Ot, L	55.2%	54.2%	50.1%	50.0%	48.1%	47.0%	42.7%	45.0%
Collection Efficiency (Units)	E, L	1,926	1,845	1,822	1,952	1,997	2,057	2,007	1,900
Field Collection Nat'l Quality Review Score	Ot, L	79.0%	80.5%	80.6%	80.3%	80.4%	81.4%	81.0%	81.0%
Automated Collection System Accuracy	Oe	95.3%	94.3%	95.9%	94.9%	94.7%	94.4%	94.0%	94.0%
Criminal Investigations Completed	Ot, L	4,044	3,848	4,325	4,697	4,937	5,557	4,440	4,440
Number of Convictions	Oe, L	2,144	2,105	2,184	2,350	2,634	3,311	2,450	2,450
Conviction Rate	Oe, L	92.3%	87.2%	90.2%	92.7%	93.0%	93.1%	92.0%	92.0%
Conviction Efficiency Rate (\$)	E, L	\$315,751	\$327,328	\$324,776	\$310,029	\$270,511	\$211,048	\$280,000	\$315,000
TE/GE Determination Case Closures	Ot	100,050	96,246	105,247	91,205	87,000	65,877	71,219	74,475
Percent of BSM Projects within +/- 10% Cost Variance	E	92.0%	60.0%	40.0%	71.4%	50.0%	0.0%	90.0%	90.0%
Percent of BSM Projects within +/- 10% Schedule Variance	E	92.0%	90.0%	100.0%	100.0%	90.0%	83.3%	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.

n/a - not applicable, HCTC Program is scheduled to end on December 31, 2013.

² As a result of program changes that occurred in the Large Business and International (LB&I) organization, starting in FY 2013, a new Examination Quality - Large Business measure will replace the two previous LB&I quality measures - Examination Quality - Industry and Coordinated Industry.

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 – Large Business	Average of the scores of the Large Business Return (LBR) cases reviewed by LB&I Quality Measurement System (LQMS). Case scores are based on the percentage of elements passed within each of the four 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.

**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 multi-year 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 IRS’s long-term infrastructure viability. Each year the IRS assesses and funds projects in the following four portfolios:

Portfolio Name	Description	Average Percentage of Portfolio
Sustaining Infrastructure	Aged inventory beyond useful life	65%
Sustaining Architecture & Engineering	Aged inventory not past its useful life, but tied to production applications or critical business need	15%
Sustaining Enterprise System Software	Aged software beyond useful life to achieve (N)(N-1)	11%
Sustaining Other	Operational Demand	9%

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 Associate Chief Financial Officer (ACIO) and Infrastructure Executive Steering Committee (IESC) review. The IRS conducts post-implementation assessments to ensure Cost, Schedule and the 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 on-going 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 IMPs, projects may be modified or cancelled.
- The ***Evaluate Phase*** includes two components, a Post Implementation Review (PIR) on 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 – Opportunity, Growth, and Security Initiative

Three months ago, through the Bipartisan Budget Act of 2013 (BBA), Congress came together on a bipartisan basis and took an important first step toward replacing the damaging cuts caused by sequestration with longer-term reforms. Recognizing the importance of the two-year budget agreement Congress reached in December, the President's Budget adheres to the BBA's discretionary funding levels for 2015, giving Congress a roadmap for how to write a budget at those levels that promotes growth and opportunity, enhances national security, and makes important reforms.

However, the BBA levels are not sufficient to expand opportunity to all Americans or to drive the growth our economy needs. The BBA replaced half the sequestration cut for 2014 but just one-fifth of the scheduled cut in the discretionary funding level for 2015. As a result, taking into account unavoidable growth in programs such as veterans' medical care and other factors, the BBA non-defense discretionary funding levels for 2015 are below the levels Congress provided in the bipartisan Consolidated Appropriations Act of 2014. They are also below the 2007 funding levels adjusted for inflation, even though the need for pro-growth investments in infrastructure, education, and innovation has only increased due to the Great Recession and its aftermath.

For that reason, the Budget also includes a separate, fully paid for \$56 billion Opportunity, Growth, and Security Initiative. The Opportunity, Growth, and Security Initiative, which will be split evenly between defense and non-defense funding, shows how additional discretionary investments in 2015 can spur economic progress, promote opportunity, and strengthen national security.

Moreover, the Opportunity, Growth, and Security Initiative is fully paid for with a balanced package of spending cuts and tax loophole closures, showing that additional pro-growth investments are easily affordable without increasing the deficit if Congress will enact common-sense spending and tax reforms.

By providing an additional \$165 million for the IRS the Opportunity, Growth, and Security Initiative will support additional IRS customer service improvements, including increasing toll-free telephone level of service by 11 percentage points to over 80 percent, driving responsiveness to taxpayers through correspondence inventory reduction, and bolstering resources to help tackle more highly burdensome identity theft and refund fraud cases.

4D – Summary of FY 2013 Savings Realized

The IRS FY 2013 President's Budget request of \$12,761.2 million included \$70.9 million and 614 FTE in reductions to the IRS FY 2012 base budget. The IRS FY 2013 Enacted budget was \$11,198.6 million after rescission and sequestration, \$618.1 million less than the FY 2012 Enacted budget of \$11,816.7 million, and \$309.6 million less than FY 2012 actual expenditures from new appropriated resources of \$11,508.2 million. Total actual reductions to personnel and related support costs in FY 2013 were \$566,484,822 and 3,605 FTE. FY 2013 savings were realized as follows:

Savings projected: -\$70,850,000 / -614 FTE
Actual savings realized: -\$112,187,992 / -627 FTE

- **Targeted Program Reductions: -\$59,706,000 / -437 FTE**
Actual savings realized: -\$45,018,400 / -418 FTE

The IRS realized savings of \$45 million and 418 FTE in FY 2013 from a reduction in the Taxpayer Service, Enforcement, and Business Systems Modernization (BSM) programs achieved by increasing efficiency, reducing costs, and streamlining operations. These savings included:

- \$34.5 million from the reduced staffing in enforcement overhead support and analysis functions that helped gain efficiencies through greater consolidation of activities such as communications, human resources, and research, both at the program and enterprise level;
 - \$4.6 million from the transition of stakeholder relationship programs within the IRS's customer facing divisions from building relationships to maintaining effective relationships;
 - \$5.1 million from the expansion of the use of less expensive service delivery models; and
 - \$0.8 million from reduced supply costs in information technology.
- **Increased e-File Savings: -\$8,566,000 / -177 FTE**
Actual savings realized: -\$11,001,600 / -209 FTE

The IRS realized savings of \$11 million and 209 FTE in FY 2013 are a result of increases in electronically filed returns. The savings exceeded the projected savings by \$2.4 million and 32 FTE. In FY 2013, the IRS received 3.5 million fewer paper returns compared to FY 2012 and an increase of 4.2 million returns filed electronically.

- **Reduce Travel: -\$2,578,000 / 0 FTE**
Actual savings realized: -\$56,167,992 / 0 FTE

The IRS projected savings in specific travel areas of \$2.6 million in the FY 2013 President's Budget. The IRS reduced agency-wide non-technical training and non-case related travel by making greater use of technology generating a savings of \$56.2 million, exceeding the projection by \$53.6 million.

Other FY 2013 Cost Reductions: Actual savings realized: -\$474,193,745 / -2,978 FTE

In addition to the \$112.2 million in savings realized for the areas identified in the FY 2013 President's Budget, the IRS reduced costs in other areas, primarily through attrition, in order to reach the FY 2013 post-rescission, post-sequestration operating level of \$11,198.6 million. The IRS absorbed these reductions through:

- **Attrition and Furloughs:**
Actual reductions realized: -\$310,778,548 / -2,978 FTE

The IRS significantly reduced spending on labor to reach the FY 2013 post-rescission, post-sequestration operating level. Full-time equivalents (FTEs) decreased by more than 2.7 percent from FY 2012 through the use of attrition and hiring freezes that did not replace attrition. Additionally, the IRS generated savings of \$88.5 million due to labor reductions from three furlough days in FY 2013.

- **Contractual Services:**
Actual reductions realized: -\$63,793,803 / 0 FTE

The IRS reduced contracting expenses by \$63.8 million by decreasing contracted program support, renegotiating non-IT contracts for more favorable pricing, and changing contract vehicles.

- **Lands and Structure:**
Actual reductions realized: -\$30,648,191 / 0 FTE

In FY 2013, the IRS reduced resources for leasehold improved by more than \$30.6 million to generate resources to fund mandatory expenses such as rent.

- **Equipment:**
Actual reductions realized: -\$27,935,278 / 0 FTE

In FY 2013, the IRS reduced spending on equipment such as purchases of furniture, document processing equipment such as photocopiers, television studio equipment, and other office equipment by \$27.9 million.

- **Supplies:**
Actual reductions realized: -\$18,661,946 / 0FTE

The IRS reduced supply costs by limiting spending to critical operational needs and negotiating contracts for improved pricing.

- **Telecommunications:**
Actual reductions realized: -\$18,153,855 / 0 FTE

The IRS decreased expenditures on telecommunications equipment by \$18.2 million, primarily by reducing local telephone service and more efficiently managing mobile telephones.

- **Transportation of Things:**
Actual reductions realized: -\$2,293,473 / 0 FTE

The IRS reduced expenditures on transportation of things by \$2.3 million, primarily by decreasing postage and relocation expenses.

- **Printing and Reproduction:**
Actual reductions realized: -\$1,928,651 / 0 FTE

The IRS reduced printing and reproduction expenses by more than \$1.9 million.

Though the IRS achieved more than \$586.4 million in savings as described above, the actual net savings achieved totaled \$566.5 million due to increased costs for rent and utilities in FY 2013.

4E – IRS Use of Evidence and Innovation

The IRS continues to strengthen and improve program performance by applying existing evidence about what works and by using research and innovation to improve program delivery.

Improving Program Outcomes by Harnessing Data

Enhancing Voluntary Compliance through the National Research Program Reporting Compliance Study

The IRS National Research Program (NRP) within Research, Analysis, and Statistics (RAS) 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 IRS examination (audit)-based reporting compliance studies provide valuable data on the tax return reporting accuracy of taxpayers. These studies use stratified random sampling in order to provide an unbiased sample of returns that is representative of the population of returns covered by the study. This selection method allows the result of the examinations to be used for broad-based analytical and research purposes in order to improve the efficiency and effectiveness of overall tax administration and to enhance voluntary compliance. Projects where RAS is using NRP reporting compliance study data include:

- Individual Income Tax Return Discriminant Function (DIF) Examination Workload Selection Models

The annual individual income tax, Form 1040, studies allow the IRS to evaluate and update the DIF models. These models are used to calculate a DIF score (a selection tool for returns) for individual income tax returns as the returns are filed and processed. A higher DIF score indicates a higher likelihood of errors on the return. Because returns are filed with different forms and schedules, separate models are developed for returns with different form/schedule characteristics. These groupings of returns by forms/schedules are called examination activity codes. Analysis of individual reporting compliance study data for tax years (TY) 2006 through 2009 identified improvements that could be made to enhance the effectiveness of the DIF models for several examination activity codes. New DIF models were implemented for processing year 2013 for two examination activity codes and new models will be implemented in processing year 2014 for four examination activity codes.

- Issue-based and Expert Rules Examination Workload Selection Models

NRP Form 1040 study data are being used to develop and evaluate issue-based and expert rules workload selection models. The IRS conducts a significant number of correspondence examinations using its campus-based examination staff. This method of examination is most suited to examinations that are limited to only one or a few issues that can be resolved readily through correspondence. RAS has ongoing analysis

using NRP data to evaluate existing campus workload selection methods and develop alternative models that perform better than the existing models.

- Analysis of EITC Reporting Compliance

The IRS completed an analysis of TY 2006 through TY 2008 NRP Form 1040 study data of taxpayers claiming EITC. The analysis provided a comprehensive overview of EITC compliance, revisiting and updating information previously reported by the IRS in *Compliance Estimates for Earned Income Credits Claimed on 1999 Returns*, and will be used to inform the IRS in its administration of the credit.

Affecting Taxpayer Behavior through Market Segmentation Models

The IRS Market Segmentation Compliance Program (MSCP) seeks to establish a data-driven decision matrix for implementing approaches that work for the individual taxpayer. By integrating market segmentation with internal IRS data and certain external data, the IRS can incorporate taxpayer perspectives, compliance behavior, and attitudes to design and tailor compliance treatments so that the right treatment is delivered to the right taxpayer at the right time. RAS is currently working on an effort with enforcement programs, i.e., Examinations, Collections, Offer in Compromise (OIC), and Underreporter, to influence and improve taxpayer compliance.

Social science research reveals that the traditional deterrence theory, fear of detection and/or punishment, contributes a portion to actual compliance rates. Recent studies indicate that social norms, personal values, and attitudes may have a large impact on compliance decisions. Market segmentation approaches – behavioral, psychographic, and attitudinal, are widely used in commercial marketing to develop, design, and position products and services towards the right customer base. The knowledge gained from both social science and marketing research can assist the IRS with appropriate identification and alignment to the proper taxpayer. The MSCP is helping the IRS improve its methods of communication with taxpayers. For example, response rates from taxpayers improved after several notices were tailored for specific taxpayer segments.

Increasing Program Participation through Data Driven Taxpayer Outreach

In addition to combating improper payments of the EITC, the IRS is engaged in efforts to ensure those eligible for the EITC are able to benefit from the credit. With the goal to identify inexpensive ways to increase participation among eligible individuals, RAS conducted a pilot program in which the IRS reached out to taxpayers who filed a paper return in 2010 and were likely eligible for the EITC for the first time in 2011. Although the results did not show an increase in overall participation, taxpayers who received the mailing selected software more often than they selected paid preparers. Because the cost of software is generally less expensive than the fee for paid preparation, more of the EITC stayed with the taxpayer.

For 2013, the IRS revised this effort to focus on taxpayers who did not file a 2011 income tax return, but appear to be eligible for the EITC based on information return documents for that tax year. The taxpayers in the study will be observed in the next filing season to determine whether there is an EITC participation rate increase among that population. The outreach

effort also provides the opportunity to bring nonfilers into filing compliance and to study behavioral responses to tailored outreach messages. The messaging explains that if a 2010, 2011, or 2012 return has not yet been filed, it is not too late to file it and claim tax benefits. Information on how to obtain tax information documents and to file a return are provided in the messaging.

Improving the Effectiveness of Programs

- Voluntary Filing Rate

The IRS invests resources to study the Voluntary Filing Rate (VFR) and determine the factors that affect its variation. Evaluating the variation while considering macro-economic sources such as changes in the unemployment rate, statutory changes, and IRS administrative practice changes, has laid the foundation for ongoing work to better isolate the impact of IRS administrative changes from other sources of variation. The potential benefit from determining these impacts will lead to more effective administration of the IRS.

- Return Preparer Regulation

RPO currently manages registration of tax returns preparers. To estimate the impact of regulations requiring tax return preparers to register, RAS compared Automated Underreporter (AUR) notices from registered and non-registered preparers. The preliminary findings indicated that returns prepared by registered and credentialed preparers contain fewer math errors than those prepared by unenrolled preparers. Preliminary findings suggest that registration is associated with a decrease in some types of taxpayer errors.

High-quality, Low Cost Evaluation and Rapid, Iterative Experimentation

Combating Refund Fraud with Real Time Impact Evaluations

The Office of Compliance Analytics (OCA) was established in 2011 as the Internal Revenue Service's core data analytics organization reporting to the IRS Commissioner with a charter to:

- Strategically use data to materially enhance tax compliance results; and
- Build an enhanced data-driven decision-making culture across the IRS.

The OCA has innovatively used data analytics to significantly reduce improper payments associated with the EITC and related child tax credits.

In 2012, the OCA and the Wage and Investments (W&I) Division designed a small data-driven pilot to identify a group of tax return preparers with a history of submitting incorrect or fraudulent tax returns improperly claiming the EITC. Using the data from the EITC Real Time Return Preparer pilot, the IRS then designed and implemented interventions with these preparers to stop improper claims. The interventions included letters, calls, and visits to selected preparers, both prior to and "real time" during tax filing season. A control

group received no such interventions. These efforts reduced improper payments in 2012 by an estimated \$198 million.

An expanded pilot protected an additional \$590 million in revenue during Filing Season 2013. The 2013 test included a broader set of randomly selected preparers and a broader set of interventions, including the addition of preparer-focused taxpayer audits (for returns that otherwise would have qualified for audit even absent the pilot). Many preparers who did not improve in the 2012 pilot did so in 2013 when subject to a second more aggressive intervention such as a site visit subsequent to filing season. Preparers who improved due to IRS interventions during the initial 2012 pilot generally maintained their improved filing behavior in 2013, again submitting fewer improper claims than the control group.

Cumulatively, the EITC Real Time Return Preparer pilot program has generated approximately \$940 million in value during 2012 and 2013, including both revenue protected and the assessment of preparer penalties associated with a preparer's failure to adhere to due diligence requirements. Program costs over the two years have totaled approximately \$15 million, yielding a very high return on investment.

The IRS's ability to strategically and operationally "test and learn" has enabled it to innovatively address EITC enforcement in a "wholesale" manner – engaging EITC tax preparers, not just taxpayers – and thereby improve the IRS's efficiency, lower taxpayer burden, and materially curtail improper claims and payments.

The IRS is working to take the lessons from these pilot tests and incorporate them into EITC's FY 2014 operations, with continued small-scale testing of selected strategies and ongoing monitoring of all key program elements.

Applying Behavioral Research to Improve Tax Compliance

RAS conducts studies to observe how a small group of volunteers react in a simulated tax-paying environment in order to investigate individual behavior in response to changes in the level of service or enforcement. Such information is not obtainable from either administrative data or random taxpayer audits.

The IRS is currently investigating differences in taxpayer reporting behavior between a risk-based audit and a random audit. Previously, studies of this kind were conducted on a broad range of compliance topics including:

- Estimating the indirect effect of taxpayer audits;
- Encouraging filing participation and social network effects;
- Assessing the impact of service availability and reliability on tax filing and reporting;
- Classifying (segmenting) taxpayers to receive specific services based on their observed reporting behaviors; and
- Understanding the marginal impact of tax withholding and information reporting.

This low-cost method of determining the most effective ways of improving taxpayer compliance continues to influence IRS policies and procedures.

Making Informed Resource Decisions Based on Return on Investment Analyses

Every year, as part of the budgeting process, RAS produces revenue estimates for budget initiatives which increase enforcement activity. This low-cost method to determine value for enforcement hires uses evidence of the return associated with particular enforcement work to project the return of future enforcement activity. The initial estimate of revenue generated by a particular initiative is based on specifics such as job classification of the proposed enforcement staff, the type of work they are expected to perform, and the historic return associated with that work. The initial revenue estimates are tempered to account for other factors, such as marginality and productivity. Marginality addresses the fact that each case worked will likely generate less revenue than the one prior. Productivity adjustments reflect the expected learning curve associated with new employees.

This information is one of the factors used by the IRS to evaluate the benefits of new investments.

Strengthening Agency Capacity to Use Evidence

Leveraging Outside Experts to Improve Evidence-Based Policy

Through the Joint Statistical Research Program, RAS uses Statistics of Income's data to study the effects of existing tax policies on individuals, businesses, and the economy by researchers outside the Federal Government. This research should provide new understandings of taxpayer behavior that could affect the administration of the tax system. The program benefits employees by providing developmental opportunities through collaborations with leading economic researchers. The call for proposals in late 2012 resulted in the selection of 18 projects. Four of these projects include external researchers who are now working on Intergovernmental Personnel Act (IPA) assignments.

Increasing Electronic Deposits for Tax Refunds

The Department of the Treasury, Bureau of the Fiscal Service (BFS), has made great strides in reducing the number of non-tax related paper checks issued by the government. Most notably the mandate for electronic deposit of Federal benefits had a significant impact. BFS has significantly lowered paper check payments from 19.2 million through January of FY 2013 to 7.3 million through January of FY 2014. IRS refunds remain the single largest contributor to paper checks, with only 28.8 percent of tax refunds issued electronically through January of FY 2014, versus 96.8 percent for non-tax payments during the same period. The IRS is partnering with BFS in an effort to increase the electronic deposit take-up rate for tax refunds. The effort includes analysis of the taxpayer segments receiving paper refunds and a pilot outreach program. The pilot targets taxpayers that received a paper check in Tax Year 2012, but also received electronic benefits from the federal government. Two types of letters, and a follow-up postcard, were tested on two 35,000 taxpayer samples. We will be monitoring responses to the outreach over the Tax Year 2013 filing season. This is in support of the

administration's electronic government initiative and will increase efficiency while decreasing government costs and taxpayer burden.

For the first phase of this effort, the focus will begin with individual taxpayers. For Tax Year 2011, 17.6 million or 65 percent of all 27.2 million refunds were issued via paper check. Working with BFS, RAS will use a data-driven approach to determine the characteristics of those individuals receiving paper check refunds. The IRS will review filing characteristics, income levels, and the proportion already receiving electronically deposited Federal benefits. Leveraging this data, the IRS will develop a strategy for communications and outreach, which may include pilots for letters, to increase participation with electronic deposits of refunds.

Supporting Program Integrity through Quality Assurance Reviews

To ensure the integrity of its programs, RAS office provides statistical consulting services for various operating divisions in the IRS. Based on the needs of the programs and discussions with the program area specialists, statisticians design samples, select specific cases for quality review, provide specifications for databases and automated reports, create data collection instruments for capturing quality data, weight the data, and calculate estimate variability, as well as provide ad hoc statistical expertise.

Recent projects include:

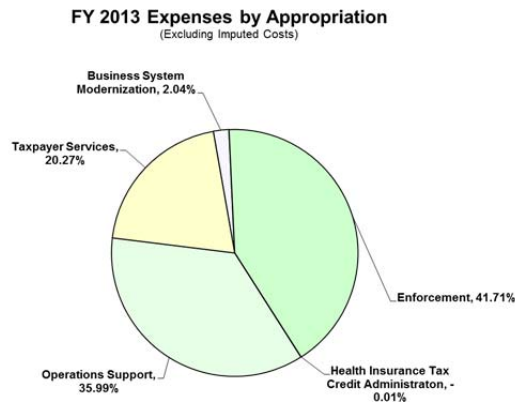
- Volunteer Site Quality Review – Each year approximately 2.5 million taxpayers visit more than 10,000 volunteer-run taxpayer assistance sites during the filing season. RAS supports the effort to use statistical sampling to evaluate the accuracy of the returns prepared by the volunteers working in these sites.
- Lockbox Quality – The IRS uses private banks, called lockboxes, to process approximately 60 million taxpayer payments totaling more than \$340 billion annually. RAS develops and updates quality reviews, designs and evaluates scorecards, compiles and explains results, and consults with IRS analysts and bank management to help ensure the integrity and quality of the lockboxes.
- Correspondence and Closed Case Quality Review - Notices and cases involving various types of correspondence sent to taxpayers are reviewed by IRS operations for accuracy and timeliness. The RAS team designs the sampling plans and provides instructions for selecting cases for the sample which improves the consistency and quality of reviews.

4.4 – Cost of IRS Operating Activities

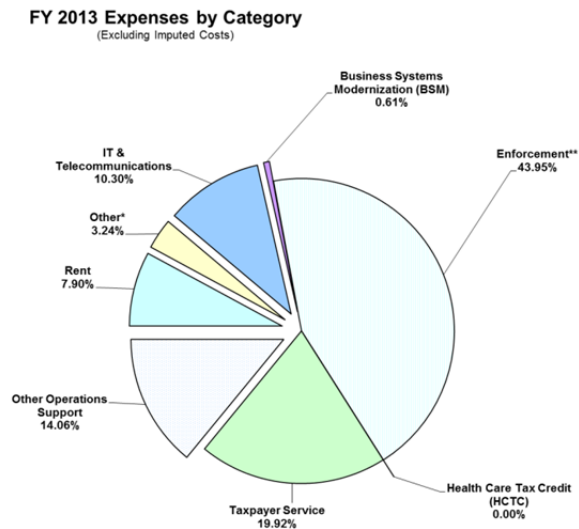
FY 2013 Cost of IRS Operating Activities

The following charts provide the FY 2013 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 2013 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 2013 actual costs by appropriation.



The second chart shows the FY 2013 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 \$122M (1.1%)

Labor Costs represent 77.45% of total expenses and are included in Taxpayer Service, Enforcement, Operations Support, and HCTC

4.5 – Return on Investment (ROI) for IRS Major Enforcement Programs

The actual cost and actual revenue collected for FY 2009 through FY 2013 for the three major enforcement programs, Examination, Collection and Automated Underreporter (AUR) are provided below. The activities included in these programs include:

Examination Program conducts examinations of tax returns of individual taxpayers, businesses, and other types of organizations to verify that the tax reported is correct. This includes examinations of individuals, small business, self-employed, large corporate business, partnerships, international, estate and gift, excise tax and employment tax, and tax exempt, qualified pension benefit plans, and Government entities. The examination costs include the cost of the Field Exam, Correspondence Exam, IRS Chief Counsel and Appeals functions.

Collection Program collects delinquent taxes and secures delinquent tax returns, through the appropriate use of enforcement tools such as lien, levy, seizure of assets, installment agreement, offer in compromise, substitute for return, summons, and IRC 6020(b) (which allows the IRS to prepare returns if a taxpayer neglects or refuses to file); and provides education to taxpayers 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 1099s, W-2s, etc.) against data reported on individual tax returns to the IRS. The information is verified to identify any discrepancies. If a discrepancy is found, 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. This information provides an indication of the ROI for the three major enforcement programs 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 return on investment for these programs and do not include 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* return on investment, 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			FY 2013		
	Cost ¹	Revenue	ROI	Cost ¹	Revenue	ROI	Cost ¹	Revenue	ROI	Cost ¹	Revenue	ROI	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	\$5,883.0	\$53,345	9.1
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	3,965.3	16,662	4.2
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	1,659.6	31,396	18.9
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	258.1	5,287	20.5

¹The cost of the enforcement programs was calculated using budget data from the Integrated Financial System (IFS), Business Warehouse, Status of Available Funds (SOAF) Cost Center Internal Order (IO) Report, Periods 000 - 012.

4.6 – Alignment of the FY 2015 Initiatives to the Department of the Treasury and IRS Strategic Documents

FY 2015 Initiatives	Treasury		IRS			Taxpayer Assistance Blueprint (TAB)				
	Strategic Goal 3-Objective 3.3	Priority Goals	Goal #1	Goal #2	Strategic Foundation for Organizational Excellence	Electronic Interaction Enablement	Telephone Service Enhancements	Partner Services	Outreach and Education	Marketing and Promotion
Pursue tax reform; Implement the Patient Protection and Affordable Care Act and Foreign Account Tax Compliance Act; and Improve Execution of the tax code	✓	Introduce Self-Service and Electronic-Service Taxpayer Options	Deliver High Quality and Timely Service to Reduce Taxpayer Burden and Encourage Voluntary Compliance	Effectively Enforce the Law to Ensure Compliance with Tax Responsibilities and Combat Fraud	Invest in our Workforce and the Foundational Capabilities Necessary to Achieve our Mission and Deliver High Performance for Stakeholders	✓	✓	✓	✓	✓
Improve Taxpayer Service and Return Processing	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Prevent Identity Theft	✓		✓	✓	✓	✓	✓			
Address Impact of ACA Statutory Requirements	✓									
Implement Information Technology (IT) Changes to Deliver Tax Credits and Other Requirements	✓									
Address International and Offshore Compliance Issues	✓									
Expand Coverage of High-Wealth Individuals and Enterprises	✓									
Expand Audit Coverage	✓									
Enhance Collection Coverage	✓									
Improve Coverage of Partnerships and Flow-Through Entities	✓									
Expand Compliance Coverage in the Tax-Exempt Sector	✓									
Pursue Fraud Penalties, Employment Tax and Abusive Tax Schemes	✓									
Built Out Tax Return Preparer Compliance and Professional Responsibility Activities	✓									
Implement Information Technology (IT) Changes to Deliver the Foreign Account Tax Compliance Act (FATCA)	✓									
Leverage Digital Evidence for Criminal Investigation (CI)	✓									
Leverage Data to Improve Case Selection	✓									
Improving Information Technology Services										
Implement Campus Consolidation and Revitalizing Strategy										
Implement eGovernment and Other Administration Priorities										
Maintain Integrity of Revenue Financial Systems										
Expand Virtual Service Delivery (VSD)		✓	✓	✓	✓	✓		✓		
Continue Migration from Aging Tax Administration Systems- Enhance Online Services		✓	✓		✓	✓		✓		

4.7 – Summary of IRS FY 2015 Affordable Care Act (ACA) Budget Request

Dollars in Thousands

FY 2015 Affordable Care Act (ACA)	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT		TOTAL	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
FY 2014 Enacted								
Reinvestment:								
Expand Telecom Infrastructure to Handle Increased Demand					16,025		16,025	
Subtotal FY 2015 Changes to Base					\$16,025		\$16,025	
FY 2015 ACA Program Increases:								
Improve Taxpayer Service and Return Processing	58,248	822			15,699	7	73,947	829
Address Impact of Affordable Care Act (ACA) Statutory Requirements			36,574	349	19,525	50	56,099	399
Implement Information Technology (IT) Changes to Deliver Tax Credits and Other Requirements					305,645	818	305,645	818
Subtotal FY 2015 ACA Program Increases	\$58,248	822	\$36,574	349	\$340,869	875	\$435,691	2,046
Total FY 2015 ACA Budget Request	\$58,248	822	\$36,574	349	\$356,894	875	\$451,716	2,046

4.8 – Summary of Program Integrity Cap Adjustment

	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 2015 Request										
FY 2013 Operating Level ¹	\$2,135,553	29,700	\$4,949,178	44,325	\$3,800,943	11,885	\$312,938	471	\$11,198,612	86,381
FY 2014 Enacted ²	\$2,156,554	28,996	\$5,022,178	42,805	\$3,798,942	11,860	\$312,938	528	\$11,290,612	84,189
Changes to Base:										
Non-Recur FY 2014 Additional Appropriation										
Maintaining Current Levels (MCLs):										
Pay Raise	\$46,483		\$105,719		\$69,382		\$1,593		(\$92,000)	
FERS Contribution Increase	24,564		57,260		19,399		859		\$223,177	
Non-Pay Initiation Adjustment	18,724		41,857		14,014		734		102,082	
Other Adjustments:	3,195		6,602		35,969				75,329	
Base Adjustments		329	(\$29,221)	329	\$29,221	244			45,766	573
Efficiencies/Savings:										
Increase e-File Savings										573
Adjustment for FERS Increase	(\$18,786)	(70)	(\$18,233)	329	(\$58,181)	244			(\$95,200)	(70)
HCTC Program Termination	(2,761)	(85)	(18,233)		(39)				(2,800)	(55)
Reinvestment:										
Expand Telecom Infrastructure to Handle Increased Demand	(16,025)	(15)			\$16,025				(16,025)	(15)
					16,025				\$16,025	16,025
Subtotal FY 2015 Changes to Base	(\$6,303)	(70)	\$58,265	329	(\$1,553)	244	\$1,593		\$52,002	503
FY 2015 Base	\$2,150,251	28,926	\$5,080,443	43,134	\$3,797,389	12,104	\$314,531	528	\$11,342,614	84,692
Program Changes:										
Program Increases Before Cap Adjustment:										
Improve Taxpayer Service and Return Processing	153,482	2,355			57,776	36			211,258	2,391
Prevent Identity Theft and Refund Fraud	13,900	200	16,971	191	34,005	66			64,876	457
Continue Migration from Aging Tax Administration Systems - Enhance Online Services					829		15,679	41	16,508	41
Address Impact of ACA Statutory Requirements			36,574	349	19,525	50			56,099	399
Implement Information Technology (IT) Changes to Deliver Tax Credits and Other Requirements					305,645	818			305,645	818
Subtotal Program Increases Before Cap Adjustment	\$167,382	2,555	\$53,545	540	\$417,780	970	\$15,679	41	\$654,386	4,106
Total Request Before Cap Adjustment	\$2,317,633	31,481	\$5,133,988	43,674	\$4,215,169	13,074	\$330,210	569	\$11,997,000	88,798
Cap Adjustment Program Increases:										
Enforcement Initiatives:										
Address International and Offshore Compliance Issues		332	49,037		7,773				56,810	332
Expand Coverage of High Wealth Individuals and Enterprises		141	17,684		3,273				20,957	141
Expand Audit Coverage		541	53,581		44,198	45			97,779	586
Enhance Collection Coverage		540	41,692		25,070	37			66,762	577
Improve Coverage of Partnerships and Flow-Through Entities		240	28,690		7,849	4			36,539	244
Expand Compliance Coverage in the Tax-Exempt Sector		119	13,364		2,731				16,095	119
Pursue Fraud Referrals, Employment Tax, and Abusive Tax Schemes		52	9,275		8,537				17,812	52
Build Out Tax Return Preparer Compliance and Professional Responsibility Activities		106	14,765		2,772				17,537	106
Implement Information Technology (IT) Changes to Deliver the Foreign Account Tax Compliance Act (FATCA)					32,223	140			32,223	140
Leverage Digital Evidence for Criminal Investigation (CI)		5	698		3,674	1			4,372	6
Leverage Data to Improve Case Selection		7	4,052		32,741	39			36,793	46
Subtotal Enforcement Initiatives		2,083	\$232,838		\$170,841	266			\$403,679	2,349

4.8 – Summary of Program Integrity Cap Adjustment (Continued)

	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 2015 Request										
Infrastructure Initiatives:										
Implement Information Technology (IT) Services					10,000				10,000	
Implement Campus Consolidation and Revitalization Strategy					10,000				10,000	
Implement eGovernment and Other Administration Priorities					31,011	19			31,011	19
Maintain Integrity of Revenue Financial Systems					12,136	8			12,136	8
Expand Virtual Service Delivery (VSD)					7,701	13			7,701	13
Subtotal Infrastructure Initiatives					\$70,848	40			\$70,848	40
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 Initiative			\$5,000						\$5,000	
Subtotal FY 2015 Cap Adjustment			\$237,838	2,083	\$241,689	306			\$479,527	2,389
Total FY 2015 Budget Request	\$2,317,633	31,481	\$5,371,826	45,757	\$4,456,858	13,380	\$330,210	569	\$12,476,527	91,187
¹ FY 2013 Operating Level represents the across-the-board rescission and reductions required by sequestration and an interappropriation transfer \$73M transferred from the Enforcement appropriation to the Taxpayer Services (\$13M) and Operations Support (\$60M) appropriations.										
² FY 2014 Enacted includes \$92M in funding (\$34 million in Taxpayer Services and \$58 million in Operations Support).										
Dollar/FTE Change FY 2015 Budget Request over FY 2014 Enacted	\$161,079	2,485	\$349,648	2,952	\$657,916	1,520	\$17,272	41	\$1,185,915	6,998
Percent Change FY 2015 Budget Request over FY 2014 Enacted	7.47%	8.57%	6.96%	6.90%	17.32%	12.82%	5.52%	7.77%	10.50%	8.31%
Dollar/FTE Change FY 2015 Request Before Cap Adjustment over FY 2014 Enacted	\$161,079	2,485	\$111,810	869	\$416,227	1,214	\$17,272	41	\$706,388	4,609
Percent Change FY 2015 Request Before Cap Adjustment over FY 2014 Enacted	7.47%	8.57%	2.23%	2.03%	10.96%	10.24%	5.52%	7.77%	6.26%	5.47%

4.9 – Summary of IRS FY 2015 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 2015 Request	\$2,135,553	29,700	\$4,949,178	44,325	\$3,800,943	11,885	\$312,938	471	\$11,198,612	86,381
FY 2014 Enacted ¹	\$2,156,554	28,996	\$5,022,178	42,805	\$3,798,942	11,860	\$312,938	528	\$11,290,612	84,189
Changes to Base:										
Non-Recur FY 2014 Additional Appropriation	(\$34,000)		\$105,719		(\$58,000)		\$1,593		(\$92,000)	
Maintaining Current Levels (MCLs):	\$46,483		57,260		\$69,382		859		\$223,177	
Pay Raise	24,564		41,857		19,399		734		102,082	
FERS Contribution Increase	18,724		6,602		14,014				75,329	
Non-Pay Inflation Adjustment	3,195				35,969				45,766	
Other Adjustments:			(\$29,221)	329	\$29,221	244				573
Base Adjustments			(\$18,233)	329	(\$58,181)	244			(\$95,200)	(70)
Efficiencies/Savings:										
Increase e-File Savings	(\$18,786)	(70)			(\$9)				(2,800)	(55)
Adjustment for FERS Increase	(2,761)	(55)							(76,375)	
HCTC Program Termination			(18,233)		(58,142)				(16,025)	(15)
Reinvestment:									\$16,025	
Expand Telecom Infrastructure to Handle Increased Demand					\$16,025				16,025	
Subtotal FY 2015 Changes to Base	(\$6,303)	(70)	\$58,265	329	(\$1,553)	244	\$1,593	528	\$52,002	503
FY 2015 Base	\$2,150,251	28,926	\$5,080,443	43,134	\$3,797,389	12,104	\$314,531		\$11,342,614	84,692
Program Changes:										
Program Increase:										
Taxpayer Service Initiative:										
Improve Taxpayer Service and Return Processing	153,482	2,355			57,776	36			211,258	2,391
Subtotal Taxpayer Service Initiative	\$153,482	2,355			\$57,776	36			\$211,258	2,391
Enforcement Initiatives:										
Address International and Offshore Compliance Issues			49,037	332	7,773				56,810	332
Expand Coverage of High Wealth Individuals and Enterprises			17,684	141	3,273				20,957	141
Prevent Identity Theft and Refund Fraud	13,900	200	16,971	191	34,005	66			64,876	457
Address Impact of ACA Statutory Requirements			36,574	349	19,525	50			56,099	399
Expand Audit Coverage			53,581	541	44,198	45			97,779	586
Enhance Collection Coverage			41,692	540	25,070	37			66,762	577
Improve Coverage of Partnerships and Flow-Through Entities			28,690	240	7,849	4			36,539	244
Expand Compliance Coverage in the Tax-Exempt Sector			13,364	119	2,731				16,095	119
Pursue Fraud Referrals, Employment Tax, and Abusive Tax Schemes			9,275	52	8,537				17,812	52
Build Out Tax Return Preparer Compliance and Professional Responsibility Activities			14,765	106	2,772				17,537	106
Implement Information Technology (IT) Changes to Deliver the Foreign Account Tax Compliance Act (FATCA)			698	5	32,223	140			32,223	140
Leverage Digital Evidence for Criminal Investigation (CI)			4,052	7	3,674	1			4,372	6
Leverage Data to Improve Case Selection					32,741	39			36,793	46
Subtotal Enforcement Initiatives	\$13,900	200	\$286,383	2,623	\$224,371	382			\$524,654	3,205

4.9 – Summary of IRS FY 2015 Budget Request (Continued)

	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 2015 Request										
Infrastructure Initiatives:										
Implement Information Technology (IT) Changes to Deliver Tax Credits and Other Requirements			305,645	818					305,645	818
Implement Information Technology (IT) Services			10,000						10,000	
Implement Campus Consolidation and Revitalization Strategy			10,000						10,000	
Implement eGovernment and Other Administration Priorities			31,011	19					31,011	19
Maintain Integrity of Revenue Financial Systems			12,136	8					12,136	8
Expand Virtual Service Delivery (VSD)			7,701	13					7,701	13
Subtotal Infrastructure Initiatives			\$376,493	858					\$376,493	858
Business Systems Modernization Initiative:										
Continue Migration from Aging Tax Administration Systems - Enhance Online Services			829				15,679	41	16,508	41
Subtotal Business Systems Modernization Initiative			\$829				\$15,679	41	\$16,508	41
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 Initiative			\$5,000						\$5,000	
Subtotal FY 2015 Program Changes	\$167,382	2,555	\$291,383	2,623	\$659,469	1,276	\$15,679	41	\$1,133,913	6,495
Total FY 2015 Budget Request	\$2,317,633	31,481	\$5,371,826	45,757	\$4,456,858	13,380	\$330,210	569	\$12,476,527	91,187

¹ FY 2015 Operating Level represents the across-the-board recession and reductions required by sequestration and an interappropriation transfer \$73M transferred from the Enforcement appropriation to the Taxpayer Services (\$13M) and Operations Support (\$60M) appropriations.

² FY 2014 Enacted includes \$92M in funding (\$34 million in Taxpayer Services and \$58 million in Operations Support).

Dollar/FTE Change FY 2015 Budget Request over FY 2014 Enacted: \$161,079 / 7.47%
 Percent Change FY 2015 Budget Request over FY 2014 Enacted: 7.47%

Dollar/FTE Change FY 2015 Budget Request over FY 2014 Enacted: \$17,272 / 5.52%
 Percent Change FY 2015 Budget Request over FY 2014 Enacted: 5.52%

Dollar/FTE Change FY 2015 Budget Request over FY 2014 Enacted: \$657,916 / 17.32%
 Percent Change FY 2015 Budget Request over FY 2014 Enacted: 17.32%

Dollar/FTE Change FY 2015 Budget Request over FY 2014 Enacted: \$17,272 / 5.52%
 Percent Change FY 2015 Budget Request over FY 2014 Enacted: 5.52%

Dollar/FTE Change FY 2015 Budget Request over FY 2014 Enacted: \$11,185,915 / 10.50%
 Percent Change FY 2015 Budget Request over FY 2014 Enacted: 10.50%