

Department of the Treasury
Internal Revenue Service

Congressional Budget
Justification and Annual
Performance Report and Plan

FY 2019

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Section I – Budget Request

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 – Appropriations Detail Table

Dollars in thousands

Internal Revenue Service (IRS) Appropriated Resources	FY 2017 Enacted ¹		FY 2018 Annualized CR ²		FY 2019 Request ³		Change FY 2018 to FY 2019 Request		% Change FY 2018 to FY 2019 Request	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Taxpayer Services	28,692	\$2,455,754	26,977	\$2,349,688	24,668	\$2,241,000	(2,309)	(\$108,688)	-8.56%	-4.63%
Pre-Filing Taxpayer Assistance and Education	4,700	607,043	4,451	603,424	4,460	607,753	9	4,329	0.20%	0.72%
Filing and Account Services	23,992	1,848,711	22,526	1,746,264	20,208	1,633,247	(2,318)	(113,017)	-10.29%	-6.47%
Enforcement	36,550	\$4,640,000	34,662	\$4,606,996	34,662	\$4,628,204		\$21,208		0.46%
Investigations	3,079	595,206	2,913	576,802	2,913	578,949		2,147		0.37%
Exam and Collections	32,602	3,914,546	30,811	3,874,918	30,811	3,893,373		18,455		0.48%
Regulatory	869	130,248	938	155,276	938	155,882		606		0.39%
Operations Support	10,835	\$3,849,246	10,813	\$3,913,988	10,959	\$4,155,796	146	\$241,808	1.35%	6.18%
Infrastructure		869,732		847,444		860,058		12,614		1.49%
Shared Services and Support	4,777	991,504	4,588	994,559	4,588	1,005,911		11,352		1.14%
Information Services	6,058	1,988,010	6,225	2,071,985	6,371	2,289,827	146	217,842	2.35%	10.51%
Business Systems Modernization	557	\$290,000	516	\$288,031	516	\$110,000		(\$178,031)		-61.81%
Subtotal New Appropriated Resources	76,634	\$11,235,000	72,968	\$11,158,703	70,805	\$11,135,000	(2,163)	(\$23,703)	-2.96%	-0.21%
Other Resources:										
Reimbursables	853	152,161	1,033	173,557	552	113,535	(481)	(60,022)	-46.56%	-34.58%
Offsetting Collections - Non Reimbursables		16,407		16,407		17,227		820		5.00%
User Fees	161	241,485	75	499,100	71	498,900	(4)	(200)	-5.33%	-0.04%
Recovery from Prior Years		2,497		18,351		18,331		(20)		-0.11%
Unobligated Balances from Prior Years	36	297,310	827	351,715		353,222	(827)	1,507	-100%	0.43%
Transfers In/Out		17								
Resources from Other Accounts	1		1		1					
Subtotal Other Resources	1,051	\$709,877	1,936	\$1,059,130	624	\$1,001,215	(1,312)	(\$57,915)	-67.77%	-5.47%
Total Budgetary Resources	77,685	\$11,944,877	74,904	\$12,217,833	71,429	\$12,136,215	(3,475)	(\$81,618)	-4.64%	-0.67%

¹FY 2017 Enacted reflects levels appropriated in H.R. 255, the Consolidated Appropriations Act of 2017. For further details on the execution of these resources, see the 2019 Budget Appendix chapter for the Department of the Treasury. Includes \$220 million interappropriation transfer from Enforcement to Taxpayer Services (\$90 million) and Operations Support (\$130 million). FY 2017 Enacted also includes \$290 million in Section 113 Administrative Provision funding allocated in the following amounts: \$209.2 million in Taxpayer Services and \$80.8 million in Operations Support. FY 2017 full-time equivalent (FTE) are actuals and reconcile to the final FY 2017 Obligations and Expenses report, which included the 36 FTE funded from prior year balances shown in the table above. Other Resources are actuals. Resources from Other Accounts include other direct FTE funded by the Federal Highway Administration.

²FY 2018 Annualized Continuing Resolution (CR) reflects a rescission of 0.6791 percent applied to the FY 2017 Enacted levels. FY 2018 Annualized CR also includes a notional \$220 million interappropriation transfer from Enforcement to Operations Support to cover anticipated operations and maintenance requirements in FY 2018. The IRS will submit a formal transfer to request to Congress as part of the IRS FY 2018 operating plan upon enactment of a final appropriations bill. FY 2018 Annualized CR includes \$288 million in Section 113 Administrative Provision funding in the following amounts: \$208 million in Taxpayer Services and \$80 million in Operations Support. FY 2018 Annualized CR does not include resources to implement new requirements under the Tax Cuts and Jobs Act (Public Law 115-97).

³FY 2019 Request in this table excludes the proposed \$362 million discretionary program integrity investment in FY 2019: \$205 million for Enforcement and \$157 million for Operations Support. More information about the program integrity cap adjustment can be found in Section 4.1.

1B – Summary of the Request

FY 2019 Budget Request

The IRS FY 2019 base budget request of \$11.135 billion provides funding to administer the nation’s tax system, generate more than \$3 trillion in revenue to fund critical defense and general program requirements, meet demand from hundreds of millions of taxpayers, issue more than \$400 billion in tax refunds and outlays, protect billions of taxpayer records, and strengthen tax compliance.

The Budget invests in high-priority programs that will allow the IRS to administer the new tax law and to become more efficient and effective and ultimately assist more taxpayers. These investments include modernizing taxpayer services and expanding opportunities for taxpayers and their representatives to complete certain service and compliance interactions through their preferred channel, be it online, by telephone, or in-person at one of the IRS’s 365 Taxpayer Assistance Centers (TACs). Modernizing taxpayer services will help simplify filing returns for the vast majority of taxpayers and result in more resources for taxpayers who use traditional service channels, all of which will increase voluntary compliance and improve tax administration. The Budget invests in technology and analytics to take advantage of the most effective tax enforcement strategies and protect taxpayers’ refunds from fraudulent schemes. The Budget also increases funding for security and replacing obsolete hardware to protect taxpayer-sensitive data from ever-increasing cyber threats.

The Budget will allow the IRS to help all taxpayers to meet their tax obligations by simplifying the process of filing and amending returns and payment; protect the integrity of the tax system by reviewing and enforcing tax code; partner with key stakeholders in the state and local tax administration, tax preparation, and international communities; cultivate and retain a well-equipped, diverse, flexible, and engaged workforce; advance data access, usability, and analytics to inform decision making; and drive increased agility, efficiency, effectiveness, and security in operations.

Strategic Plan 2018 - 2022

Treasury’s new strategic plan and the forthcoming IRS Strategic Plan for FY 2018–2022 (Plan) guide the IRS’s resource decisions, programs, and operations to meet the changing needs and expectations of taxpayers and members of the tax community who serve taxpayers. The Plan aligns with the goals and objectives in Treasury’s strategic plan, namely increasing U.S. economic growth by administering tax laws to better enable all taxpayers to meet their obligations while protecting the integrity of the tax system; transforming government-wide financial stewardship by increasing access to and usage of data; and achieving operational excellence. The Plan reflects the IRS’s critical role in tax administration. By focusing on combatting the increased prevalence of refund fraud and identity theft, transforming taxpayer services to meet taxpayer expectations, maintaining a skilled and talented workforce, increasing operational efficiency and effectiveness, and meeting the tax needs of a diverse U.S. population, the Plan is a guide to successfully accomplishing the IRS mission and vision.

Tax Reform

The Tax Cuts and Jobs Act (Public Law 115-97) is the most significant revision of the U.S. tax code in over 30 years. Containing hundreds of provisions intended to provide relief to American families and make America's businesses more competitive, implementing the new law will require extensive administrative work in calendar years 2018 and 2019.

Implementing this new legislation is one of the IRS's highest priorities. The IRS has established a Tax Reform Implementation Office, led by senior leaders, to ensure successful implementation. Efforts to implement the new legislation are already underway and two important pieces of guidance have been issued addressing certain provisions in the new law. On December 29, 2017, the IRS and the Department of the Treasury issued notices on amended Internal Revenue Code (IRC) section 965, providing guidance for computing the "transition tax" on untaxed foreign earnings of foreign subsidiaries of U.S. companies, and the new IRC section 1446(f). In addition, on January 11, 2018, the IRS and the Department released a notice updating income tax withholding tables for 2018 based on the new law. These early notices provide taxpayers and practitioners with information to timely and accurately address new tax compliance obligations. Additional published guidance is expected as the IRS continues to analyze the new law's impact on tax administration.

The IRS will need additional resources in FY 2018 to implement the new law in a way that adequately serves taxpayers, facilitates tax compliance, and protects sensitive taxpayer data. Resources are needed to address the following areas:

- Create new and revised taxpayer forms, instructions, and publications.
- Provide technical support to taxpayers on issues involving interpretations of the law and of related published guidance. Preliminary estimates suggest assistors may need to answer four million additional phone calls. This represents a potential 17 percent increase over the 23 million assisted calls answered by the IRS in FY 2017.
- Train IRS employees on the new law and help the public, tax professionals, and other industry partners understand how the law applies to them.
- Reprogram information technology systems, with special focus on return processing and compliance systems (the backbone of the tax system).

Reducing Regulatory Burden

The IRS and the Department continue to work to identify overly burdensome tax regulations for modification or repeal consistent with law and Executive Order 13789 (*Identifying and Reducing Tax Regulatory Burdens*). In October of 2017, the Department released a report recommending actions to eliminate or mitigate the burdens imposed on taxpayers by eight regulations. These recommendations include withdrawing proposed regulations under Section 2704 that would have hurt family-owned and operated businesses by limiting valuation discounts. The regulations also would have made it difficult and costly for a family to transfer their businesses to the next generation. In addition, the IRS and the Department have initiated a comprehensive review, coordinated by the Treasury Regulatory Reform Task Force, of all tax regulations, regardless of when they were issued. This review will identify

tax regulations that are unnecessary, create undue complexity, impose excessive burdens, or fail to provide clarity and useful guidance, and the Department and the IRS will pursue reform or revocation of those regulations. As part of this process, the IRS Office of Chief Counsel has already identified over 200 regulations for potential revocation, most of which have been outstanding for many years.

Modernizing Tax Administration

The IRS must balance three competing priorities when allocating resources: basic tax administration (i.e., filing season), maintaining infrastructure, and modernizing legacy systems and procedures. The IRS has to prioritize filing season needs with other important but less visible activities such as infrastructure, support staffing, and strategic enforcement. This prioritization may potentially result in lower tax compliance and long-term risk for the voluntary compliance-based U.S. tax system. A one percent drop in the voluntary compliance rate is estimated to cost the government tax revenue of \$30 billion each year. The Budget balances these competing priorities by investing in mission-critical areas including taxpayer applications, enforcement, essential infrastructure, and security.

Staffing: The IRS is committed to providing taxpayers and their representatives with high quality, secure service through all available channels. Taxpayer preferences are changing. More taxpayers prefer to interact with the IRS using digital tools at the time and place of their choosing. The Budget invests to ensure the IRS is meeting taxpayers' needs. For example, the Budget proposes an investment of \$18 million and 126 FTE to assist more taxpayers with account management and online authentication issues and help taxpayers navigate submission processing and collection issues.

Information Technology Infrastructure: The IRS must continue efforts to replace obsolete hardware and software and provide a stable foundation for delivering technology services required for day-to-day operations, transforming the tax experience, and modernizing operations. At the end of FY 2017, more than 59 percent of IRS hardware was past its useful life and 26 percent of software was two or more releases behind the most current commercially available version. The Budget provides additional resources to reduce the aged inventory backlog with the goal of reaching 54 percent of hardware in FY 2019 and an industry standard of 20 to 25 percent by FY 2023. This investment will improve employee productivity and enhance taxpayer service by reducing equipment outages and system failures. Operating on the latest hardware and software also will help the IRS better protect taxpayer information by facilitating faster, more comprehensive patching and by limiting exposure to security flaws.

Modernizing Operations: IRS systems need to be modernized to gain efficiencies, protect data, and reduce long-term maintenance costs. The IRS's modernization efforts will standardize business processes, expand the digital conversion of paper case files and documentation, automate repetitive manual processes, leverage existing data to detect non-compliance earlier, and enable a strong and secure systems platform to create taxpayer-facing applications. The Budget proposes \$110 million for system modernization. This funding will support, for example, the Enterprise Case Management (ECM) system. ECM will allow the IRS to retire more than 60 legacy case applications with similar functions that were setup over

many years to meet various legislative and business requirements. Retiring these applications will help standardize workflows, allow IRS employees to provide more consistent service to taxpayers, and achieve operations and maintenance efficiencies. Investing in ECM will directly benefit taxpayers by facilitating a seamless customer service experience. In the future when a taxpayer seeks assistance over the phone or online, IRS customer service representatives will have tailored access to a centralized case file that contains a history of all relevant prior interactions and a holistic package of reference materials to support taxpayers. Cases will be routed seamlessly from one business unit to another without manual workarounds that burden both taxpayers and employees. The IRS plans to begin transitioning to this new platform in FY 2019. More information about ECM and other modernization investments can be found in section 2I – Business Systems Modernization and section 3.1 – Summary of Capital Investments.

Program Integrity Cap Adjustment

In addition to the base appropriations request of \$11.135 billion, the Budget proposes a \$362 million discretionary program integrity cap adjustment in FY 2019 to fund new and continuing investments in expanding and improving the effectiveness and efficiency of the IRS's overall tax enforcement program. The Budget proposes \$205 million for the Enforcement account and \$157 million for the Operations Support account. Additional adjustments are provided in future years to fund new initiatives and inflation. These investments will generate approximately \$44 billion in new revenue over 10 years and will cost about \$15 billion for net savings of \$29 billion. Notably, this return on investment (ROI) is likely understated because it does not reflect the effect that enhanced enforcement has on deterring non-compliance. The deterrent effect helps to ensure the continued payment of over \$3 trillion in taxes voluntarily paid each year. More information about the cap adjustment is found in section 4.1 – Appropriations Detail Table with Program Integrity Cap Adjustment of the Appendix and in the Budget Process Chapter of the FY 2019 President's Budget.

2017 Filing Season

The IRS delivered a successful 2017 filing season that opened on January 23, 2017. The Taxpayer Assistance Center Appointment Service, which is now available nationwide, significantly improved in-person assistance and ensured taxpayers did not have to wait in long lines to receive assistance. The appointment service is one of many examples of the IRS harnessing technology to improve the taxpayer experience.

Other highlights from the 2017 filing season include:

- Stopped \$5.2 billion in fraudulent refunds claimed by identity thieves on 567,000 tax returns through improved screening criteria from January 2017 through October 2017.
- Delivered a filing season telephone Level of Service (LOS) – the relative success rate of taxpayers who call the IRS toll-free number seeking assistance from a customer service representative – of 79.1 percent, the highest level since 2007 and a substantial improvement over the 72.1 percent delivered during the 2016 filing season.

- Reduced the backlog of taxpayer correspondence cases by 100,000, allowing the IRS to shift resources to help taxpayers during peak call times and more promptly resolve taxpayer issues.
- Answered almost 10 million phone calls and addressed another 18 million calls through automated systems. The average speed of answer was seven minutes, compared to 11 minutes in the 2016 filing season, allowing the IRS to resolve taxpayer issues faster.
- Received approximately 136 million individual returns, with more than 90 percent filed electronically.
- Received almost 30.9 million business returns, an increase of 3.3 percent from the 2016 filing season.
- Received almost 19.3 million business returns electronically, an increase of almost 10 percent from the 2016 filing season.
- Issued 97 million refunds totaling \$268 billion, with an average individual refund of \$2,862.
- Continued to work with Security Summit partners from state tax agencies and the broader tax community to add extra layers of security protection for the filing season. Throughout the year, the IRS issued news releases about scams and tax tips to bring awareness to taxpayers and tax professionals.
- Registered nearly 290,000 foreign financial institutions (FFIs) with the IRS and assigned a global intermediary identification number (GIIN) via the FFI Registration application. More than 6,500 financial institutions and 97 host country tax authorities enrolled in the International Data Exchange Service (IDES) to submit information returns required under the Foreign Account Tax Compliance Act (FATCA) to the IRS, and more than 550 qualified intermediaries (QIs) completed their online application via the QI application.

Return on Investment

The IRS remains one of the most cost-effective investments in the Federal Government. Financing the IRS supports an increase in revenue for the country. This unique and critical role is vital for the functioning of the U.S. Government and in keeping the nation and economy strong. In FY 2017, the IRS collected \$3.4 trillion in tax revenue.

The IRS remains one of the most efficient tax administrators in the world. For every \$100 collected in taxes, the IRS spends only thirty-five cents. Congress appropriated a total of \$11.2 billion for the IRS in FY 2017 and IRS enforcement programs collected \$56.9 billion, for a return on investment (ROI) of about \$5.1 for every \$1 invested in the IRS. This ROI estimate is likely understated because it does not include the revenue effect of the deterrence value of these investments and other IRS enforcement programs or the effect of education and outreach on voluntary tax compliance.

Investment Labor Costing Methodology

The IRS uses a variety of methods to calculate the cost of its investments. Costs for investments 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 covers the salary, benefits, and support costs needed for each FTE.

Proposed FTE increases in the FY 2019 Budget assume an April 1 hire date, with the exception of front-line positions in Submission Processing and Account Management and Assistance - Electronic/Correspondence Assistance, which assume an October 1 hire date because they provide service to taxpayers during the filing season and can be brought on board faster than most other positions. These programs are not as dependent on the traditional hiring and training process as other IRS programs because they have a large existing seasonal workforce available to work additional hours to meet work demand. To fund the FTE requested in the Budget for a full year in FY 2020, including the program integrity investment, the IRS would need an additional \$193 million and 1,792 FTE.

1.2 – Budget Adjustments Table

Dollars in thousands

Bureau: Internal Revenue Service		
Summary of Proposed FY 2019 Request	FTE	Amount
FY 2018 Annualized CR Level	72,968	\$11,158,703
Changes to Base		
Maintaining Current Levels (MCLs)		93,693
Pay Annualization		38,727
Non-Pay Inflation Adjustment		54,966
Efficiencies/Savings	(128)	(12,798)
Increase e-File Savings	(128)	(6,797)
Space Optimization		(6,001)
Reinvestment		12,798
Support Aging IT Infrastructure		12,798
Subtotal FY 2019 Changes to Base	(128)	\$93,693
FY 2019 Current Services	72,840	\$11,252,396
Program Changes		
Program Decreases		
Actions to Achieve Workforce Management Goals	(2,307)	(138,524)
Realignment from BSM to Operations Support		(178,203)
Subtotal FY 2019 Program Decreases	(2,307)	(\$316,727)
Program Increases		
Stabilize, Secure and Transform IT Operations	146	\$181,305
Strengthen Cyber Security	10	40,000
Identity Assurance - e-Authentication Enhancements and Authorization Integration	21	24,300
Aging Technology Infrastructure		39,000
Migration to Cloud Services		20,000
Stabilize IT Operations	115	58,005
Support Taxpayer Services and Online Account Activities	126	\$18,026
Subtotal FY 2019 Program Increases	272	\$199,331
Total FY 2019 Budget Request	70,805	\$11,135,000

See footnotes in 1.1 – Appropriations Detail Table

1C – Base Adjustment and Program Changes Description

Resource Adjustment

Base Realignment for Support Services \$0 / 0 FTE

The FY 2018 Annualized CR level of \$11.159 billion assumes \$220 million will be transferred from Enforcement to Operations Support in FY 2018 to cover recurring operations and maintenance costs. The IRS will submit a formal notification to Congress in its FY 2018 operating plan. In recognition of the recurring nature of these expenses, the Budget includes the \$220 million in the FY 2019 current services or base estimate for Operations Support. The base captures the amount of resources needed to maintain services at FY 2018 levels.

In recent years, the IRS has relied on transfers from Enforcement to Operations Support to maintain core functions, information technology, and related support services for all IRS employees. These transfers have provided front-line employees with the tools, equipment, analytics, secure facilities, and technology support necessary to serve taxpayers.

Maintaining Current Levels (MCLs)..... +\$93,693,000 / 0 FTE

Pay Annualization +\$38,727,000 / 0 FTE

Funds are requested for annualization of the January 2018 pay-raise.

Non-Pay +\$54,966,000 / 0 FTE

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

Efficiencies and Savings.....-\$12,798,000 / -128 FTE

Increase e-File Savings -\$6,797,000 / -128 FTE

Over the past five years, with an increased focus on taxpayers filing electronically, the IRS saved about \$14 million and 274 FTE from reduced paper returns and the corresponding FTE needed to work submission processing. The IRS projects the receipt of 1,902,000 fewer returns filed on paper in FY 2019 (1,301,700 individual and 600,300 business returns) than in FY 2018, saving approximately 128 FTE and \$6.8 million.

Space Optimization -\$6,001,000 / 0 FTE

The IRS will reduce expenditures on rent and improve usage of office space across the country. The IRS plans to reduce its real estate footprint by approximately 500,000 square feet by closing or consolidating space for estimated rent savings of \$6 million in FY 2019.

Reinvestment.....+\$12,798,000 / 0 FTE

Supporting Aging IT Infrastructure +\$12,798,000 / 0 FTE

Funding will be applied to refresh and replace critical IT infrastructure that has aged three to four times beyond industry standards for replacement. The IRS requires about \$136 million to replace assets that have aged in the past fiscal year, and estimates every \$10 million spent above \$136 million will result in a one percent reduction of the aged assets. Thus, \$12.8 million in addition to \$136 million in planned spending within the base should allow for replacement of about 1.3 percent of aged assets. At the end of FY 2017 more than 59 percent of IRS hardware was past its useful life, compared to 64 percent at the end of FY 2016, and 32 percent of software was two or more releases behind the most current commercially available version. The reduction in FY 2017 is attributable to the availability and application of user fee funding and prior year expired balances. The management, maintenance, and ongoing enhancement of the IRS's information technology are central to the reliability of its operations, and to the successful accomplishment of its mission.

Program Decreases-\$316,727,000 / -2,307 FTE

Action to Achieve Workforce Management Goals -\$138,524,000 / -2,307 FTE

This decrease is expected to lower the telephone Level of Service from an estimated 75 percent in FY 2018 to 47 percent in FY 2019. This decrease may delay the sorting and shipping of incoming mail within normal mail; delay responses to transcript requests and other paper receipts from taxpayers; and result in seasonal employees being placed into non-work status. Proposed investments in systems and online services will mitigate these effects to some extent.

Realignment from BSM to Operations Support -\$178,203,000 / 0 FTE

The IRS will continue investing in modernizing systems with the proposed \$110 million request for Business Systems Modernization. This decrease takes into account the projected \$237 million in unobligated balances brought forward estimated to be available to support modernization in FY 2019 and the need to continue investing in IT infrastructure, security, and web services within Operations Support.

Program Increases.....+\$199,331,000 / +272 FTE

Stabilize, Secure and Transform IT Operations +\$181,305,000 / +146 FTE

Strengthen Cyber Security +\$40,000,000 / +10 FTE

The IRS protects against more than one million cyber-attacks each day and operates strong network perimeter defenses to mitigate threats, detect vulnerabilities, and monitor network security. Sustained investments are required to protect against

Position Type/Other Costs	FTE	\$ 000
Strengthen Cyber Security	10.00	\$40,000
IT Specialist	10.00	1,712
Software & Hardware		10,329
Contractual Services		27,959
Total	10.00	\$40,000

increasingly sophisticated adversaries while meeting taxpayer expectations for online services. The IRS will enhance network security via cyber-threat forensics, implementation of a comprehensive patch management system, and the adoption of government-wide information security continuous monitoring tools as part of a layered defense.

This investment will fund continued efforts to protect sensitive data by executing a multi-year plan to enhance security standards, configurations, and controls across the IRS’s largely customized application portfolio and expansive inventory of end-of-life infrastructure assets. The IRS will leverage these funds to meet or exceed federal requirements governing confidentiality, integrity, and the availability of IRS systems, services, and data. In addition, the IRS will reduce security risks associated with aged cybersecurity infrastructure and enhance the effectiveness of cybersecurity in the following areas:

- **IT Security Safeguards:** Enables expanded capabilities and improved execution for the identification and mitigation of vulnerabilities across the disparate, geographically dispersed IRS technology infrastructure. These expanded safeguards are aimed at preventing inappropriate access to IRS systems, eliminating vulnerabilities that may be exploited internally or externally, and protecting sensitive information.
- **Continuous Monitoring and Advanced Threat Detection, Defense, and Response:** Improves threat detection, activity auditing, anomaly detection, forensic analytics, 24x7 monitoring, and technology solutions for voluminous data consumption, encrypted transport, storage, aggregation, correlation, and visualization.
- **Cybersecurity Infrastructure:** Replaces and updates cybersecurity infrastructure to provide a scalable architecture platform that addresses increased data demands to store, manage, and analyze significantly larger volumes of structured and unstructured data. This infrastructure platform is the foundation for cybersecurity data captured across the IRS used to secure the enterprise and prevent fraudulent activity.

Identity Assurance - e-Authentication Enhancements and Authorization Integration
+\$24,300,000 / +21 FTE

Nearly all of the IRS’s online services are dependent upon secure authentication and authorization processes: ensuring customers are who they say they are, and ensuring they are given the appropriate access to specific services or data. The IRS is facing a backlog of enhancements and defect fixes that are needed to ensure compliance and functionality. Secure Access (e-A3) is the registration and log-in mechanism (the front door) for taxpayers to access most online applications and is a critical cyber defense that prevents inappropriate access to taxpayer data. e-A3 helps taxpayers register for a Secure Access account and enables more taxpayers to use online applications.

Position Type/Other Costs	FTE	\$ 000
Identity Assurance - e-Authentication Enhancements and Authorization Integration	21.00	\$24,300
IT Specialist	21.00	3,931
Software & Hardware		3,067
Contractual Services		17,302
Total	21.00	\$24,300

This investment will continue efforts to make the log-in process more secure, user-friendly, and compliant with federal identity and security standards, and to develop new authorization capabilities to manage permissions to access customer data and information. This effort supports secure customer access through an integrated suite of capabilities, applied consistently across channels. Specific capabilities include:

- Enhanced ID proofing and authentication technology that will utilize internal IRS data (e.g., tax and information return data), third party trusted sources, and risk-based authentication (e.g., real-time decisions).
- Reporting capabilities will provide the tools and infrastructure to track and manage real time business performance metrics, fraud analytics, system performance results, and application usage information.
- Integration of e-Authentication data with data from other channels, such as phones, to perform analytics on the customer experience and fraud detection.
- Authorization capabilities to perform attribute-based access controls for third parties and tax professionals.
- e-Signature solution to provide the ability for authenticated taxpayers to electronically sign and submit returns, statements, and other documentation.
- Response and recovery capabilities and processes to respond to data breaches and fraud incidents.

Aging Technology Infrastructure +\$39,000,000 / 0 FTE

The IRS will use this funding to refresh and replace critical IT infrastructure. Regular maintenance and replacement reduces outages, expensive manual workarounds, support costs, security vulnerabilities, and dependency on contractors. The IRS's large infrastructure (hardware, software, and middleware) has aged three to four times beyond industry standards. Interrelated and interdependent infrastructure and systems often create a ripple effect of unpredictable outages and failures, which can undermine operations and core tax-administration responsibilities and put a valuable data cache at risk. This investment along with the proposed \$12.8 million reinvestment of efficiency savings and base funding of \$136 million will allow the IRS to reduce the percentage of hardware past its useful life from an estimated 59 percent in FY 2018 to 54 percent in FY 2019.

Position Type/Other Costs	FTE	\$ 000
Aging Technology Infrastructure		\$39,000
Software & Hardware		37,050
Contractual Services		1,950
Total		\$39,000

Migration to Cloud Services +\$20,000,000 / 0 FTE

Migrating to cloud computing service delivery models offers the promise of improved resource utilization and reduced costs, while streamlining IT operations. Allocating additional resources will enable the IRS to make progress on migrating to cloud computing service delivery models such as Software as a Service (SaaS), providing end users with the capability to utilize provider applications running on a cloud infrastructure; platform as a Service (PaaS), providing IRS end users with the capability to deploy onto the cloud infrastructure end user-created applications using programming languages and tools supported by the provider (e.g., java, python, .Net); infrastructure as a Service (IaaS), providing IRS end users with the capability to provision processing, storage, networks, and other fundamental computing resources where the end user is able to deploy and run arbitrary software, which can include operating systems (kernel) and software applications.

Position Type/Other Costs	FTE	\$ 000
Migration to Cloud Services		\$20,000
Contractual Services		20,000
Total		\$20,000

Stabilize IT Operations +\$58,005,000 / +115 FTE

The rapid, reliable production of IT capabilities is essential to taxpayers and stakeholders. To ensure both short and long-term success for both the IRS and taxpayers, the IRS must follow an operating model that focuses on developing innovative technology solutions in anticipation of ever-changing business drivers (taxpayer needs, legislative mandates, security threats, etc.).

Position Type/Other Costs	FTE	\$ 000
Stabilize IT Operations	115.00	\$58,005
IT Specialist	115.00	58,005
Total	115.00	\$58,005

This funding will be used in part to establish a new IT training and development program that will help the IRS assess employee skill sets, identify skill gaps, and train new and existing employees to fill those gaps and respond more quickly to new legislative requirements, the latest security practices, and new technology. Funding will also be used to establish communities of practice that will identify and promote best practices across IRS organizations and establish an immersive IT learning environment with on-the-job training, job shadowing, and employee coaching. These programs will be essential to addressing the

IT skills gap faced by the IRS and other federal agencies. Developing a resilient and talented IT workforce is essential to protecting IRS systems in the future.

Funding will be used to launch automated testing and continuous delivery systems. These systems will standardize the deployment and testing of new code throughout the IT ecosystem, which contains more than 400 applications; eliminate existing manual code transmittal processes that are costly and prone to human error; increase delivery quality and delivery speed; and establish automated rollbacks that would be triggered when testing fails.

Funding will be used to develop a comprehensive analytics strategy that will drive objective, data-driven decisions and improve performance measurement in IT; integrate disparate data sets from several isolated systems into a comprehensive platform that will allow the IRS to examine operational data in a broader context and provide valuable insights to improve IT operations; and setup an enterprise monitoring project that will allow systems administrators to identify potential performance problems before catastrophic failure occurs.

Support Taxpayer Services and Online Account Activities

Support Taxpayer Services and Enforcement through Account Management Support and Online Service Help Desk Activities (+\$18,026,000 / +126 FTE)

The investment of \$18 million and 126 FTE will support Taxpayer Service and Enforcement programs. Additional customer service representatives will help taxpayers troubleshoot collection, account management, and submission processing issues. These funds also will be used to hire additional Taxpayer Advocate Service (TAS) specialists to help taxpayers navigate issues and protect taxpayer rights.

Position Type/Other Costs	FTE	\$ 000
Account Management Support for Audit and Collection Coverage	57.00	\$3,555
Customer Service Representatives	31.00	2,096
Seasonal	24.00	1,308
Managers	2.00	151
Taxpayer Advocacy - Case Coverage	9.00	\$1,069
TAS Specialist	9.00	1,069
Help Desk for Improve Identity Assurance Activities	60.00	\$13,402
Program Analyst	15.00	2,246
Customer Service Representatives	45.00	3,203
Contractual Services		7,953
Total	126.00	\$18,026

While the IRS has made significant strides in implementing Secure Access, there are many enhancements needed to improve success rates for taxpayers, reduce technical errors, refine business rules, improve monitoring capabilities, and integrate additional applications with the Secure Access process. This investment will include support for the e-Authentication Help Desk to assist taxpayers with establishing or accessing their online accounts.

1.3 – Operating Levels Table

Dollars in thousands

Internal Revenue Service Object Classification	FY 2017 Enacted	FY 2018 Annualized CR	FY 2019 Request
11.1 Full-Time Permanent Positions	5,799,023	5,714,923	5,664,220
11.3 Other than Full-Time Permanent Positions	80,219	69,801	70,107
11.5 Other Personnel Compensation	196,095	208,697	207,397
11.8 Special Personal Services Payments	20,829	22,821	22,931
11.9 Personnel Compensation (Total)	6,096,166	6,016,242	5,964,655
12.1 Personnel Benefits	2,159,138	2,091,006	2,067,223
13.0 Benefits to Former Personnel	29,460	27,408	27,539
Total Personnel and Compensation Benefits	\$8,284,764	\$8,134,656	\$8,059,417
21.0 Travel	77,431	88,619	90,644
22.0 Transportation of Things	18,666	23,916	24,381
23.1 Rental Payments to GSA	592,636	593,184	599,002
23.2 Rent Payments to Others	12,203	12,728	12,973
23.3 Communications, Utilities, & Misc	302,230	340,721	347,869
24.0 Printing & Reproduction	28,591	30,182	30,807
25.1 Advisory & Assistance Services	993,184	900,571	877,029
25.2 Other Services	88,616	95,667	96,897
25.3 Purchase of Goods & Services from Govt. Accounts	158,171	168,619	172,820
25.4 Operation & Maintenance of Facilities	195,912	180,602	184,511
25.5 Research & Development Contracts	21		
25.6 Medical Care	14,652	13,872	14,199
25.7 Operation & Maintenance of Equipment	37,919	78,741	79,586
26.0 Supplies and Materials	33,085	38,883	39,645
31.0 Equipment	333,784	407,293	454,143
32.0 Land and Structures	17,355	12,097	12,682
41.0 Grants, Subsidies	35,890	35,990	35,990
42.0 Insurance Claims & Indemnities	2,485	2,362	2,405
44.0 Refunds	6		
91.0 Unvouchered	7,399		
Total Non-Personnel	\$2,950,236	\$3,024,047	\$3,075,583
New Appropriated Resources	\$11,235,000	\$11,158,703	\$11,135,000
Appropriations			
Taxpayer Services	2,455,754	2,349,688	2,241,000
Enforcement	4,640,000	4,606,996	4,628,204
Operations Support	3,849,246	3,913,988	4,155,796
Business Systems Modernization	290,000	288,031	110,000
New Appropriated Resources	\$11,235,000	\$11,158,703	\$11,135,000
FTE	76,634	72,968	70,805

See footnotes in 1.1 – Appropriations Detail Table

1D – Appropriations Language and Explanation of Changes

Appropriations Language	Explanation of Changes
<p style="text-align: center;">DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE</p> <p style="text-align: center;">TAXPAYER SERVICES</p> <p><i>For necessary expenses of the Internal Revenue Service to provide taxpayer services, including pre-filing assistance and education, filing and account services, taxpayer advocacy services, and other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, \$2,241,000,000; of which not less than \$8,890,000 shall be for the Tax Counseling for the Elderly Program; of which not less than \$12,000,000 shall be available for low-income taxpayer clinic grants; of which not less than \$15,000,000, to remain available until September 30, 2020, shall be available for a Community Volunteer Income Tax Assistance matching grants program for tax return preparation assistance; and of which not less than \$206,000,000 shall be available for operating expenses of the Taxpayer Advocate Service: Provided, That of the amounts made available for the Taxpayer Advocate Service, not less than \$5,000,000 shall be for identity theft casework.</i></p> <p>Note.—A full-year 2018 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Continuing Appropriations Act, 2018 (Division D of P.L. 115–56, as amended). The amounts included for 2018 reflect the annualized level provided by the continuing resolution.</p> <p style="text-align: center;">ENFORCEMENT</p> <p><i>For necessary expenses for tax enforcement activities of the Internal Revenue Service to determine and collect owed taxes, to provide legal and litigation support, to conduct criminal investigations, to enforce criminal statutes related to violations of internal revenue laws and other financial crimes, to purchase and hire passenger motor vehicles (31</i></p>	<p>Making funding for the Tax Counseling for the Elderly Program equal to the FY 2017 enacted level.</p>

*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, \$4,628,204,000, of which not to exceed \$50,000,000 shall remain available until September 30, 2020, and of which not less than \$60,257,000 shall be for the Interagency Crime and Drug Enforcement program: **Provided, That of the funds provided under this paragraph, \$4,628,204,000 is provided to meet the terms of section 251(b)(2) of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended.***

*In addition, not less than \$204,643,000 for tax activities under this heading, including tax compliance to address the Federal tax gap: **Provided, That such amount is additional new budget authority 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.***

Note.—A full-year 2018 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Continuing Appropriations Act, 2018 (Division D of P.L. 115–56, as amended). The amounts included for 2018 reflect the annualized level provided by the continuing resolution.

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)); the operations of the Internal Revenue Service Oversight Board; and other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the*

Language required for the proposed program integrity cap adjustment. More information about the cap adjustment can be found in section 4.1 – Appropriations Detail Table with Program Integrity Cap Adjustment of the Appendix and Budget Process Chapter of the FY 2019 President’s Budget.

Revised to reflect the FY 2017 enacted language.

*Commissioner; \$4,155,796,000, of which not to exceed \$250,000,000 shall remain available until September 30, 2020; of which not to exceed \$10,000,000 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, 2021, for research; of which not to exceed \$20,000 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 Committees on Appropriations of the House of Representatives and the Senate 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 2019, a summary of cost and schedule performance information for its major information technology systems: **Provided further, That of the funds provided under this paragraph, \$4,155,796,000 is provided to meet the terms of section 251(b)(2) of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended.***

In addition, not less than \$156,928,000 for tax activities under this heading, including tax compliance to address the Federal tax gap: Provided, That such amount is additional new budget authority 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.

Note.—A full-year 2018 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account

Increasing two-year authority from the \$50 million cap in FY 2017 to \$250 million to correspond with the availability of the closely-linked BSM appropriation; to provide sufficient time for a robust IT lifecycle process including vision, strategy, solution, design, and development, thereby improving contracting outcomes; consistent with a recent recommendation from the Treasury Inspector General for Tax Administration (TIGTA), “[While Improvements Continue in Contract Negotiation Methods and Management Practices, Inconsistencies Need to Be Addressed.](#)”

Language required for the proposed program integrity cap adjustment. More information about the cap adjustment can be found in section 4.1 – Appropriations Detail Table with Program Integrity Cap Adjustment of the Appendix and Budget Process Chapter of the FY 2019 President’s Budget.

is operating under the Continuing Appropriations Act, 2018 (Division D of P.L. 115–56, as amended). The amounts included for 2018 reflect the annualized level provided by the continuing resolution.

BUSINESS SYSTEMS MODERNIZATION

For necessary expenses of the Internal Revenue Service's business systems modernization program, \$110,000,000, to remain available until September 30, 2021, 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 Committees on Appropriations of the House of Representatives and the Senate 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.

Note.—A full-year 2018 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Continuing Appropriations Act, 2018 (Division D of P.L. 115–56, as amended). The amounts included for 2018 reflect the annualized level provided by the continuing resolution.

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

SEC. 101. Not to exceed 10 percent of any appropriation made available in this Act to the Internal Revenue Service may be transferred to any

Increasing transfer authority between IRS appropriations accounts from 5 percent to 10 percent, consistent with

other Internal Revenue Service appropriation upon the advance 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. 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. 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. 107. None of the funds made available in this Act may be used by the Internal Revenue Service to target groups for regulatory scrutiny based on their ideological beliefs.

SEC. 108. Section 9503(a) of title 5, United States Code, is amended by striking the clause "Before September 30, 2013" and inserting "before September 30, 2022".

recent recommendations from TIGTA (Audit #201620014).

Restoring Streamlined Critical Pay authority through September 30, 2022.

SEC. 109. Section 9503(a)(5) of title 5, United States Code, is amended by inserting before the semicolon the following:

", but are renewable for an additional two years, based on a critical organizational need".

SEC. 110. Notwithstanding any Congressional notification requirements for a reprogramming of funds in this Act, funds provided in this Act for the Internal Revenue Service shall be available for obligation and expenditure through a reprogramming of funds that augments or reduces existing programs, projects, or activities by up to \$10,000,000 without prior Congressional notification of such action.

Providing authority to reprogram up to \$10 million within appropriations accounts without formal notification procedures. This increase will allow the IRS to allocate funds to highest priority needs at end of fiscal year, including infrastructure, and respond to late-breaking workload and program demand changes.

1E – Legislative Proposals

Program Integrity Cap Adjustment

In addition to the base appropriations request of \$11.135 billion, the Budget proposes a \$362 million discretionary program integrity cap adjustment in FY 2019 to fund new and continuing investments in expanding and improving the effectiveness and efficiency of the IRS's overall tax enforcement program. The Budget proposes \$205 million for the Enforcement account and \$157 million for the Operations Support account. It also proposes additional adjustments in future years to fund new initiatives and inflation. The proposed investments will generate approximately \$44 billion in additional revenue over 10 years and will cost about \$15 billion for net savings of \$29 billion. Notably, this ROI is likely understated because it does not reflect the effect that enhanced enforcement has on deterring non-compliance. The deterrent effect helps to ensure the continued payment of over \$3 trillion in taxes voluntarily paid each year. More information about the cap adjustment is found in section 4.1 – Appropriations Detail Table with Program Integrity Cap Adjustment of the Appendix and in the Budget Process Chapter of the FY 2019 President's Budget.

Streamlined Critical Pay Authority

The Budget proposes to reinstate Streamlined Critical Pay (SCP) authority for the IRS through September 30, 2022. The authority to make new SCP appointments expired September 30, 2013. This authority allowed the IRS to recruit and retain IT and other senior professionals and was limited to 40 positions. The IRS no longer employs any SCP appointees. The last SCP appointment expired on September 29, 2017. Without the renewal of SCP the IRS will continue to face challenges recruiting and retaining top talent in FY 2019, especially IT professionals who can help protect taxpayer data from cyber-attacks and who can assist with modernizing the IRS's IT infrastructure. To mitigate this issue, the IRS has carefully considered the Office of Personnel Management (OPM) existing government-wide Critical Position Pay (CPP) authority as an alternative to SCP. However, the CPP structure is limited.

Key benefits of SCP are:

- **Shortened Approval Timeline:** SCP appointments approved by the IRS Commissioner had an approval timeline of four to six weeks compared to the CPP approval process, which requires concurrence at the Secretary of the Treasury level and approval by OPM and has an approval timeline of four to six months.
- **Streamlined Justification Process:** The justification process is less extensive for SCP appointments, decreasing the amount of time an SES position is vacant. Currently, CPP SES positions can be vacant for several months to a year before being able to justify obtaining a CPP designation.
- **Expanded Salary Cap:** Under SCP authority, the IRS could pay up to the Vice President's salary (\$240,100 in 2017). Under the CPP authority, the EX-I salary would cap at \$207,800 in 2017.

According to TIGTA report 2015-IE-R001, *The Internal Revenue Service's Use of Its Streamlined Critical Pay Authority*, the IRS ran the SCP program effectively.

Correctable Error Authority

The Budget proposes to provide the IRS with greater flexibility to address errors on taxpayer returns. Under current law, when the IRS identifies certain mathematical and clerical errors or other specific irregularities on returns during processing, it automatically adjusts the return for the taxpayer. At various times, Congress has expanded this authority on a case-by-case basis. The IRS would be able to use its resources more effectively and efficiently through reducing improper payments and cutting down on the need for costly audits if Congress were to expand this authority to allow the IRS to correct returns for specific errors. The Administration's Budget proposes to permit the IRS to correct a taxpayer's return in cases where (1) the information provided by the taxpayer does not match the information contained in government databases; (2) the taxpayer has exceeded the lifetime limit for claiming a deduction or credit; or (3) the taxpayer has failed to include with his or her return certain documentation that is required by statute.

Increase Oversight of Paid Tax Return Preparers

Since 2011, the IRS has been blocked from enforcing regulations on the grounds that the IRS's authority to regulate practitioners is insufficient to permit regulation of tax return preparers who do not practice or represent taxpayers before an office of the Department of the Treasury. The Budget requests that the IRS be granted the authority to require minimum standards for an estimated 400,000 paid tax return preparers currently without credentials. Incompetent and dishonest return preparers increase collection costs, reduce revenues, disadvantage taxpayers by potentially subjecting them to penalties and interest as a result of incorrect returns, and undermine confidence in the tax system. The proposal would explicitly provide that the Secretary of the Treasury has the authority to regulate all paid tax return preparers.

More information about these proposals, outlay effects, and other tax policy issues can be found in the Federal Receipts and Budget Process chapters of the President's Budget.

1F - IRS Use of Evidence and Evaluation

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

Significant Accomplishments

Reducing Taxpayer Burden and Improving Compliance

- **Post-Filing Model**: The IRS has developed a model of the post-filing interactions between taxpayers and the IRS, accounting for various post-filing treatment streams with a focus on taxpayer burden, IRS costs, cycle time, and compliance outcomes. The IRS uses the model to inform the campus exam plan along with the design and analysis of non-filer outreach and enforcement treatments. The IRS is updating the underlying research study based on more recent taxpayer experience and is extending it to include corporate and partnership taxpayers.
- **Behavioral Economics Research**: The IRS is engaged in a set of pilots and research studies to improve its understanding of taxpayer behavior. These studies include outreach programs encouraging compliant participation in the Earned Income Tax Credit and the American Opportunities Tax Credit, filing compliance, and payment compliance.

Highest Priorities

Improving the Effectiveness of the IRS

- **Evaluation of Statistics of Income (SOI) Major Programs**: The IRS SOI office will continue evaluations of its income tax products, determine projected future needs, and identify areas of potential cost savings. Cost-saving measures include replacing or supplementing statistical files with information from IRS administrative records as well as identifying statistical files that could be discontinued.
- **Creating More Accessible Statistics**: SOI will continue to implement its comprehensive plan to modernize its public communications efforts. Completed initiatives include extensive data visualizations, social media outreach, and redesigned Tax Stats web pages. These efforts will provide more accessible data to the public and assist SOI in leading OMB data dissemination requirements.
- **Redesign of Business Publications**: SOI will complete a redesign of its business tax publications, which include data published for corporations and partnerships. The redesign will ensure compliance with new disclosure guidelines set forth in *Tax Information Security Guidelines for Federal, State and Local Agencies* (Publication 1075). SOI is working with customers, through public meetings, to ensure that the redesigned publications provide useful, comprehensive statistical data on businesses to the public while protecting taxpayer privacy. Researchers use this data extensively in evaluating current and proposed tax policy and estimating revenue. Additionally, the data is used by businesses for a wide range of analytics that support planning and marketing.

- Comprehensive Taxpayer Attitude Survey: SOI assumed responsibility for the Annual Comprehensive Taxpayer Attitude Survey, formerly conducted by the IRS Oversight Board. The survey collects information from a sample of taxpayers to gain insight into taxpayer views on voluntary compliance and IRS enforcement and taxpayer services.
- Submission Processing Center Realignment: In conjunction with the closure of select IRS Submission Processing Centers, SOI is leading a Research, Applied Analytics & Statistics (RAAS)-wide effort to realign the processing of its statistical samples among the remaining centers. This includes a comprehensive effort to realize cost savings while still maintaining the quality and integrity of data collected for SOI's statistical samples.
- SOI Releases: In FY 2017, SOI released more than 200 additional tables containing detailed information on a wide range of topics. These included the Tax Year 2014 Individual Income Tax Percentile tables. The percentile tables present the number of returns, adjusted gross income, selected income items, credits, total income tax, and average tax rates tabulated by selected percentile classes and provide useful information on individual taxpayers to the public. For Tax Year 2014, the percentile tables include a new classification at the .001 percentile level – which in 2014 represented the top 1,396 returns. SOI's other releases include updated statistical tables for sole proprietorships, estates, tax-exempt organizations and bonds, and international taxpayers and entities.

Section II – Budget and Performance Plan

Treasury Strategic Objectives and Agency Priority Goals

The Budget supports the following Department of the Treasury Strategic Objectives for FY 2018 – 2022 and Agency Priority Goals for FY 2018 – 2019 for all appropriations:

- **Strategic Goal 1:** Boost U.S. Economic Growth, Strategic Objective 1.1: Tax Law Implementation: Administer tax law to better enable all taxpayers to meet their obligations, while protecting the integrity of the tax system.
- **Strategic Goal 4:** Transform Government-wide Financial Stewardship, Strategic Objective 4.1: Financial Data Access/Use: Increase the access and use of federal financial data to strengthen government-wide decision-making, transparency, and accountability.
- **Strategic Goal 5:** Achieve Operational Excellence, Strategic Objectives 5.1 – 5.3:
 - 5.1 Workforce Management: Foster a culture of innovation to hire, engage, develop, and optimize a diverse workforce with the competencies necessary to accomplish our mission.
 - 5.2 Treasury Infrastructure: Better enable mission delivery by improving the reliability, security, and resiliency of Treasury’s infrastructure.
 - 5.3 Customer Value: Improve customer value by increasing the quality and lowering the cost of Treasury’s products and services.
- **Agency Priority Goal (aligned to strategic objective 1.1):** Reduce the amount of unprotected identity theft tax refunds paid by two percent by December 21, 2019.

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, taxpayer assistance, and providing taxpayer advocacy services.

The Taxpayer Services budget request for FY 2019 is \$2,241,000,000 in direct appropriations and 24,668 FTE. This is a decrease of \$108,688,000, or 4.63 percent, and 2,309 fewer or 8.56 percent FTE than the FY 2018 Annualized Continuing Resolution level of \$2,349,688,000 and 26,977 FTE.

2.1 – Budget Adjustments Table

Dollars in thousands

Taxpayer Services		
Summary of Proposed FY 2019 Request	FTE	Amount
FY 2018 Annualized CR Level	26,977	\$2,349,688
Changes to Base		
Maintaining Current Levels (MCLs)		\$13,115
Pay Annualization		9,697
Non-Pay Inflation Adjustment		3,418
Efficiencies/Savings	(128)	(6,695)
Increase e-File Savings	(128)	(6,695)
Space Optimization		
Subtotal FY 2019 Changes to Base	(128)	\$6,420
FY 2019 Current Services	26,849	\$2,356,108
Program Changes		
Program Decreases		
Actions to Achieve Workforce Management Goals	(2,307)	(133,134)
Subtotal FY 2019 Program Decreases	(2,307)	(\$133,134)
Program Increases		
Support Taxpayer Services and Online Account Activities	126	\$18,026
Subtotal FY 2019 Program Increases	126	\$18,026
Total FY 2019 Budget Request	24,668	\$2,241,000

See footnotes in 1.1 – Appropriations Detail Table

2.2 – Operating Levels Table

Dollars in thousands

Taxpayer Services Object Classification	FY 2017 Enacted	FY 2018 Annualized CR	FY 2019 Request
11.1 Full-Time Permanent Positions	1,550,096	1,489,599	1,404,152
11.3 Other than Full-Time Permanent Positions	42,746	31,576	31,727
11.5 Other Personnel Compensation	64,728	71,928	72,297
11.8 Special Personal Services Payments	1		
11.9 Personnel Compensation (Total)	1,657,571	1,593,103	1,508,176
12.1 Personnel Benefits	605,966	550,994	515,458
13.0 Benefits to Former Personnel	28,829	26,818	26,946
Total Personnel and Compensation Benefits	\$2,292,366	\$2,170,915	\$2,050,580
21.0 Travel	9,332	11,204	11,727
22.0 Transportation of Things	678	633	648
23.3 Communications, Utilities, & Misc	1,254	1,187	1,216
24.0 Printing & Reproduction	8,964	9,410	9,610
25.1 Advisory & Assistance Services	37,073	40,590	49,514
25.2 Other Services	7,369	13,568	13,943
25.3 Purchase of Goods & Services from Govt. Accounts	57,389	59,051	60,483
25.4 Operation & Maintenance of Facilities	62	50	51
25.7 Operation & Maintenance of Equipment	83	234	240
26.0 Supplies and Materials	4,643	6,249	6,378
31.0 Equipment	281	119	121
32.0 Land and Structures			
41.0 Grants, Subsidies	35,890	35,990	35,990
42.0 Insurance Claims & Indemnities	370	488	499
Total Non-Personnel	\$163,388	\$178,773	\$190,420
New Appropriated Resources	\$2,455,754	\$2,349,688	\$2,241,000
Budget Activities			
Pre-filing Taxpayer Assistance & Education	607,043	603,424	607,753
Filing & Account Services	1,848,711	1,746,264	1,633,247
New Appropriated Resources	\$2,455,754	\$2,349,688	\$2,241,000
FTE	28,692	26,977	24,668

See footnotes in 1.1 – Appropriations Detail Table

2.3 – Appropriation Detail Table

Dollars in thousands

Taxpayer Services		FY 2017 Enacted		FY 2018 Annualized CR		FY 2019 Request		Change FY 2018 to FY 2019 Request		% Change FY 2018 to FY 2019 Request	
Appropriated Resources		FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:											
Pre-Filing Taxpayer Assistance and Education		4,700	\$607,043	4,451	603,424	4,460	607,753	9	4,329	0.20%	0.72%
Filing and Account Services		23,992	1,848,711	22,526	1,746,264	20,208	1,633,247	(2,318)	(113,017)	-10.29%	-6.47%
Subtotal New Appropriated Resources		28,692	\$2,455,754	26,977	\$2,349,688	24,668	\$2,241,000	(2,309)	(\$108,688)	-8.56%	-4.63%
Other Resources:											
Reimbursables		708	62,798	895	74,359	423	36,756	(472)	(37,603)	-52.74%	-50.57%
User Fees		71	3,900	75	68,100	71	67,900	(4)	(200)	-5.33%	-0.29%
Recovery from Prior Years			1								
Unobligated Balances from Prior Years			10,250	827	45,900		5,000	(827)	(40,900)	-100.00%	-89.1%
Subtotal Other Resources		779	\$76,949	1,797	\$188,359	494	\$109,656	(1,303)	(\$78,703)	-72.51%	-41.78%
Total Budgetary Resources		29,471	\$2,532,703	28,774	\$2,538,047	25,162	\$2,350,656	(3,612)	(\$187,391)	-12.55%	-7.38%

¹See footnotes in 11– Appropriations Detail Table

2A – Pre-Filing Taxpayer Assistance and Education (\$607,753,000 in direct appropriations, and an estimated \$1,237,000 from reimbursable programs). This budget activity funds direct labor and non-labor expenses to assist with tax return preparation, including tax law interpretation, publication, production, and advocate services. The program activities include:

- *Pre-Filing Services Management* supports headquarters staffing and support for Taxpayer Advocate Service and Customer Assistance Relationship and Education (CARE) program activities. 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.

Description of Performance

In FY 2017, the IRS delivered 93.1 percent of the Critical Individual Filing Season Tax Products to the public timely (defined as no later than the fifth workday of January) exceeding the target of 89 percent. There were no expired provisions for this year as there had been the preceding year and the IRS did not have to implement new tax legislation, which allowed Media & Publications (M&P) to finish products earlier than anticipated. M&P prioritized critical tax products to ensure they would be available to taxpayers by the start of filing season. For FY 2018 and FY 2019, the IRS will maintain a target of 89 percent because of the significant workload resulting from the Tax Cuts and Jobs Act (Public Law 115-97).

In FY 2017, the IRS Timeliness of Critical TE/GE and Business Filing Season Tax products to the Public was 96.7 percent, exceeding the target of 91 percent. To meet future targets, the IRS will plan, monitor, and coordinate all product development and delivery activities. The IRS also will continue to evaluate processes so that mitigation strategies can be implemented. In FY 2018 and FY 2019, the IRS expects to achieve a target of 91 percent for Critical Tax Exempt & Government Entities and Business Tax Products to the Public. For FY 2018 and FY 2019, the IRS will maintain a target of 91 percent because of the significant workload resulting from the Tax Cuts and Jobs Act (Public Law 115-97).

Beginning in FY 2017, the Taxpayer Self Assistance Rate was replaced with a revised metric, the Enterprise Self Assistance Participation Rate. This metric reports the percentage of taxpayer requests resolved using self-assisted automated services. The new measure reached 79 percent and was used as an indicator for FY 2017. The revised metric now includes additional applications including *Get Transcript* and payment applications such as *Direct Pay* and *Online Payment Agreement*. As the IRS provides new self-service applications to the public, they will be added to the list of applications included in the Enterprise Self Assistance Participation Rate. The metric will continue as an indicator in FY 2018 and FY 2019.

FY 2019 Changes by Budget Activity

Dollars in thousands

Pre-Filing Taxpayer Assistance & Education	FTE	Amount
FY 2018 Annualized CR Level	4,451	\$603,424
Changes to Base		
Maintaining Current Levels (MCLs)		\$3,260
Pay Annualization		2,568
Non-Pay		692
Subtotal FY 2019 Changes to Base		\$3,260
FY 2019 Current Services	4,451	\$606,684
Program Changes		
Program Increases		
Support Taxpayer Services and Online Account Activities	9	1,069
Subtotal FY 2019 Program Increases	9	\$1,069
Total FY 2019 Request	4,460	\$607,753

See footnotes in 1.1 – Appropriations Detail Table

2.1.1 – Budget and Performance Report and Plan

Dollars in thousands

Pre-Filing Taxpayer Assistance & Education	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Resource Level	Actual	Actual	Actual	Actual	Enacted	Annualized CR	Request
Appropriated Resources ¹	\$586,896	\$595,168	\$609,196	\$609,445	\$607,043	\$603,424	\$607,753
Reimbursable Resources ²		45	51	13	4	1,178	1,237
User Fees ²	6,400	22,400	4,141				
Budget Activity Total	\$593,296	\$617,613	\$613,388	\$609,458	\$607,047	\$604,602	\$608,990

¹The FY 2013 - FY 2017 appropriated resources line represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

²The FY 2013 - FY 2017 columns represent realized resources for reimbursables and user fees.

Pre-Filing Taxpayer Assistance & Education	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2017	FY 2018	FY 2019
Measure	Actual	Actual	Actual	Actual	Actual	Target	Target	Target
Timeliness of Critical Filing Season Tax Products to the Public (Ot)	58.9%	99.1%	89.0%	92.5%	93.1%	89.0%	89.0%	89.0%
Timeliness of Critical TE/GE & Business Tax Products to the Public (Ot)	83.6%	98.7%	92.6%	98.0%	96.7%	91.0%	91.0%	91.0%
Enterprise Taxpayer Self-Assistance Rate (E) (L) ¹	83.3%	84.7%	88.7%	89.0%	79.0%	Indicator	Indicator	Indicator

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

¹Starting in FY 2017, the IRS modified the Taxpayer Self Assistance Rate measure to include additional self-service channels. As new self-assistance applications are provided to the public, they will be added to the methodology. The IRS saw taxpayer behavior changes in 2017 due to the PATH Act (re: refund hold) and expects to see additional impacts in 2018 due to tax reform; in addition, the IRS continues to evaluate the impact of changes to the web services measure.

2B – Filing and Account Services (\$1,633,247,000 in direct appropriations, an estimated \$35,519,000 from reimbursable programs, and an estimated \$67,900,000 from user fees):

This budget activity funds direct labor and non-labor expenses 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 (more than 90 percent of individual returns were filed electronically during the 2017 filing season) and increasing the use of electronic filing and payment methods. The program activities include:

- *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 (EPSS)* 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.
- *Business Performance Lab* initiates, recommends, and manages systemic solutions for the detection and treatment of improper refunds while ensuring effective treatment for payment of valid refund claims; leads the development of innovative business processes and technology solutions and represents Return Integrity & Compliance Services (RICS) interests in support of the service-wide revenue protection strategy.
- *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.

Description of Performance

Millions of individual and business taxpayers file their returns electronically. In FY 2017, the IRS achieved an 86.9 percent individual e-file rate and a 52.9 percent business e-file rate, falling slightly short of 87 percent individual e-file rate target and exceeding the 51 percent target for business returns. The overall benefits of e-file (i.e., faster refunds, greater accuracy, secure and confidential submission, and quick confirmation) continue to drive performance. The IRS also is promoting the benefits of e-filing via social media. The IRS will increase the individual e-file rate target to 88 percent and 89 percent for FY 2018 and FY 2019, respectively. The business e-file rate target will be increased to 54 percent for FY 2018 and 56 percent for FY 2019.

In FY 2017, Customer Accuracy – Tax Law was 96.7 percent, exceeding the target of 95 percent. This measure reflects the percentage of correct answers given by a live assistor on toll-free tax law inquiries. The IRS will continue to monitor results through data driven analysis of reports obtained from the Embedded Quality Review System (EQRS). The IRS will continue to hold weekly conference calls throughout the year to discuss quality defects/errors and procedures to ensure the target is met. For FY 2018 and FY 2019, the IRS will keep the tax law accuracy target at 95 percent, although the Tax Cut and Jobs Act (Public Law 115-97) may affect performance.

In FY 2017, the IRS correctly answered 96 percent of account questions over the telephone, exceeding the target of 95 percent. The IRS expects to maintain high performance on the

Customer Accuracy – Accounts (Phones) and achieve the FY 2018 and FY 2019 target of 95 percent.

In FY 2017, the IRS Customer Contacts Resolved per Staff Year reached 25,535. This measure includes activities such as automated and assistor calls answered and web services completed. Due to modifications made to the Taxpayer Self-Assistance measure for FY 2017, several components of the Customer Contacts Resolved Per Staff Year measure changed, including: the way IRS counts transcripts, from “requested” to now counting “delivered;” the addition of *Get Transcript*; and the discontinuation of Electronic Interactions. Taxpayer behavior changes were observed in 2017 following the PATH Act (re: refund hold), and the IRS expects to see additional effects in 2018 and in 2019 due to tax reform. The IRS also continues to evaluate the impact of changes to the web services measure in FY 2017. The measure will be rebaselined for FY 2018.

In FY 2017, the Customer Service Representative Level of Service (LOS) was 77.1 percent, exceeding the target of 64 percent. Level of Service was better than expected because fewer taxpayers called the IRS. Overall, the volume of callers to IRS toll free customer service was 29 percent lower compared to FY 2016. IRS attributes the reduction in volume to the “Get Ready” communication campaign delivered throughout the fall of 2016. The IRS is using this approach in FY 2018. The IRS will continue to create detailed forecasts of expected telephone and correspondence demand and will monitor those projections against actual results. Staff will be shifted between telephones and paper processing as needed to achieve the planned goals. The FY 2018 LOS target is 75 percent. This target includes funding from discretionary base appropriations and \$58 million from user fees. The FY 2019 target is 47 percent and assumes at least \$58 million from user fees. The 2019 filing season LOS is projected to be 55 percent. These targets take into account the potential impact of the Tax Cuts and Jobs Act (Public Law 115-97) on demand, which is still being evaluated. The IRS will develop more detailed user fee spend plans in FY 2018 and FY 2019 to address enacted funding levels and respond to changes in requirements.

In FY 2017, Refund Timeliness reached 98.4 percent, exceeding the target of 97 percent as the number of paper refunds continued to decline as more taxpayers file electronically. During FY 2017, the IRS received 201 million tax returns and issued refunds and outlays totaling \$467 billion. The IRS will continue to monitor individual return cycles and inventories to ensure targets are met. For FY 2018 and FY 2019, the IRS expects to achieve a target of 97 percent.

FY 2019 Changes by Budget Activity

Dollars in thousands

Filing and Account Services	FTE	Amount
FY 2018 Annualized CR Level	22,526	\$1,746,264
Changes to Base		
Maintaining Current Levels (MCLs)		\$9,855
Pay Annualization		7,129
Non-Pay		2,726
Efficiency/Savings	(128)	(\$6,695)
Increase e-File Savings	(128)	(6,695)
Subtotal FY 2019 Changes to Base	(128)	\$3,160
FY 2019 Current Services	22,398	\$1,749,424
Program Changes		
Program Decreases		
Actions to Achieve Workforce Management Goals	(2,307)	(133,134)
Subtotal FY 2019 Program Decreases	(2,307)	(\$133,134)
Program Increases		
Support Taxpayer Services and Online Account Activities	117	16,957
Subtotal FY 2019 Program Increases	117	\$16,957
Total FY 2019 Request	20,208	\$1,633,247

See footnotes in 1.1 – Appropriations Detail Table

2.1.2 – Budget and Performance Report and Plan

Dollars in thousands

Filing and Account Services	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Resource Level	Actual	Actual	Actual	Actual	Enacted	Annualized CR	Request
Appropriated Resources ¹	\$1,532,963	\$1,550,027	\$1,564,488	\$1,712,511	\$1,848,711	\$1,746,264	\$1,633,247
Reimbursable Resources ²	37,535	28,555	30,147	34,905	62,794	73,181	35,519
User Fees ²	184,599	160,342	40,553	69,987	3,900	68,100	67,900
Budget Activity Total	\$1,755,097	\$1,738,924	\$1,635,188	\$1,817,403	\$1,915,405	\$1,887,545	\$1,736,666

¹The FY 2013 - FY 2017 appropriated resources line represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

²The FY 2013 - FY 2017 columns represent realized resources for reimbursables and user fees.

Filing and Account Services	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2017	FY 2018	FY 2019
Measures	Actual	Actual	Actual	Actual	Actual	Target	Target	Target
Percent Individual Returns Processed Electronically (Oe) (L)	82.5%	84.1%	85.3%	86.4%	86.9%	87.0%	88.0%	89.0%
Percent of Business Returns Processed Electronically (Oe) (L)	40.2%	43.1%	47.0%	50.0%	52.9%	51.0%	54.0%	56.0%
Customer Accuracy - Tax Law (Phones) (Ot)	95.7%	95.0%	95.0%	96.4%	96.7%	95.0%	95.0%	95.0%
Customer Accuracy - Accounts (Phones) (Ot)	96.0%	96.2%	95.5%	96.1%	96.0%	95.0%	95.0%	95.0%
Customer Contacts Resolved per Staff Year (E) ¹²	20,767	21,018	26,245	28,497	25,535	Baseline	Baseline	TBD
Customer Service Representative Level of Service (Oe) (L) ³⁴	60.5%	64.4%	38.1%	53.4%	77.1%	64.0%	75.0%	47.0%
Refund Timeliness - Individual (Paper) (Ot)	99.0%	98.7%	98.8%	98.7%	98.4%	97.0%	97.0%	97.0%

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

¹Due to modifications made to the Taxpayer Self-Assistance Rate measure for FY 2017, several components of the Customer Contacts Resolved Per Staff measure will change. As a result of these changes, the measure will be baselined in FY 2017.

²Starting in FY 2017, the IRS modified the Customer Contacts Resolved per Staff Year (CCRPSY) measure to include additional self-service channels. As new self-assistance applications are provided to the public, they will be added to the methodology. The IRS saw taxpayer behavior changes in 2017 due to the PATH Act (re: refund hold) and expects to see additional impacts in 2018 due to tax reform; in addition, the IRS continues to evaluate the impact of changes to the web services measure. CCRPSY will be rebaselined for FY 2018.

³Beginning in FY 2013, targets include an increase in base user fees.

⁴Based on an updated assumption of IRS's FY 2018 funding level, expected LOS is 75%.

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 collection of unpaid accounts.

The Enforcement budget request for FY 2019 is \$4,628,204,000 in direct appropriations and 34,662 FTE, excluding the proposed program integrity cap adjustment. This is an increase of \$21,208,000, or 0.46 percent above the FY 2018 Annualized Continuing Resolution level of \$4,606,996,000 and 34,662 FTE.

2.1 – Budget Adjustments Table

Dollars in thousands

Enforcement		
Summary of Proposed FY 2019 Request	FTE	Amount
FY 2018 Annualized CR Level	34,662	\$4,606,996
Changes to Base		
Maintaining Current Levels (MCLs)		\$26,598
Pay Annualization		21,035
Non-Pay Inflation Adjustment		5,563
Subtotal FY 2019 Changes to Base		\$26,598
FY 2019 Current Services	34,662	\$4,633,594
Program Changes		
Program Decreases		
Actions to Achieve Workforce Management Goals		(5,390)
Subtotal FY 2019 Program Decreases		(\$5,390)
Total FY 2019 Budget Request	34,662	\$4,628,204

See footnotes in 1.1 – Appropriations Detail Table

2.2 – Operating Levels Table

Dollars in thousands

Enforcement Object Classification	FY 2017 Enacted	FY 2018 Annualized CR	FY 2019 Request
11.1 Full-Time Permanent Positions	3,087,675	3,008,283	3,022,409
11.3 Other than Full-Time Permanent Positions	30,293	30,585	30,732
11.5 Other Personnel Compensation	109,767	112,910	110,611
11.8 Special Personal Services Payments	20,604	22,591	22,700
11.9 Personnel Compensation (Total)	3,248,339	3,174,369	3,186,452
12.1 Personnel Benefits	1,167,137	1,137,487	1,142,824
13.0 Benefits to Former Personnel	572	534	537
Total Personnel and Compensation Benefits	\$4,416,048	\$4,312,390	\$4,329,813
21.0 Travel	56,428	60,170	61,124
22.0 Transportation of Things	7,838	8,314	8,445
23.1 Rental Payments to GSA	4	9	9
23.2 Rent Payments to Others	298	361	367
23.3 Communications, Utilities, & Misc	2,523	2,294	2,330
24.0 Printing & Reproduction	1,951	2,237	2,273
25.1 Advisory & Assistance Services	59,335	113,903	115,838
25.2 Other Services	31,556	39,437	39,047
25.3 Purchase of Goods & Services from Govt. Accounts	24,780	33,007	33,531
25.4 Operation & Maintenance of Facilities	13	13	13
25.6 Medical Care	49	7	7
25.7 Operation & Maintenance of Equipment	1,500	2,761	2,805
26.0 Supplies and Materials	20,210	23,354	23,725
31.0 Equipment	8,408	7,532	7,651
32.0 Land and Structures	449	3	3
42.0 Insurance Claims & Indemnities	1,205	1,204	1,223
44.0 Refunds	6		
91.0 Unvouchered	7,399		
Total Non-Personnel	\$223,952	\$294,606	\$298,391
New Appropriated Resources	\$4,640,000	\$4,606,996	\$4,628,204
Budget Activities			
Investigations	595,206	576,802	578,949
Exam & Collections	3,914,546	3,874,918	3,893,373
Regulatory	130,248	155,276	155,882
New Appropriated Resources	\$4,640,000	\$4,606,996	\$4,628,204
FTE	36,550	34,662	34,662

See footnotes in 1.1 – Appropriations Detail Table

2.3 – Appropriation Detail Table

Dollars in thousands

Enforcement Appropriated Resources	FY 2017 Enacted		FY 2018 Annualized CR		FY 2019 Request		Change FY 2018 to FY 2019 Request		% Change FY 2018 to FY 2019 Request	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Investigations	3,079	\$595,206	2,913	576,802	2,913	578,949		2,147		0.37%
Exam and Collections	32,602	3,914,546	30,811	3,874,913	30,811	3,893,373		18,455		0.48%
Regulatory	869	130,248	938	155,276	938	155,882		606		0.39%
Subtotal New Appropriated Resources	36,550	\$4,640,000	34,662	\$4,606,996	34,662	\$4,628,204		\$21,208		0.46%
Other Resources:										
Reimbursables	59	34,228	53	33,566	55	33,932	2	366	3.77%	109%
Offsetting Collections - Non Reimbursables		16,407		16,407		17,227		820		5.00%
User Fees	90	9,537								
Recovery from Prior Years		77		2,983		2,964		(19)		-0.64%
Unobligated Balances from Prior Years	2	47,900		26,577		30,607		4,030		15.16%
Transfers In/Out		17								
Resources from Other Accounts ⁷	1		1		1					
Subtotal Other Resources	152	\$108,166	54	\$79,533	56	\$84,730	2	\$5,197	3.70%	6.53%
Total Budgetary Resources	36,702	\$4,748,166	34,716	\$4,686,529	34,718	\$4,712,934	2	\$26,405	0.01%	0.56%

⁷See footnotes in 11– Appropriations Detail Table

2C – Investigations (\$578,949,000 in direct appropriations, and an estimated \$32,769,000 from reimbursable programs): This budget activity funds the Criminal Investigation (CI) programs that explore potential criminal and civil violations of tax laws; enforce criminal statutes relating to violations of tax laws and other financial crimes; and recommend prosecution as warranted. The program activities include:

- *General Management and Administration* supports the headquarters management activities of strategic planning, communications, finance, and human resources for CI activities.
- *Identity Theft* supports the Stolen Identity Refund Fraud (SIRF) inherent risks while focusing on high impact tax investigations, prosecutions to maximize deterrence, and stopping fraudulent refunds from being issued through CI's collaboration with internal and external business partners.
- *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 involving both legal and illegal sources of income and recommends prosecution as warranted. This includes the investigation and prosecution of tax and money-laundering violations associated with narcotics organizations.
- *Criminal Tax Legal Support* provides legal advice and support.
- *International Investigations* supports international investigations involving U.S. citizens residing abroad, non-resident aliens, expatriates (U.S. citizens living abroad who have renounced their citizenship), 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.).
- *Cybersecurity* supports CI's cyber-efforts around inherent risks to IRS networks and systems while focusing enforcement and investigative actions on the criminals that

pose those threats. This activity also supports security program management that protects the safeguarding of all data and systems within CI while adhering to all federal regulatory security compliance mandates and local security policies.

Description of Performance

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.

In FY 2017, CI completed 3,089 criminal investigations, missing the year-end target by 0.4 percent. The number of completions decreased 17 percent from FY 2016. CI has experienced a steady decrease in the number of special agents available to work cases (due to attrition and limited hiring) as well as a continued focus on existing judicial process inventory and traditional tax case programs, which tend to have a higher cycle time. Consequently, cases of Legal, Illegal and Narcotics nature completed decreased (22.5 percent, 13.2 percent and 12.3 percent, respectively) compared to the same period in FY 2016. Due to staffing, the IRS lowered its FY 2018 target to 3,000 completed investigations and 2,900 for FY 2019.

In FY 2017, the target of 2,100 was achieved but the number of convictions was 13.9 percent lower than FY 2016 (2,300 vs. 2,672) due to attrition and limited hiring. Quality investigations initiated and completed in previous years continue to be recommended for prosecution and processed by the Department of Justice (DOJ). CI management will continue to work with the DOJ Tax Division and U.S. Attorney Offices regarding prosecutorial priorities and the appropriate movement of pipeline investigations. The IRS expects to achieve its target of 1,900 convictions for FY 2018 and 1,800 for FY 2019.

The FY 2017 conviction rate was slightly lower than FY 2016 (91.5 percent vs. 92.1 percent), and below the year-end target of 92 percent due to attrition in upstream investigative positions, case complexity, and bandwidth at partner agencies. Nevertheless, appropriate case selection and effective field performance continue to positively affect the number of cases resulting in convictions and likely prevented a greater decrease in the rate. Acquittals and dismissals decreased by 20 percent and 5.7 percent, respectively, compared to FY 2016. Since CI does not prosecute its own cases, it must depend on the ability of the DOJ to accept its cases for prosecution and to 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 the appropriate movement of pipeline investigations to ensure a high rate of conviction and to meet the FY 2018 and FY 2019 targets of 92 percent.

FY 2019 Changes by Budget Activity

Dollars in thousands

Investigations	FTE	Amount
FY 2018 Annualized CR Level	2,913	\$576,802
Changes to Base		
Maintaining Current Levels (MCLs)		\$3,494
Pay Annualization		2,575
Non-Pay		919
Subtotal FY 2019 Changes to Base		\$3,494
FY 2019 Current Services	2,913	\$580,296
Program Changes		
Program Decreases		
Actions to Achieve Workforce Management Goals		(1,347)
Subtotal FY 2019 Program Decreases		(\$1,347)
Total FY 2019 Request	2,913	\$578,949

See footnotes in 1.1 – Appropriations Detail Table

2.1.3 – Budget and Performance Report and Plan

Dollars in thousands

Investigations Resource Level	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Enacted	FY 2018 Annualized CR	FY 2019 Request
Appropriated Resources ¹	\$587,932	\$601,740	\$601,665	\$591,449	\$595,206	\$576,802	\$578,949
Reimbursable Resources ²	28,582	27,133	29,957	29,053	33,618	31,209	32,769
User Fees ²	2,979						
Budget Activity Total	\$619,493	\$628,873	\$631,622	\$620,502	\$628,824	\$608,011	\$611,718

¹The FY 2013 - FY 2017 appropriated resources line represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

²The FY 2013 - FY 2017 columns represent realized resources for reimbursables and user fees.

Investigations Measures	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2017 Target	FY 2018 Target	FY 2019 Target
Criminal Investigations Completed (Ot) (L)	5,557	4,606	4,486	3,721	3,089	3,100	3,000	2,900
Number of Convictions (Oe) (L)	3,311	3,110	2,879	2,672	2,300	2,100	1,900	1,800
Conviction Rate (Oe) (L)	93.1%	93.4%	93.2%	92.1%	91.5%	92.0%	92.0%	92.0%

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot -

2D – Exam and Collections (\$3,893,373,000 in direct appropriations and an estimated \$986,000 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:

- *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* enforces the anti-money laundering provisions of the *Bank Secrecy Act of 1970* (BSA) and the *USA Patriot Act of 2001*. It examines non-bank financial institutions for compliance with these laws, receives and processes more than 15 million financial reports annually, and manages a centralized database of that information for the Financial Crimes Enforcement Network. The Fraud program follows the money trail to support the criminal investigation of tax evasion operations. Fraud technical advisors and revenue agents provide investigative leads and referrals to federal, state, and local law enforcement agencies.
- *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 (U.S. citizens living abroad who have renounced their citizenship), 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.

- *Integrity & Verification Operations* supports civil fraud detection and prevention efforts in a pre-refund environment including monitoring performance and developing policy, procedures, and guidance for processing civil revenue protection programs.
- *ID Theft Victim Assistance* has end-to-end responsibility and accountability for identity theft victim assistance policy and operations, which will include paper inventories from tax-related ID theft, the Identity Theft Protection Specialized Unit (IPSU), and Return Preparer Misconduct.
- *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 compliance with disclosure and privacy laws.

Description of Performance – Exam

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

Individual Exam Coverage: target of 0.6 percent was met in FY 2017. About 120,000 fewer individual audits were completed, an 11.6 percent decrease compared to FY 2016. Examination sets its individual exam coverage rate by ensuring resources are appropriately planned for, proper inventory levels are maintained, and efficiencies are monitored to achieve planned targets. The IRS will maintain a target of 0.6 percent for FY 2018 and FY 2019.

Field Exam National Quality Review Score: 85 percent in FY 2017, below the target of 86.7 percent. The loss of experienced employees, cases transferred from examiner to examiner when employees leave their position, and the loss of permanent front-line managers are all factors that create quality challenges. To facilitate improvement in FY 2018, Exam is forming a joint quality team to analyze quality data trends and the influence of organization changes on quality scores. FY 2018 commitments proposed for Territory and Group Managers include refresher training on both Exam Technical Time Reports and Exam Process Reviews, as well as focused exam quality narratives on the lowest scoring attributes. The Small Business Self Employed (SB/SE) division also plans to implement an area-wide risk assessment to determine appropriate actions (i.e., close/reassign) upon case reassignment. It is expected that developing and communicating guidance at the group level will improve quality and customer satisfaction. Based on the most recent data and staffing, the IRS will set the FY 2018 target at 84.4 percent and the FY 2019 target at 86.7 percent.

Office Exam Quality: 87.9 percent in FY 2017, above the target of 86.7. Improvement efforts included delivery of educational workshops, completion of case closing check sheets and the use of job aids. The IRS will maintain the FY 2018 target of 86.7 percent and will increase the FY 2019 target to 88.3 percent.

The Examination Quality – Large Business: 78 percent in FY 2017, 12 percentage points below the target of 90 percent. The 78 percent was a result of low scores in all three audit standards. The Large Business & International (LB&I) Quality Review and Analysis (QRA) division established a core team to develop and implement an action plan to assist the field examination operations in preparing quality case work in accordance with the Internal Revenue Manual. Many of the actions in the plan have already been implemented, including briefing all directors of Field Operations (DFOs) on scoring methodology and areas to focus on for improvement; preparing a quality kick-off memo from the LB&I Commissioner to emphasize the importance of quality review; drafting performance commitments for the DFO, territory manager, and frontline managers that incorporates case quality improvements; and providing briefings and educational presentations at field level meetings. Several other activities are underway, including a collaboration with statisticians from Research, Applied Analytics and Statistics to review and update the sampling methodology to improve accuracy. The FY 2018 and FY 2019 target is 90 percent.

The Examination Coverage – Business (Assets > \$10 million) measure is calculated by taking the total number of LB&I returns with assets of more than \$10 million (including all partnerships) examined and closed by LB&I during the current fiscal year, divided by total filings for the preceding calendar year. In FY 2017, Business Examination Coverage was 2.5 percent, below the target of 2.7 percent. Two factors combined to cause the coverage rate shortfall: 1) the actual number of return filings used in the denominator of the coverage rate calculation increased by 6 percent from original projection, resulting in a decrease of 0.1 percent in the coverage rate; 2) the number of closed large business returns was 1.5 percent less than had been projected and accounts for the remaining decrease of 0.1 percent in the coverage rate. A decline in closures of the largest corporations was the primary cause of this decrease. The IRS will lower the FY 2018 target to 2.4 percent and FY 2019 target to 1.8 percent, based on a 3 percent increase in projected return filings and a reduction in planned closures to account for taxpayers and agents affected by the hurricane disaster area declarations. Due to the recent hurricanes, tax returns for impacted taxpayers were placed in a freeze status prohibiting examination activity on these identified taxpayers until after January 31, 2018. To account for this five month suspension, 1.8 percent of the returns projected to close in FY 2018 will be delayed until FY 2019. At the same time, because employees that work in the declared disaster areas from the hurricanes were not available to start examinations, fewer returns were started that will be available to close for FY 2018. An additional decrease in the FY 2019 target is driven by a reduction in projected staffing from FY 2018 to FY 2019 of 6 percent.

Individual Exam Efficiency (the number of closures divided by total Exam FTE) was 121, exceeding the FY 2017 target of 118. Based on prior year hiring and the most current FTE data available assuming no attrition or overtime, the IRS will raise the Individual Exam Efficiency target to 134 for FY 2018 and 129 for FY 2019.

Automated Underreporter (AUR) Efficiency was 2,188 in FY 2017, exceeding the year-end target of 2,133. Although total AUR closures and FTEs decreased 5.2 percent and 4.9 percent, respectively, compared to last year, efficiency was within 1 percent of FY 2016 due to more staff than projected working inventory. The FY 2018 and FY 2019 level targets will remain at 2,133.

AUR Coverage was 2.2 percent in FY 2017 and above the target of 2 percent due to more staff than projected working inventory. The IRS will lower the target to 1.9 percent for FY 2018 and FY 2019 based on less staffing available to work cases.

Description of Performance – Collection

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

Collection Coverage was 42.2 percent in FY 2017, exceeding the target of 37.5 percent. Net dispositions decreased 5.5 percent compared to FY 2016 (20.6 million vs. 21.8 million). Beginning Inventory, and Returned to Inventory cases increased 3.6 percent and 19.7 percent, respectively, while New Issuance Receipts and Reissuances decreased 25.3 percent and 69.1 percent, respectively. Contributing to the increase in Collection Coverage is an overall reduction in Collection Inventory of about 4.5 percent. A reduction in overall collection inventory further improves the Coverage rate. The IRS will set a target of 38.6 percent for FY 2018 and 36 percent in FY 2019 based on the most recent disposition and inventory projections.

Collection Efficiency: FY 2017 was 2,135, exceeding the target of 2,117. Since FY 2013, due to staffing and resource constraints, FTEs decreased 16 percent while collection case closures only declined 13 percent. The Collection organization will continue to identify opportunities to increase productivity by streamlining processes and case selection in FY 2018. The planned reduction in overall inventory dispositions in FY 2018 is expected to affect overall Collection Efficiency. The IRS will set a target of 2,101 for FY 2018 and 2,029 for FY 2019.

Field Collection Quality: FY 2017 was 76.7 percent, below the target of 79.7 percent. The shortfall in Field Collection Quality is primarily due to a decline in the following attributes: 203 (Requested/Secured Financial Information), 432 (Verify/Analyze Ability to Pay), 437 (Compliance), and 618 (Action Dates, Expectations, and Consequences). To address the shortfall and improve performance, Field Collection held consistency and workgroup review meetings with staff to identify quality review trends and review trends and process improvements. Focused communication and training materials were developed to drive improvements in casework. Field Collection also worked in FY 2017 to clarify documentation and Internal Review Manual sections that may have created confusion and negatively affected quality results, many of which have been implemented fully with additional changes coming in early FY 2018. To improve quality in the basic attributes, Field Collection collaborated with National Quality and Collection Headquarters to develop two short Podcasts to train Revenue Officers and managers on basic errors noted by managers and reviewers. Field Collection Quality anticipates launching the Podcasts starting in late October 2018. The positive effect of these activities, along with advanced technical training scheduled for FY 2018 should result in improved quality scores. With a continued emphasis on improving timeliness and the quality of work products, the IRS will set a target of 78 percent in FY 2018 and FY 2019.

Automatic Collection System (ACS) Accuracy: FY 2017 was 94.7 percent, slightly below the target of 95 percent. Results for this measure had been above 94 percent consistently since 2008. Periodic performance reviews were conducted on the campus program and communicated to the sites. The top drivers of accuracy errors were analyzed and other quality issues were discussed with the Quality staff at the sites each month and this practice will continue. Additionally, training opportunities are recommended based on high rates of errors received and served as the basis for topics for the Continuing Professional Education seminars. The IRS will set a target of 95 percent in FY 2018 and FY 2019.

FY 2019 Changes by Budget Activity

Dollars in thousands

Exam and Collections	FTE	Amount
FY 2018 Annualized CR Level	30,811	\$3,874,918
Changes to Base		
Maintaining Current Levels (MCLs)		\$22,185
Pay Annualization		17,782
Non-Pay		4,403
Subtotal FY 2019 Changes to Base		\$22,185
FY 2019 Current Services	30,811	\$3,897,103
Program Changes		
Program Decreases		
Actions to Achieve Workforce Management Goals		(3,730)
Subtotal FY 2019 Program Decreases		(\$3,730)
Total FY 2019 Request	30,811	\$3,893,373

See footnotes in 1.1 – Appropriations Detail Table

2.1.4 – Budget and Performance Report and Plan

Dollars in thousands

Exam and Collections Resource Level	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Enacted	FY 2018 Annualized CR	FY 2019 Request
Appropriated Resources ¹	\$4,188,328	\$4,154,342	\$4,018,292	\$3,945,578	\$3,914,546	\$3,874,918	\$3,893,373
Reimbursable Resources ²	804		640	456	450	2,189	986
User Fees ²				36			
Budget Activity Total	\$4,189,132	\$4,154,342	\$4,018,932	\$3,946,070	\$3,914,996	\$3,877,107	\$3,894,359

¹The FY 2013 - FY 2017 appropriated resources line represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

²The FY 2013 - FY 2017 columns represent realized resources for reimbursables and user fees.

Exam and Collections Measures	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2017 Target	FY 2018 Target	FY 2019 Target
Examination Coverage - Individual (Oe) (L)	1.0%	0.9%	0.8%	0.7%	0.6%	0.6%	0.6%	0.6%
Field Exam National Quality Review Score (Oe) (L)	89.2%	88.4%	86.7%	86.8%	85.0%	86.7%	84.4%	86.7%
Office Exam National Quality Review Score (Oe) (L)	90.3%	90.6%	88.3%	88.4%	87.9%	86.7%	86.7%	88.3%
Examination Quality - Large Business ¹ (Oe) (L) (New in FY 2013)	92.0%	83.0%	86.0%	83.0%	78.0%	90.0%	90.0%	90.0%
Examination Coverage - Business (Assets > \$10 million) (Oe) (L)	5.6%	4.3%	3.9%	3.0%	2.5%	2.7%	2.4%	1.8%
Automated Underreporter (AUR) Efficiency (E) (L)	2,025	1,935	2,209	2,196	2,188	2,133	2,133	2,133
Automated Underreporter (AUR) Coverage (E) (L)	2.8%	2.6%	2.3%	2.3%	2.2%	2.0%	1.9%	1.9%
Examination Efficiency - Individual (E) (L)	142	138	148	143	121	118	134	129
Collection Coverage - Units (Ot) (L)	47.0%	45.9%	46.3%	43.4%	42.2%	37.5%	38.6%	36.0%
Collection Efficiency - Units (E) (L)	2,057	2,051	2,448	2,266	2,135	2,117	2,101	2,029
Field Collection National Quality Review Score (Ot) (L)	81.4%	81.6%	79.2%	79.2%	76.7%	79.7%	78.0%	78.0%
Automated Collection System (ACS) Accuracy (Oe)	94.4%	95.2%	95.3%	95.4%	94.7%	95.0%	95.0%	95.0%

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

¹As 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.

2E – Regulatory (\$155,882,000 in direct appropriations and an estimated \$177,000 from reimbursable programs): This budget activity funds the development 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 activities include:

- *Tax Law Interpretation and Published Guidance* interprets 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.

Description of Performance

Tax Exempt and Government Entities (TEGE) Determination Closures includes both applications for tax-exempt status for employee retirement plans (EP) and applications from various charitable entities seeking tax-exempt status (EO). The IRS reviews applications to determine eligibility and closes them upon approval or disapproval.

Total determination closures in FY 2017 completed was 102,749, exceeding the target of 95,791 by 7.3 percent. Exempt Organization case closures exceeded the target primarily because of a higher than anticipated number of Form 1023-EZ, *Streamlined Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code*, receipts. Because the Form 1023-EZ requires less time to close, more cases were completed during the year. Employee Retirement Plan case closures exceeded plan by 29 percent because of a shift in focus to closing the simpler Form 5307, *Application for Determination for Adopters of Modified Volume Submitter Plans*, in lieu of Form 5300, *Application for Determination for Employee Benefit Plan*.

TEGE anticipates a decrease in Exempt Organization case closures starting in FY 2018 and continuing into FY 2019. In addition to an expected increase in receipts, planned changes in the Form 1023-EZ will require additional hours to be applied to each case. TEGE expects to hire or detail in additional staff to help with reviewing the Form 1023-EZ to maintain closures of EO determination applications at historical levels.

Additionally, TEGE anticipates experiencing a decrease in closures from Employee Plans in FY 2019 due to planned program changes that will result in fewer receipts of applications. Specifically, TEGE has stopped accepting applications to amend employee plans, which historically represented about 75 percent of the applications received in the program. TEGE expects to receive about 1,800 initial and termination applications per year, which previously accounted for about 25 percent of total receipts. Therefore, IRS lowered the FY 2018 Determination Closures target to 94,103 and the FY 2019 target to 88,886.

FY 2019 Changes by Budget Activity

Dollars in thousands

Regulatory	FTE	Amount
FY 2018 Annualized CR Level	938	\$155,276
Changes to Base		
Maintaining Current Levels (MCLs)		\$919
Pay Annualization		678
Non-Pay		241
Subtotal FY 2019 Changes to Base		\$919
FY 2019 Current Services	938	\$156,195
Program Changes		
Program Decreases		
Actions to Achieve Workforce Management Goals		(313)
Subtotal FY 2019 Program Decreases		(\$313)
Total FY 2019 Request	938	\$155,882

See footnotes in 1.1 – Appropriations Detail Table

2.1.5 – Budget and Performance Report and Plan

Dollars in thousands

Regulatory Resource Level	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Enacted	FY 2018 Annualized CR	FY 2019 Request
Appropriated Resources ¹	\$147,411	\$158,415	\$147,605	\$137,245	\$130,248	\$155,276	\$155,882
Reimbursable Resources ²	631	792	363	202	160	168	177
User Fees ²	14,521	13,241	18,485	9,233	9,537		
Budget Activity Total	\$162,563	\$172,448	\$166,453	\$146,680	\$139,945	\$155,444	\$156,059

¹The FY 2013 - FY 2017 appropriated resources line represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

²The FY 2013 - FY 2017 columns represent realized resources for reimbursables and user fees.

Regulatory Measure	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2017 Target	FY 2018 Target	FY 2019 Target
TE/GE Determination Case Closures (Ot)	65,877	136,746	111,940	99,973	102,749	95,791	94,103	88,886

Key: Ot - Output/Workload Measure

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 budget request for FY 2019 is \$4,155,796,000 in direct appropriations and 10,959 FTE, excluding the proposed program integrity cap adjustment. This is an increase of \$241,808,000, or 6.18 percent, and 146 or 1.35 percent more FTE than the FY 2018 Annualized Continuing Resolution of \$3,913,988,000 and 10,813 FTE.

2.1 – Budget Adjustments Table

Dollars in thousands

Operations Support		
Summary of Proposed FY 2019 Request	FTE	Amount
FY 2018 Annualized CR Level	10,813	\$3,913,988
Changes to Base		
Maintaining Current Levels (MCLs)		\$53,808
Pay Annualization		7,823
Non-Pay Inflation Adjustment		45,985
Efficiencies/Savings		(6,103)
Increase e-File Savings		(102)
Space Optimization		(6,001)
Reinvestment		\$12,798
Support Aging IT Infrastructure		12,798
Subtotal FY 2019 Changes to Base		\$60,503
FY 2019 Current Services	10,813	\$3,974,491
Program Changes		
Program Increases		
Stabilize, Secure and Transform IT Operations	146	\$181,305
Strengthen Cyber Security	10	40,000
Identity Assurance - e-Authentication Enhancements and Authorization Integration	21	24,300
Aging Technology Infrastructure		39,000
Migration to Cloud Services		20,000
Stabilize IT Operations	115	58,005
Subtotal FY 2019 Program Increases	146	\$181,305
Total FY 2019 Budget Request	10,959	\$4,155,796

See footnotes in 1.1 – Appropriations Detail Table

2.2 – Operating Levels Table

Dollars in thousands

Operations Support Object Classification	FY 2017 Enacted	FY 2018 Annualized CR	FY 2019 Request
11.1 Full-Time Permanent Positions	1,090,951	1,152,588	1,173,685
11.3 Other than Full-Time Permanent Positions	6,065	7,537	7,574
11.5 Other Personnel Compensation	20,600	22,924	23,375
11.8 Special Personal Services Payments	224	230	231
11.9 Personnel Compensation (Total)	1,117,840	1,183,279	1,204,865
12.1 Personnel Benefits	364,187	383,116	389,890
13.0 Benefits to Former Personnel	59	56	56
Total Personnel and Compensation Benefits	\$1,482,086	\$1,566,451	\$1,594,811
21.0 Travel	11,467	16,915	17,487
22.0 Transportation of Things	10,150	14,969	15,288
23.1 Rental Payments to GSA	592,632	593,175	598,993
23.2 Rent Payments to Others	11,905	12,367	12,606
23.3 Communications, Utilities, & Misc	298,453	337,240	344,323
24.0 Printing & Reproduction	17,676	18,535	18,924
25.1 Advisory & Assistance Services	703,402	572,649	689,225
25.2 Other Services	49,543	42,637	43,888
25.3 Purchase of Goods & Services from Govt. Accounts	75,991	76,552	78,799
25.4 Operation & Maintenance of Facilities	195,837	180,539	184,447
25.5 Research & Development Contracts	21		
25.6 Medical Care	14,603	13,865	14,192
25.7 Operation & Maintenance of Equipment	36,040	73,578	76,232
26.0 Supplies and Materials	8,212	9,273	9,536
31.0 Equipment	323,412	372,479	443,683
32.0 Land and Structures	16,906	12,094	12,679
42.0 Insurance Claims & Indemnities	910	670	683
Total Non-Personnel	\$2,367,160	\$2,347,537	\$2,560,985
New Appropriated Resources	\$3,849,246	\$3,913,988	\$4,155,796
Budget Activities			
Infrastructure	869,732	847,444	860,058
Shared Services & Support	991,504	994,559	1,005,911
Information Services	1,988,010	2,071,985	2,289,827
New Appropriated Resources	\$3,849,246	\$3,913,988	\$4,155,796
FTE	10,835	10,813	10,959

See footnotes in 1.1 – Appropriations Detail Table

2.3 – Appropriation Detail Table

Dollars in thousands

Operations Support Appropriated Resources	FY 2017 Enacted		FY 2018 Annualized CR		FY 2019 Request ^{6,7}		Change FY 2018 to FY 2019 Request		% Change FY 2018 to FY 2019 Request	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Infrastructure		\$869,732		847,444		860,058		12,614		1.49%
Shared Services and Support	4,777	991,504	4,588	994,559	4,588	1,005,911		11,352		1.14%
Information Services	6,058	1,988,010	6,225	2,071,985	6,371	2,289,827	146	217,842	2.35%	10.51%
Subtotal New Appropriated Resources	10,835	\$3,849,246	10,813	\$3,913,988	10,959	\$4,155,796	146	\$241,808	1.35%	6.18%
Other Resources:										
Reimbursables	86	55,135	85	65,632	74	42,847	(11)	(22,785)	-12.94%	-34.72%
Offsetting Collections - Non Reimbursables										
User Fees		202,584		397,000		397,000				
Recovery from Prior Years		2,419		115,14		115,13		(1)		-0.0%
Unobligated Balances from Prior Years	34	116,150		88,567		80,696		(7,871)		-8.89%
Subtotal Other Resources	120	\$376,288	85	\$562,713	74	\$532,056	(11)	(\$30,657)	-12.94%	-5.45%
Total Budgetary Resources	10,955	\$4,225,534	10,898	\$4,476,701	11,033	\$4,687,852	135	\$211,151	1.24%	4.72%

¹See footnotes in 11 – Appropriations Detail Table

2F – Infrastructure (\$860,058,000 in direct appropriations and an estimated \$711,000 from reimbursable programs): 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. The IRS will spend more an estimated \$611 million on rental payments in FY 2019 to keep more than 300 Taxpayer Assistance Centers (TACs) open to the public and provide office space for more than 70,000 employees across the country.
- *Space and Housing/Non-IT Equipment* provides management of all IRS building services, maintenance, space alterations, guard services, custodial overtime, utility service needs, and non-IT equipment.
- *Security* covers building security costs related to contract guard services.

Description of Performance

The IRS continued efforts to realize operational efficiencies and manage costs effectively by improving enterprise-wide resources and streamlining processes.

Other than payroll, rent is the IRS's largest operating expense. The IRS has identified opportunities to reduce the cost of rent and improve its use of office space. In FY 2017, the IRS completed 37 projects to release more than 411,000 square feet of rented space for an annual rent reduction of over \$10 million. As part of an effort to contain costs and improve space use, the IRS continued using the Strategic Facility Plan process, focused on closing or consolidating workspace at the time of lease expiration. Project identification of more space efficiency projects will continue in FY 2019 and into the future.

Starting in FY 2017, the IRS introduced a Rentable Square Feet per Person (RSFP) indicator into the budget submission. For FY 2017, the RSFP was 297. Efforts leveraging telework and field activities to reduce demand for full-time office space has provided additional opportunities to reduce the IRS's space footprint. 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 and when permitted by procurement regulations. These actions will help limit the projected rent costs in the future.

FY 2019 Changes by Budget Activity

Dollars in thousands

Infrastructure	FTE	Amount
FY 2018 Annualized CR Level		\$847,444
Changes to Base		
Maintaining Current Levels (MCLs)		\$16,425
Pay Raise		
Pay Annualization		
Non-Pay		16,425
Efficiency/Savings		(\$6,001)
Increase e-File Savings		
Space Optimization		(6,001)
Reinvestment		
Support Aging IT Infrastructure		
Subtotal FY 2019 Changes to Base		\$10,424
FY 2019 Current Services		\$857,868
Program Changes		
Program Increases		
Stabilize, Secure and Transform IT Operations		\$2,190
Cyber Security		150
Identity Assurance - e-Authentication Enhancements and Authorization Integration		315
Stabilize IT Operations		1,725
Subtotal FY 2019 Program Increases		\$2,190
Total FY 2019 Request		\$860,058

See footnotes in 1.1 – Appropriations Detail Table

2.1.6 – Budget and Performance Report and Plan

Dollars in thousands

Infrastructure	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Resource Level	Actual	Actual	Actual	Actual	Enacted	Annualized CR	Request
Appropriated Resources ¹	\$874,627	\$845,558	\$833,846	\$838,048	\$869,732	\$847,444	\$860,058
Reimbursable Resources ²	701	16,694	928	626	634	677	711
User Fees ²	5,414	17,137					
Budget Activity Total	\$880,742	\$879,389	\$834,774	\$838,674	\$870,366	\$848,121	\$860,769

¹The FY 2013 - FY 2017 appropriated resources line represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

²The FY 2013 - FY 2017 columns represent realized resources for reimbursables and user fees.

Infrastructure Measure	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2017 Target	FY 2018 Target	FY 2019 Target
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Rentable Square Feet per Person (new for FY 2017) 297 Indicator Indicator Indicator

Key: Ot - Output/Workload Measure

2G – Shared Services and Support (\$1,005,911,000 in direct appropriations, an estimated \$21,399,000 from reimbursable programs, and an estimated \$1,000,000 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, physical security, legal services, and procurement. The program activities include:

- *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. It sets policies and goals, provides leadership and direction for the IRS, and builds partner relationships with key stakeholders (Congress, GAO, and OMB). It provides policy guidance for conducting planning and budgeting strategies, conducting analyses of programs and investments to support strategic decision-making, and developing and managing human resources. It also includes official reception and representation expenses.
- *Facilities Management & Security Services* provides facilities and security services to deliver a safe, secure and optimal work environment to IRS customers and employees.
- *Procurement* supports the procurement function of the IRS and Treasury's Departmental Offices.
- *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* handles congressional, national, and local stakeholder relationships and issues; coordinates and addresses crosscutting issues, including legislative implementation; works with representatives of the national and local tax community; communicates with individual and business taxpayers by developing information on IRS.gov and providing other taxpayer-facing content; handles national and local media contacts and relationships; and employee communications.
- *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 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.
- *Wage and Investment (W&I) Business Modernization Support* provides staffing, training, and direct support for W&I's enterprise-wide business modernization efforts, including CADE 2, and Account Management Services (AMS) technology solutions, and re-engineered business processes.
- *Shared Services* provide support services for all IRS employees, including Treasury Franchise Fund, Indemnity payments, Mailrooms, Logistics, Shredding and Uninterrupted Power Systems.

Description of Performance

Human Capital

The IRS workforce is our most important resource. By providing improved training and tools to all employees and developing future leaders, the IRS helps its workforce better serve taxpayer needs and guide the next generation of IRS employees. In FY 2017, the IRS:

- Worked with all Treasury bureaus to procure a Treasury-wide Integrated Talent Management (ITM) system. This single human resource information technology system will support the processes designed to attract, manage, develop, motivate and retain talent. The IRS will be purchasing the Learning Management, Performance Management, Workforce Planning/Analytics and Succession Planning modules and retiring legacy systems. The ITM system will provide economies of scale to reduce costs, leverage evolving technology to make efforts faster/easier and provide a better picture of talent pipelines to improve decision making.
- Improved workplace morale, empowerment, and satisfaction based on the FY 2017 Federal Employee Viewpoint Survey (FEVS) results. Results show the IRS is above the 65 percent Office of Personnel Management target for the Engagement Index, and the scores for 68 out of 71 FEVS questions improved. The IRS engagement focus encompasses all employees (managers, executives and frontline employees). In addition, it provides guidance for all operating and functional units to model

engagement efforts. The Engagement and Retention office assisted the business units with planning and implementing more than 200 engagement actions in FY 2017.

Security and Partnerships

The IRS worked on several initiatives related to the Security Summit, a collaborative effort between the IRS, state tax administrators, and private-sector tax partners. In FY 2017, the IRS:

- Engaged with tax software industry members and received data elements from both individual and business tax returns to improve taxpayer authentication and identify possible identity theft scams as part of the Security Summit effort;
- Collaborated with the Security Summit team to develop a new process that would allow the IRS to post alerts into the Information Sharing & Analysis Center (ISAC) functionality; and
- Collaborated with the Social Security Administration and the Department of the Treasury to coordinate a data sharing method and subsequently received 10.4 million prisoner records. After excluding incomplete and duplicate records, the IRS produced two million usable records to include into the IRS's annual prisoner database.

Research

During FY 2017, the IRS's Office of Research, Applied Analytics, & Statistics (RAAS) developed the foundational framework for the first integrated enterprise research plan, launched a customer-driven project intake process, managed the National Research Program and secured approval for long-term sustained support in developing a hiring plan to build out IRS's analytic footprint.

- Secured input and buy-in from members of the Research Policy and Planning Committee and the Research Directors Coordinating Council on a set of eight core research priorities that will serve as the framework for the first IRS Enterprise Research Plan. Working with the embedded business unit research organizations, RAAS led an effort to align all of the approximately 500 active research projects to one of the following eight research priorities: Customer Service Channel Optimization, Impact of Legislative Mandates, Internal Process Operations Optimization, Noncompliance Management, Revenue Protection, Service-wide Treatment Optimization, Strategic Thinking and Planning, and Taxpayer and Tax Administration Research. These priorities support the goals and objectives reflected in the IRS 2018 – 2022 Strategic Plan under development.
- Launched a new customer-focused, single-point-of-entry project intake process, received, and handled in a timely fashion more than forty new requests. In addition to regular executive staff meetings, RAAS held bi-weekly portfolio meetings to discuss the new project requests and held strategic conversations on the existing research portfolio of about 250 projects.
- Analyzed reporting compliance data through the National Research Program (NRP) for various taxpayer populations, including Individual Income Tax, Corporate Income

Tax, Employment Taxes, and Fuel Excise Taxes. For FY 2017, NRP continued the individual income tax study and closed out the corporate, employment, and excise tax studies as data perfection and publication efforts are underway. The NRP initiated the Tax Year 2015 individual income tax study and small business classifiers reviewed and identified issues for examination on more than 7,000 cases. The NRP also conducted three additional classification sessions and final data perfection for Tax Year 2012 is complete and the information is being analyzed for publication.

- Received approval to begin hiring to build out the IRS analytic footprint. This important long-term sustained support will aid RAAS in meeting its mission and vision to lead a data-driven culture through innovative and strategic research, analytics, statistics, and technology services to support effective and efficient tax administration in partnership with internal and external stakeholders as a world-leading applied taxation science organization.

FY 2019 Changes by Budget Activity

Dollars in thousands

Shared Services and Support	FTE	Amount
FY 2018 Annualized CR Level	4,588	\$994,559
Changes to Base		
Maintaining Current Levels (MCLs)		\$10,364
Pay Annualization		3,075
Non-Pay		7,289
Efficiency/Savings		\$13
Increase e-File Savings		13
Other Adjustments		\$11
Base Adjustments		11
Subtotal FY 2019 Changes to Base		\$10,388
FY 2019 Current Services	4,588	\$1,004,947
Program Changes		
Program Increases		
Stabilize, Secure and Transform IT Operations		\$964
Cyber Security		66
Identity Assurance - e-Authentication Enhancements and Authorization Integration		139
Stabilize IT Operations		759
Subtotal FY 2019 Program Increases		\$964
Total FY 2019 Request	4,588	\$1,005,911

See footnotes in 1.1 – Appropriations Detail Table

2.1.7 – Budget and Performance Report and Plan

Dollars in thousands

Shared Services and Support	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Resource Level	Actual	Actual	Actual	Actual	Enacted	Annualized CR	Request
Appropriated Resources ¹	\$1,097,565	\$1,127,931	\$1,126,230	\$1,090,192	\$991,504	\$994,559	\$1,005,911
Reimbursable Resources ²	17,175	19,886	17,126	19,443	19,194	23,580	21,399
User Fees ²	31,644	7,819	1,768	1,000	1,000	1,000	1,000
Budget Activity Total	\$1,146,384	\$1,155,636	\$1,145,124	\$1,110,635	\$1,011,698	\$1,019,139	\$1,028,310

¹The FY 2013 - FY 2017 appropriated resources line represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

²The FY 2013 - FY 2017 columns represent realized resources for reimbursables and user fees.

2H – Information Services (\$2,289,827,000 in direct appropriations, \$20,737,000 in reimbursable resources, and an estimated \$396,000,000 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 including taxpayer service and enforcement programs. This includes the design and operation of IT 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. This funding allows the IRS to maintain a complex ecosystem comprised of more than 500 applications that remain essential to tax administration until modernized. This funding also allows the IRS to operate one of the largest call centers in the country, which relies on telecommunications and network infrastructure funded through this budget activity. These call centers rely on IT systems and data that are key to all IRS functions.

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:

- *Application Development* performs the analysis, design, development, testing, and implementation of about 550 applications supporting tax processing, management information reporting, and financial management support systems. It supports external trading partner data exchanges with Federal Government agencies, state and local governments, and other third-party entities. It controls application source code and deploys applications to the production environment.
- *Cybersecurity* delivers IT security services to ensure compliance with federal statutory and regulatory requirements governing confidentiality, integrity, and availability of electronic systems, services, and data. Cybersecurity tracks compliance, continuously monitors risk, and provides remediation to manage IT Security Program in accordance with the Federal Information Security Management Act.
- *Enterprise Operations* designs, develops, and maintains IT that supports critical tax processing, management information reporting, and financial management support systems for the IRS. It 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 Program Management Office (EPMO)* manages the delivery of integrated solutions for several of the IRS's large-scale programs. It plays a key role in establishing change, configuration, and release plans and implementing new system functional capabilities. The EPMO is the partner with the business for programs under their purview and works with IT delivery partners (AD, ES, EOPS and the other ACIO areas) to deliver capabilities. This positions each organization to maintain a strong core function to optimize their operations.
- *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.

- *IT Executive Oversight* supports the continued transformation of the IT organization while helping drive the successful implementation of multiple initiatives and is responsible for overseeing day-to-day operations of the organization and providing strategic and operational oversight for many functions within IT.
- *IT Infrastructure* provides a centrally managed investment program for the replacement of IRS IT infrastructure that has reached or surpassed its useful life cycle.
- *Strategy and Planning* collaborates with IT leadership to provide policy, direction, and administration of essential programs, including strategy and capital planning, strategic planning and performance measurement, financial management services, vendor and contract management, requirements and demand management, and risk management. The organization partners with IRS leadership and external stakeholders to ensure selection, planning and management of an IT investment portfolio that is driven by the strategic priorities of the IRS and demonstrates business value.
- *Treasury Franchise Fund (TFF)* is a centralized program that pays for services IT receives from Treasury through the Treasury Franchise Fund.
- *User and Network Services (UNS)* provides end-user support in accordance with negotiated service level agreements, strategic direction, forecasting, planning and oversight of IT business needs, and ensures compliance with government security regulations. UNS supplies and maintains all desk-side technology, equips the Volunteer Income Tax Assistance Program; establishes and provides oversight of hardware and software standards; and manages the architecture, design, and engineering of the IRS network infrastructure.

Description of Performance

All IRS programs rely heavily on information systems funded in this account. 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. It also funds disaster recovery activities to ensure continued operations in the event of a major interruption of service.

In FY 2017, the IRS:

- Deployed additional FATCA information technology capabilities in support of legislative mandates. The new functionality improves Foreign Account Tax Compliance Act (FATCA) forms, reporting features, and overall interfaces. For the first time, technology allows entities to enter an agreement with the IRS to become a Qualified Intermediary (QI), Withholding Foreign Partnership (WP), or a Withholding Foreign Trust (WT) via an electronic system. This release allows QI/WP/WTs to maintain account information, as well as apply, renew, or terminate agreements with the IRS electronically. As of the September 30, 2017 due date for renewals, nearly 4,600 QIs, WPs and WTs had used the new application to renew their agreements. In

addition, about 290,000 foreign financial institutions (FFIs) registered with the IRS and received a global intermediary identification number (GIIN) via the FFI Registration application. More than 6,500 financial institutions and 97 host country tax authorities enrolled in the International Data Exchange Service (IDES) to submit FATCA information returns to the IRS, and more than 550 QIs completed their online application via the QI application.

- Worked with Security Summit partners from state tax agencies and the broader tax community to add extra layers of security for the filing season; processed 201 million returns and billions of dollars in tax refunds with these security protections in place;
- Acquired the infrastructure to support a multilayered defense architecture to provide the Computer Security Incident Response Center (CSIRC) and the Insider Threat Operations team the ability to leverage powerful analytic applications to improve investigation effectiveness;
- Continued to build robust cybersecurity programs to improve the identification and prevention of refund fraud and identity theft and to enhance cybersecurity to safeguard taxpayer data;
- Detected and mitigated 1,305 phishing and malware sites. During this time, the IRS identified and responded to 542 cyber incidents of which 128 incidents (about 24 percent) involved removable media, email, and web-based activity. The IRS also implemented 1,876 content filtering restrictions to mitigate Internet content deemed a security risk to IRS information systems. Despite these incidents, IRS systems remain secure;
- The improvements enhanced the IRS's ability to handle data from the insurance marketplaces, allowing the IRS to process more than two times the number of bulk files as in prior years, resulting in increased responsiveness to the Health and Human Services/Centers for Medicare & Medicaid Services and state exchanges; and
- Completed information technology system upgrades related to Affordable Care Act that improved both the stability and capacity of the processing systems. The improvements enhanced the IRS's ability to handle data from the insurance marketplaces, allowing the IRS to process more than two times the number of bulk files as in prior years, resulting in increased responsiveness to the Health and Human Services/Centers for Medicare & Medicaid Services and state exchanges.

Security

Security of taxpayer data and providing a secure environment for employees are of utmost importance to the IRS. In FY 2017, the IRS:

- Enhanced the security of its networks through the use of cyber-threat forensics, implementation of a comprehensive patch management system, and the adoption of government-wide information security continuous monitoring tools as part of a layered defense. In addition, the IRS is instituting multiple layers of electronic authentication at the time of filing. Investments and activities in this area help combat stolen identity refund fraud and include detection and prevention assistance to victims and law enforcement; and
- Improved authentication for online taxpayer services by adding more applications behind Secure Access, a tool that enhances security while providing greater access for legitimate taxpayers and improving the customer experience. The IRS stood up the Secure Access e-Authentication capability to protect the *Get Transcript Online* application in June 2016. Since then, the IRS has added several applications behind Secure Access, including Identity Protection Personal Identification Number (IP PIN), the Taxpayer Digital Communications pilot, Qualified Intermediary Registration and Management, and Online Account with functions such as *See Balance Due* and a link to *Make a Payment*.

FY 2019 Changes by Budget Activity

Dollars in thousands

Information Services	FTE	Amount
FY 2018 Annualized CR Level	6,225	\$2,071,985
Changes to Base		
Maintaining Current Levels (MCLs)		\$27,019
Pay Annualization		4,748
Non-Pay		22,271
Efficiency/Savings		(\$115)
Increase e-File Savings		(115)
Reinvestment		\$12,798
Support Aging IT Infrastructure		12,798
Other Adjustments		(\$11)
Base Adjustments		(11)
Subtotal FY 2019 Changes to Base		\$39,691
FY 2019 Current Services	6,225	\$2,111,676
Program Changes		
Program Increases		
Stabilize, Secure and Transform IT Operations	146	\$178,151
Cyber Security	10	39,784
Identity Assurance - e-Authentication Enhancements and Authorization Integration	21	23,846
Aging Technology Infrastructure		39,000
Migration to Cloud Services		20,000
Stabilize IT Operations	115	55,521
Subtotal FY 2019 Program Increases	146	\$178,151
Total FY 2019 Request	6,371	\$2,289,827

See footnotes in 1.1 – Appropriations Detail Table

2.1.8 – Budget and Performance Report and Plan

Dollars in thousands

Information Services	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Resource Level	Actual	Actual	Actual	Actual	Enacted	Annualized CR	Request
Appropriated Resources ¹	\$1,722,172	\$1,749,110	\$1,641,360	\$1,883,667	\$1,988,010	\$2,071,985	\$2,289,827
Reimbursable Resources ²	8,850	4,734	24,262	19,660	35,307	41,375	20,737
User Fees ²	145,027	198,206	373,610	263,250	201,584	396,000	396,000
Budget Activity Total	\$1,876,049	\$1,952,050	\$2,039,232	\$2,166,577	\$2,224,901	\$2,509,360	\$2,706,564

¹The FY 2013 - FY 2017 appropriated resources line represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

²The FY 2013 - FY 2017 columns represent realized resources for reimbursables and user fees.

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 budget request for FY 2019 is \$110,000,000 in direct appropriations and 516 FTE. This is a decrease of \$178,031,000, or 61.81 percent less than the FY 2018 Annualized Continuing Resolution level of \$288,031,000.

2.1 – Budget Adjustments Table

Dollars in thousands

Business Systems Modernization		
Summary of Proposed FY 2019 Request	FTE	Amount
FY 2018 Annualized CR Level	516	\$288,031
Changes to Base		
Maintaining Current Levels (MCLs)		\$172
Pay Annualization		172
Subtotal FY 2019 Changes to Base		\$172
FY 2019 Current Services	516	\$288,203
Program Changes		
Program Decreases		
Realignment from BSM to Operations Support		(178,203)
Subtotal FY 2019 Program Decreases		(\$178,203)
Total FY 2019 Budget Request	516	\$110,000

See footnotes in 1.1 – Appropriations Detail Table

2.2 – Operating Levels Table

Dollars in thousands

Business Systems Modernization Object Classification	FY 2017 Enacted	FY 2018 Annualized CR	FY 2019 Request
11.1 Full-Time Permanent Positions	70,301	64,453	63,974
11.3 Other than Full-Time Permanent Positions	1,115	103	74
11.5 Other Personnel Compensation	1,000	935	1,114
11.9 Personnel Compensation (Total)	72,416	65,491	65,162
12.1 Personnel Benefits	21,848	19,409	19,051
Total Personnel and Compensation Benefits	\$94,264	\$84,900	\$84,213
21.0 Travel	204	330	306
25.1 Advisory & Assistance Services	193,374	173,429	22,452
25.2 Other Services	148	25	19
25.3 Purchase of Goods & Services from Govt. Accounts	11	9	7
25.7 Operation & Maintenance of Equipment	296	2,168	309
26.0 Supplies and Materials	20	7	6
31.0 Equipment	1,683	27,163	2,688
Total Non-Personnel	\$195,736	\$203,131	\$25,787
New Appropriated Resources	\$290,000	\$288,031	\$110,000
Budget Activities			
Business Systems Modernization	290,000	288,031	110,000
New Appropriated Resources	\$290,000	\$288,031	\$110,000
FTE	557	516	516

See footnotes in 1.1 – Appropriations Detail Table

2.3 – Appropriation Detail Table

Dollars in thousands

Business Systems Modernization										Change		% Change	
Appropriated Resources	FY 2017 Enacted		FY 2017 Actual		FY 2018 Annualized CR		FY 2019 Request		FY 2018 to FY 2019 Request		FY 2018 to FY 2019 Request		
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	
New Appropriated Resources:													
Business Systems Modernization	557	\$290,000	557	\$166,263	516	\$288,031	516	\$110,000		(178,031)		-618.1%	
Subtotal New Appropriated Resources	557	\$290,000	557	\$166,263	516	\$288,031	516	\$110,000		(\$178,031)		-61.81%	
Other Resources:													
User Fees		25,464				34,000		34,000					
Recovery from Prior Years						3,854		3,854					
Unobligated Balances from Prior Years		123,010				190,671		236,919		46,248		24.26%	
Subtotal Other Resources		\$148,474				\$228,525		\$274,773		\$46,248		20.24%	
Total Budgetary Resources	557	\$438,474	557	\$166,263	516	\$516,556	516	\$384,773		(\$131,783)		-25.51%	

¹See footnotes in 11–Appropriations Detail Table

2I – Business Systems Modernization (\$110,000,000 in direct appropriations, and \$34,000,000 in user fees): 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 to develop a world-class tax administration system. The following projects are supported by the FY 2019 BSM request of \$110 million in direct appropriations and \$34 million in user fees:

Customer Account Data Engine 2 (CADE2) +\$40.3 million (+\$30.3 million in direct appropriation / +189 FTE and +\$10.0 million user fees): These funds will be used to establish the foundation for a modernized tax processing engine by converting the core Individual Master File functions of posting, settlement, and analysis (runs 12 and 15) into Java-based programs and continue efforts to make CADE 2 the legal and financial authoritative source of individual taxpayer data.

Enterprise Case Management (ECM) +\$23.5 million (+\$9.5 million in direct appropriations / +57 FTE, and +\$14.0 million user fees): ECM is a business-driven transformation program that will address the need to modernize, upgrade, and consolidate case management systems with similar functionality that are running in the IRS ecosystem today. The IRS has over 60 legacy case management systems with similar functionality. Historically, these were developed for individual Business Operating Divisions, as stand-alone systems. This project will consolidate case management systems onto an enterprise platform with common infrastructure, with common Business functions and services. The IRS expects taxpayer and operational benefits by making more case information available to front-line IRS employees to simplify interactions between the IRS and taxpayers.

In FY 2019, ECM plans to develop a Roadmap to the ECM Target State via a series of ECM Transition States and initiate development of the first program release. This will begin the process of migrating business capabilities to the new platform.

Enterprise Case Selection (ECS) +\$2.5 million in direct appropriations / +15 FTE: The ECS program will implement an enterprise solution for performing case selection functions using a common infrastructure platform and common services that will be leveraged across the IRS. The ECS program will increase operational efficiencies by consolidating separate case

selection functions and by identifying the best cases allowing the IRS to use resources more effectively.

Return Review Program (RRP) +\$8.4 million in direct appropriations / +48 FTE: RRP provides leading-edge technologies to advance the IRS effectiveness in detecting, addressing, and preventing tax refund fraud and protecting U.S. Treasury revenue. The RRP fraud framework is critical for IRS' success in tackling ever-evolving tax schemes in a sophisticated, scalable and adaptable manner. Investment in RRP will continue to improve and expand analytical capabilities that protect increasing levels of revenue from individual and business tax return fraud, non-compliance, and other enterprise anomaly detection. Additionally, IRS will implement value-driven enhancements based on Business priorities, enabling other business customers to explore and use RRP for anomaly detection business processes.

Web Applications +\$25.1 million (+\$15.1 million in direct appropriations / +96 FTE, and +\$10 million user fees): Web Apps will simplify the taxpayer's online experience, provide secure digital communications, and add more interactive capabilities to existing web self-service products. This will allow taxpayers to resolve more issues online, requiring fewer direct interactions with the IRS over the telephone and in person.

In FY 2019, Web Applications will continue to develop and deploy new capabilities selected by the program's product prioritization process. Anticipated functionalities include the Third-Party Access Tool (TPAT), to permit access for authorized third parties to view and manage a taxpayer's online account, and Third-Party Refund application program interface, to increase the number of tax services available to third parties and expand the definition of third party to include other federal and state government agencies, as well as commercial tax preparers. Additionally, Web Applications will continue to provide a user-centric, data-informed approach to ensure that taxpayer information is being presented and provided in a way that is easy for a taxpayer to interpret. This will include the release of new and continuing applications providing a wide variety of services to the taxpayer that will provide a better user experience, clearer content, an enhanced portal, and more robust analytics to continuously improve the taxpayer experience.

Architecture, Integration and Management (AI&M) +\$19.7 million in direct appropriations / +42 FTE: AIM provides engineering management capabilities essential to delivering a program of BSM's magnitude and complexity. It also delivers IRS systems strategy, architecture, and engineering capabilities for 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 framework and direction for cohesive, successful modernization.

Core Infrastructure +\$19.5 million in direct appropriations / +69 FTE: Core Infrastructure provides mission-critical services for designing, engineering, testing, and deploying standardized, consolidated, virtual, and secure modernized development and production environments for use by BSM projects. This support effort scales with the development projects in the BSM portfolio.

The IRS is modernizing taxpayer applications to web-based technologies that allow taxpayers to communicate with the IRS 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.

Management Reserve +\$5 million in direct appropriations

The management reserve funds allow the IRS to cover unanticipated cost adjustments.

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. IRS performance metrics are described quarterly and in greater detail in the BSM IT Modernization report.

Major IT (BSM and Non-BSM) Investments		
Fiscal Year	Percent within +/- 10% Cost Variance	Percent within +/- 10% Schedule Variance
2017	50.0 %	88.9 %

Percent of Major IT Investments within +/- 10 percent Cost Variance at the Investment Level: Nine of 18 major investments (50 percent) were within the cost variance threshold at the end of FY 2017 and below the 90 percent target. Shown below are the Investments falling short of the Cost Variance target.

- **Affordable Care Act Administration (ACA)** had a much lower actual cost versus planned cost associated with milestone 4B.4.
- **Customer Account Data Engine 2 (CADE 2)** cost underrun is due to project activities associated with release 4 and 5 being stopped due to budgetary constraints.
- **e-Services (e-SVS)** had lower than expected cost due to fewer than expected legislative changes.
- **Enterprise Case Management (ECM)** shows a variance because the ECM governance board approved halting the development efforts for ECM fraud case management.
- **Integrated Financial System/CORE Financial System (IFS)** shows a cost overrun due to a software acquisition expense that was planned in milestones 1 and 2 but didn’t happen until milestones 3 and 4a due to procurement competition that took longer than planned.
- **IRS Mainframes and Servers Services and Support (MSSS)** displays a cost underrun due to activities being closed out or put on hold due to budgetary constraints.
- **IRS Telecommunications Systems and Support (TSS)** had a cost underrun due to several activities costing less than planned.
- **Return Review Program (RRP)** is showing a cost underrun due to the reporting portion of the Reporting and Transaction Processing (RTP) functionality being deferred to a future release.
- **Web Applications** is showing over budget due to the baseline not reflecting the funded budget (funded higher than baseline).

Percent of Major IT Investments within +/- 10 percent Schedule Variance at the Investment Level: Sixteen of 18 major investments (88.9 percent) were within the schedule variance threshold at the end of FY 2017. Shown below are the Investments falling short of the Schedule Variance target.

- **Individual Master File (IMF)** is ahead of schedule due to filing season activities being completed before their projected timeframes.
- **IRS Mainframes and Servers Services and Support (MSSS)** displays a schedule variance due to activities being closed out or put on hold due to budgetary constraints.

IRS IT will continue to monitor program activities closely and address any issues associated with cost/schedule on a timely basis to meet the FY 2018 and FY 2019 target of 90 percent.

FY 2019 Changes by Budget Activity

Dollars in thousands

Business Systems Modernization	FTE	Amount
FY 2018 Annualized CR Level	516	\$288,031
Changes to Base		
Maintaining Current Levels (MCLs)		\$172
Pay Annualization		172
Subtotal FY 2019 Changes to Base		\$172
FY 2019 Current Services	516	\$288,203
Program Changes		
Program Decreases		
Realignment from BSM to Operations Support		(178,203)
Subtotal FY 2019 Program Decreases		(\$178,203)
Total FY 2019 Request	516	\$110,000

See footnotes in 1.1 – Appropriations Detail Table

2.1.9 – Budget and Performance Report and Plan

Dollars in thousands

Business Systems Modernization	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Resource Level	Actual	Actual	Actual	Actual	Enacted	Annualized CR	Request
Appropriated Resources ¹	\$198,205	\$145,235	\$107,746	\$190,945	\$290,000	\$288,031	\$110,000
Reimbursable Resources ²							
User Fees					25,464	34,000	34,000
Budget Activity Total	\$198,205	\$145,235	\$107,746	\$190,945	\$315,464	\$322,031	\$144,000

¹The FY 2013 - FY 2017 appropriated resources line represents the approved operating plan including any inter-BAC transfers and inter-appropriation transfers.

²The FY 2013 - FY 2017 columns represent realized resources for reimbursable resources and user fees.

Business Systems Modernization Measures	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2017 Target	FY 2018 Target	FY 2019 Target
Percent of Major IT Investments within +/- 10% Cost Variance at the Investment Level ¹	0.0%	66.7%	73.7%	76.2%	50.0%	90.0%	90.0%	90.0%
Percent of Major IT Investments within +/- 10% Schedule Variance at the Investment Level ¹	83.3%	100.0%	89.5%	85.7%	88.9%	90.0%	90.0%	90.0%

Key: E - Efficiency Measure

¹Starting in FY 2015, the measure includes all major investments (BSM and non-BSM).

Section III – Supplemental Information

3.1 – Summary of Capital Investments

A summary of capital investment resources, including major information technology and non-technology investments, can be viewed/downloaded at:

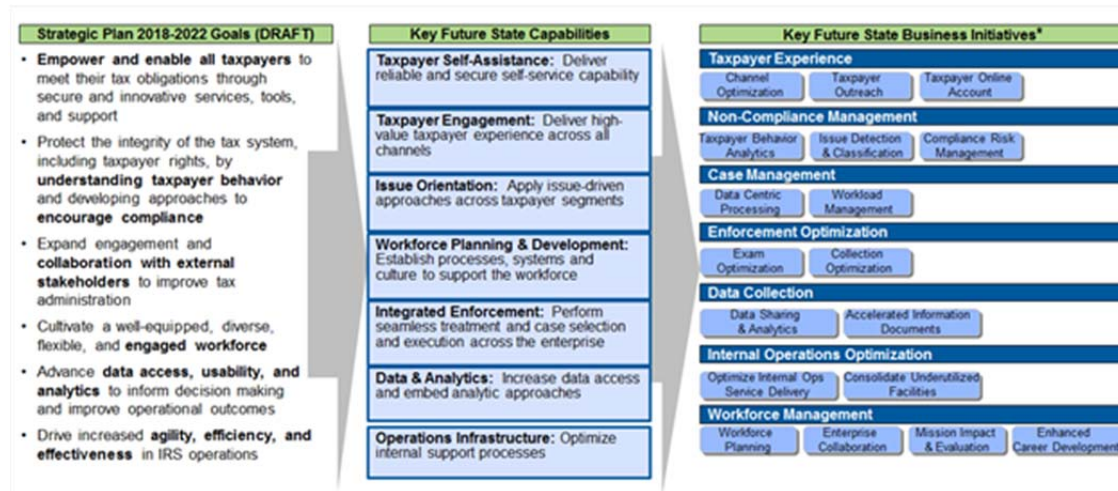
<http://www.treasury.gov/about/budget-performance/pages/summary-of-capital-investments.aspx>.

This website also contains a digital copy of this document.

3A – Capital Investment Strategy

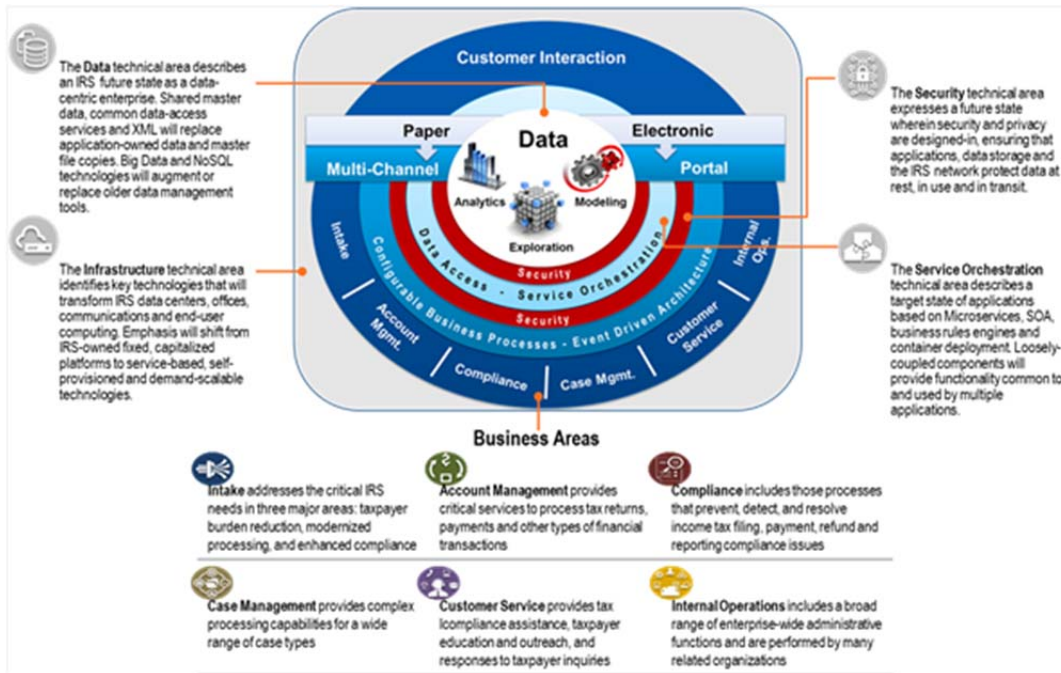
The IRS capital investment strategy translates the IRS’s business vision into the required technical capabilities, and structures a set of IT investments that will advance those capabilities.

The IRS is developing a strategic, enterprise-wide planning initiative that describes the IRS vision for interacting with taxpayers and stakeholders in a more timely and open manner by understanding and meeting taxpayer needs, promoting voluntary compliance, and detecting, deterring, and resolving non-compliance. Figure 1 illustrates the relationships between the Strategic Plan goals and future capabilities and initiatives.

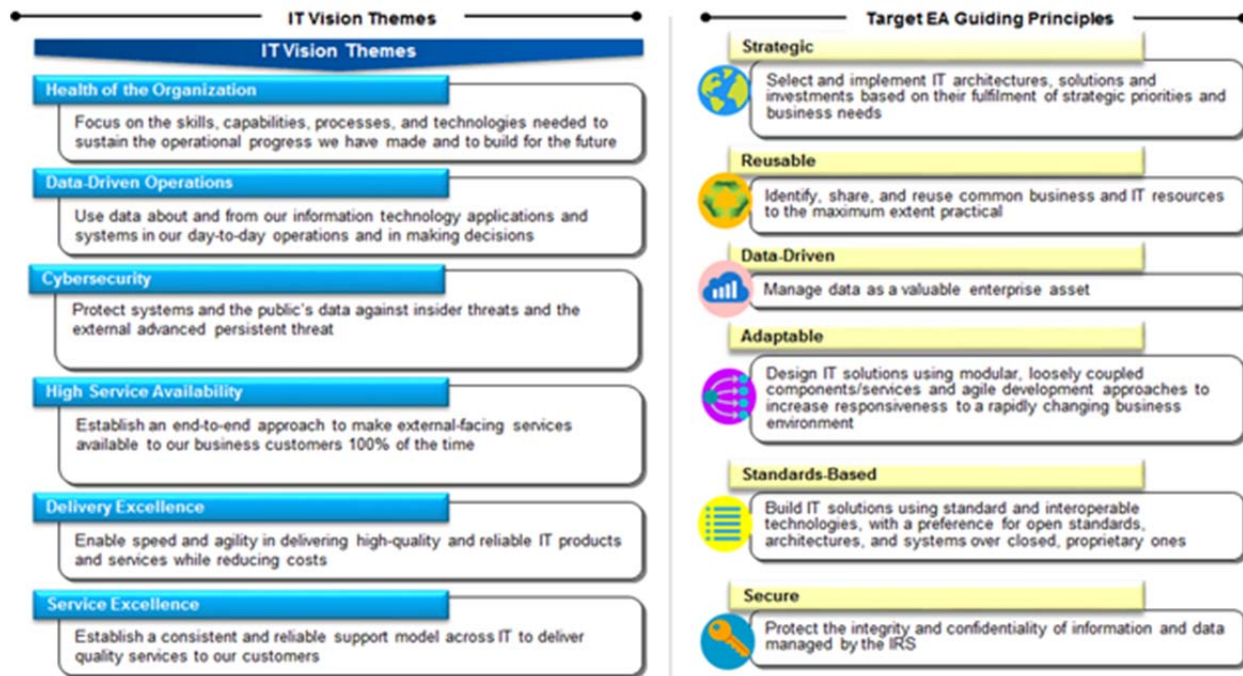


The IRS Technology Roadmap: Uses enterprise architecture planning and visualization methods to depict and describe the future direction of IRS technology in terms of advancing capabilities, modernizing applications and technical services, and upgrading the technology product environment through a set of programs and projects and new approaches such as Agile development and DevOps. It uses a set of models and visualizations to show the transition from the current environment to the future technology vision. It promotes dialogue between IT and business leaders on the priorities, direction and alignment of investments and resources. It is a living document that is reviewed and updated as appropriate. As depicted in Figure 2, the Technology Roadmap is structured around six core IRS business areas (Intake, Account

Management, Compliance, Case Management, Customer Service, and Internal Operations) and four technical areas (Data, Service Orchestration, Infrastructure, and Security).



To move efficiently and effectively toward the technology vision described in the Technology Roadmap, the IRS IT organization has developed its IT Vision to articulate and formalize key themes and goals essential to IT's performance as a world-class service provider to its business partners. This vision, summarized in Figure 3, emphasizes a strong and well-equipped workforce, agile and efficient service delivery processes, data-driven operations and decision-making, and a critical focus on cybersecurity. The IT Vision is further augmented by a set of architectural principles, also summarized in the diagram below, to guide appropriate investment decisions, and to acquire, design, build, and implement technology solutions.



In the current budget planning and investment cycle, IRS IT has identified several cross-cutting strategic IT initiatives and major programs, described below.

Cloud: In response to the U.S. CIO directive of a ‘cloud first’ policy, the IRS is defining and implementing a cloud strategy to adopt cloud technologies that enable the delivery of secure, agile, and efficient service offerings to the enterprise and the taxpayer. This move toward enterprise-wide cloud adoption will provide the IRS with convenient, on-demand network access to a shared pool of configurable computing resources (e.g., networks, servers, storage, applications, and services) that can be provisioned rapidly and released with minimal management effort or service provider interaction. Expected IRS benefits include: more agile infrastructure procurements; reduced operational overhead; more efficient resource sharing; and improved infrastructure currency.

DevOps: DevOps is an emerging software engineering practice that aims to unify the software development and operation processes, teams, and communications. The IRS’s shift toward a DevOps culture requires changes to workflow, infrastructure management, solution creation, and deployment. IRS IT is addressing DevOps through six practice areas: Configuration Management, Continuous Integration, Automated Testing, Software Defined Infrastructure, Continuous Delivery, and Continuous Monitoring. Expected IRS benefits include: improved internal IT and stakeholder collaboration; faster delivery through compressed cycles; improved quality through better testing; and enhanced transparency to manage risks.

Data Strategy: Combating identity theft, detecting tax filing issues more quickly, improving taxpayer service, and optimizing compliance and enforcement actions require robust, secure, and integrated data capture, storage, processing, and analytics capabilities. The current IRS data environment is constrained in its ability to provide a holistic and secure taxpayer data view for emerging tax administration and compliance needs. The IRS is assessing and redesigning its

data strategy and architecture to harness key industry trends more fully, such as big data technologies, self-service analytics, data lakes, and cognitive computing. Expected IRS benefits include: improved insights from data through analytics, reduced data movement and duplication to maximize performance and scalability, improved enterprise data standardization and integration, and security of data at rest and in motion.

NextGen Infrastructure: At the foundation of the IRS's critical systems and data is an infrastructure base (i.e., hardware, software, programming languages) that is aged and in need of modernization, which puts the American tax system at risk of failure. Such conditions introduce security risks, excessive system downtime, elimination of vendor support, and incompatibilities across systems and programs. The IRS Executive Risk Committee elevated the aging IRS technology infrastructure as the highest-priority enterprise risk. To address this challenge, the IRS is shifting towards cloud computing, hyper-converged and composable infrastructure, hybrid on-premises / cloud infrastructure environment, and continuous operations monitoring technologies. Key IRS benefits include: increased IT infrastructure availability and reliability; enhanced business continuity and disaster recovery; reduced IT asset cost and operational expenses; and faster, more scalable, and efficient IT service delivery.

Application Program Interface (API) Strategy: The IRS is defining and implementing an API strategy to enable rapid creation of reusable granular APIs to export key sets of data. To address its complex landscape of 500+ legacy applications and aging technology, the IRS is developing a scalable application and data integration approach to support emerging tax administration and compliance requirements. Harnessing industry advances such as micro service APIs and their scalability through containerization and cloud computing, the IRS API strategy focuses on providing a platform of reusable APIs that are individually scalable and fault tolerant. Key IRS benefits include: increased reuse of software functionality in many different contexts; improved agility in meeting user needs; accelerated deployment of new capabilities; and reduction of redundant functionality.

Cybersecurity Strategy: The IRS's mission of tax administration relies heavily upon the confidentiality, integrity and availability of information to achieve mission objectives. It is imperative that the IRS implement and sustain a robust security strategy in an ever-evolving threat and technology environment. Congress and the Administration have made cybersecurity one of their highest priorities. The IRS is adopting a proactive and analytics-driven approach to implement new offensive and defensive strategies to meet emerging security needs. The IRS is implementing Continuous Diagnostics & Mitigation (CDM) software to automate security controls and standardize risk reporting across federal agencies, and to provide near real-time status and mitigation of deficiencies. Additionally, the IRS is adopting a predictive analytics approach to analyze the machine data, user access, and usage pattern (behavior) data to mitigate risks posed by insider threats. The IRS also is implementing two-factor authentication to protect the confidentiality, integrity, and availability of remote data transmissions that contain sensitive taxpayer information.

Web Applications (WebApps): IRS is developing Web Applications to improve interactions and communications with taxpayers, employers, and third parties by providing a broad range of self-service options, establishing secure information exchange options, and building internal capabilities. By enabling third parties and taxpayers to interact digitally with the IRS, the

investment will provide a better user experience, achieve significant savings by moving services to lower cost channels, and deliver consistent data and services through reusable application programming interfaces (APIs). Web Apps will continue to work on the account *Balance Due*, *See Payments*, *Make a Payment* and *Download Tax Data* capabilities. The IRS also will begin work on two new account features: Taxpayer Protection Program Identity Verification Tool and *Installment Agreement* for individual taxpayers. This program will facilitate voluntary compliance by empowering taxpayers with innovative tools and support.

Enterprise Case Management (ECM): ECM is a business-driven transformation program that will address the need to modernize, upgrade, and consolidate case management systems with similar functionality that are running in the IRS ecosystem today. The IRS has over 60 legacy case management systems with similar functionality. Historically, these were developed for individual Business Operating Divisions as stand-alone systems. This project will consolidate case management systems onto an enterprise platform with common infrastructure, business functions, and services. The IRS expects taxpayer and operational benefits by making more case information available to front-line IRS employees to simplify interactions between the IRS and taxpayers.

Integrated Enterprise Portal (IEP) / IRS.GOV- Portal: The IRS.gov portal provides seamless one-stop web-based services to internal and external users. The modernization of the IRS.gov infrastructure enables landing page access to services for taxpayers, tax preparers, businesses, practitioners, electronic return originators, and IRS employees. IEP's strategy for infrastructure modernization also supports the IRS's Cloud-First strategy and will support future application portability through cloud technologies. IEP will ensure ease of access to IRS.gov services, and is necessary to ensure the security of IRS stakeholder data.

Return Review Program (RRP): RRP is leveraging leading-edge technologies to advance the IRS's effectiveness to detect, resolve, and prevent criminal and civil tax refund fraud and non-compliance, maximize fraud detection in real-time, and protect revenue from the risks of increasing global fraud sophistication. RRP is mission-critical for the IRS to combat ever-evolving tax fraud schemes in a sophisticated, scalable, and adaptable manner, and will be the anomaly detection platform for the enterprise for both pre-refund and post-refund fraud and non-compliance. RRP correlates data across multiple data sources and enables the IRS to create predictive models for fraud and non-compliance. RRP generates a scorecard for questionable returns, evaluating consistency and dependability. RRP also will support the Business Operating Divisions' ability to perform self-service analytics to facilitate rapid deployment of new rules and models for fraud and non-compliance, and will increase efficiencies to assist in the selection and prioritization of workload management.

Authentication, Access, and Authorization (eA3): eA3 is designed to provide secure access to IRS web-based applications and data through user authentication, authorization, and access capabilities that underpin all secure digital interactions for individuals, businesses, third parties, tax professionals, and other IRS trusted network participants. With an increase in IRS services delivered through internet channels, eA3 manages the risk of identity theft, fraudulent activity, and improper use of IRS information by enhancing detection and remediation capabilities within the IT security environments. eA3 provides a shared Enterprise Service / platform that can be used by new and existing, internal and external applications to provide authorization to

users and services. Future objectives include improving the security and capacity of the enterprise authentication framework and protecting additional applications.

Foreign Account Tax Compliance Act (FATCA): The FATCA program supports legislation that promotes disclosure of foreign accounts held by U.S. taxpayers and integrates this information into current IRS compliance activities. FATCA introduces new reporting requirements for U.S. taxpayers and Foreign Financial Institutions (FFIs). The legislation requires U.S. taxpayers holding foreign financial assets to report information to the IRS annually, and for FFIs with U.S. taxpayer accounts to register, report annually to the IRS, and withhold a portion of income that is sent to the IRS. These complementary provisions create a web of international tax accountability, allowing the IRS to gather and analyze information from multiple sources, bolstering the compliance of U.S. taxpayers with assets overseas. IT will continue to operate and maintain the FATCA portfolio of systems, deliver new and enhanced business capabilities, reduce manual workarounds, leverage FATCA data to improve legislative compliance among individuals and institutions, and leverage existing capabilities to support emerging IRS initiatives.

Customer Account Data Engine 2 (CADE 2): CADE 2 is IRS's data-driven foundation for a future of state-of-the-art individual taxpayer account processing and data-centric technologies to improve service to taxpayers, enhance IRS tax administration, and ensure fiscal responsibility. At the heart of CADE 2 is a modernized relational database that aggregates individual taxpayer records and makes this data available to organizations across the IRS. Ultimately, CADE 2 will replace the Individual Master File (IMF) as the IRS's authoritative data source for individual taxpayer data.

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

The actual cost and actual revenue collected for FY 2012 through FY 2017 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 businesses, self-employed, large corporate businesses, partnerships, international, estate and gift, excise tax and employment tax, tax-exempt organizations, 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 section 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 1099, W-2, etc.) against data reported to the IRS on individual tax returns. 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, the IRS issues a proposed notice and generates a proposed assessment.

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 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 is important to note that these data reflect the average return on investment for these programs and do not include the indirect effects of IRS enforcement activities on voluntary compliance. As such, they are not intended to be used to allocate resources or maximize revenue. Net revenue is maximized only when resources are allocated according to *marginal direct and indirect* 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.

Return on Investment for IRS Major Enforcement Programs

Dollars in Millions																			
Enforcement Program	FY 2012			FY 2013			FY 2014			FY 2015			FY 2016			FY 2017			
	Cost ¹	Revenue	ROI	Cost ¹	Revenue	ROI	Cost ¹	Revenue	ROI	Cost ¹	Revenue	ROI	Cost ¹	Revenue	ROI	Cost ¹	Revenue	ROI	
IRS Total	\$6,242	\$50,187	8.0	\$5,883	\$53,345	9.1	\$5,839	\$57,146	9.8	\$5,644	\$54,203	9.6	\$5,592	\$54,291	9.7	\$5,506	\$53,214	9.7	
Examination	4,232	14,476	3.4	3,965	16,662	4.2	3,965	18,983	4.8	3,974	13,320	3.4	3,782	12,023	3.2	3,695	14,510	3.9	
Collection	1,742	30,442	17.5	1,660	31,396	18.9	1,618	33,198	20.5	1,419	35,740	25.2	1,576	37,259	23.6	1,598	33,701	21.1	
Automated Underreporter (AUR)	267	5,269	19.7	258	5,287	20.5	256	4,965	19.4	251	5,143	20.5	234	5,009	21.4	214	5,003	23.4	

¹The cost of the enforcement programs was calculated using budget data from the IRS Integrated Financial System (IFS) and includes direct dollars and FTE from the Enforcement appropriation, Exam and Collections budget activity, and dollars from the Operations Support appropriation prorated using actual FTE realized for each major

3.3 – IRS Performance Measure Table

Performance Measures	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2017 Target	FY2018 Target	FY2019 Target
Customer Service Representative Level of Service (LOS)	60.5%	64.4%	38.1%	53.4%	77.1%	64.0%	75.0%	47.0%
Customer Contacts Resolved per Staff Year ¹	20,767	21,018	26,245	28,497	25,535	Baseline	Baseline	TBD
Customer Accuracy - Tax Law (Phones)	95.7%	95.0%	95.0%	96.4%	96.7%	95.0%	95.0%	95.0%
Customer Accuracy - Accounts (Phones)	96.0%	96.2%	95.5%	96.1%	96.0%	95.0%	95.0%	95.0%
Timeliness of Critical Filing Season Tax Products to the Public	58.9%	99.1%	89.0%	92.5%	93.1%	89.0%	89.0%	89.0%
Timeliness of Critical TE/GE & Business Tax Products to the Public	83.6%	98.7%	92.6%	98.0%	96.7%	91.0%	91.0%	91.0%
Percent Individual Returns Processed Electronically	82.5%	84.1%	85.3%	86.4%	86.9%	87.0%	88.0%	89.0%
Percent of Business Returns Processed Electronically	40.2%	43.1%	47.0%	50.0%	52.9%	51.0%	54.0%	56.0%
Refund Timeliness - Individual (Paper)	99.0%	98.7%	98.8%	98.7%	98.4%	97.0%	97.0%	97.0%
Enterprise Taxpayer Self-Assistance Rate ¹	83.3%	84.7%	88.7%	89.0%	79.0%	Indicator	Indicator	Indicator
Examination Coverage - Individual	1.0%	0.9%	0.8%	0.7%	0.6%	0.6%	0.6%	0.6%
Field Exam Nat'l Quality Review Score	89.2%	88.4%	86.7%	86.8%	85.0%	86.7%	84.4%	86.7%
Office Exam Nat'l Quality Review Score	90.3%	90.6%	88.3%	88.4%	87.9%	86.7%	86.7%	88.3%
Examination Quality - Large Business ²	92.0%	83.0%	86.0%	83.0%	78.0%	90.0%	90.0%	90.0%
Examination Coverage - Business (Assets > \$10 million)	5.6%	4.3%	3.9%	3.0%	2.5%	2.7%	2.4%	1.8%
Examination Efficiency - Individual	142	138	148	143	121	118	134	129
Automated Underreporter Efficiency	2,025	1,935	2,209	2,196	2,188	2,133	2,133	2,133
Automated Underreporter Coverage	2.8%	2.6%	2.3%	2.3%	2.2%	2.0%	1.9%	1.9%
Collection Coverage (Units)	47.0%	45.9%	46.3%	43.4%	42.2%	37.5%	38.6%	36.0%
Collection Efficiency (Units)	2,057	2,051	2,448	2,266	2,135	2,117	2,101	2,029
Field Collection Nat'l Quality Review Score	81.4%	81.6%	79.2%	79.2%	76.7%	79.7%	78.0%	78.0%
Automated Collection System Accuracy	94.4%	95.2%	95.3%	95.4%	94.7%	95.0%	95.0%	95.0%
Criminal Investigations Completed	5,557	4,606	4,486	3,721	3,089	3,100	3,000	2,900
Number of Convictions	3,311	3,110	2,879	2,672	2,300	2,100	1,900	1,800
Conviction Rate	93.1%	93.4%	93.2%	92.1%	91.5%	92.0%	92.0%	92.0%
TE/GE Determination Case Closures	65,877	136,746	111,940	99,973	102,749	95,791	94,103	88,886
Rentable Square Feet per Person (new for FY 2017)					297	Indicator	Indicator	Indicator
Percent of Major IT Investments within +/- 10% Cost Variance at the Investment Level ³	0.0%	66.7%	73.7%	76.2%	50.0%	90.0%	90.0%	90.0%
Percent of Major IT Investments within +/- 10% Schedule Variance at the Investment Level ³	83.3%	100.0%	89.5%	85.7%	88.9%	90.0%	90.0%	90.0%

¹ Starting in FY 2017, the IRS modified the Customer Contacts Resolved per Staff Year (CCRPSY) and Enterprise Taxpayer Self-Assistance Rate measures to include additional self-service channels. As new self-assistance applications are provided to the public, they will be added to the methodology. IRS saw taxpayer behavior changes in 2017 due to the PATH Act (re: refund hold) and expect to see additional impacts in 2018 due to the tax reform; in addition, IRS continues to evaluate the impact of changes to the web services measure in FY 2017. CCRPSY will be rebaselined for FY 2018.

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 replaced the two previous LB&I quality measures - Examination Quality - Industry and Coordinated Industry.

³ Starting in FY 2015, the measure includes all major investments (BSM and non-BSM).

3.3 – IRS Performance Measure Table (Continued)

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.
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.
Enterprise Taxpayer Self Assistance Rate	The percentage of taxpayer assistance requests resolved using self-assisted automated services. IRS will use this as an indicator for FY 2017.
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.
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.
Rentable Square Feet per Person	The amount of Rentable Square Feet the IRS maintains per Personnel requiring space. IRS will use this as an indicator for FY 2017.
Percent of Major IT Investments within +/- 10% Cost Variance at the Investment Level	Number of major IT investments within +/-10 percent variance between planned total cost and projected/actual cost within a fiscal year divided by the total number of major IT investments in that fiscal year.
Percent of Major IT Investments within +/- 10% Schedule Variance at the Investment Level	Number of major IT investments within +/-10 percent variance between planned days and projected/actual days within a fiscal year divided by the total number of major IT investments in that fiscal year.

3.4 – Summary of FY 2017 Savings Realized

The IRS FY 2017 President’s Budget request of \$11.405 billion was built on the FY 2016 Enacted level of \$11.235 billion and included \$3.7 million and 72 FTE in reductions to the IRS FY 2016 base budget. However, the FY 2017 Enacted budget was \$11.235 billion.

Dollars in Millions	
Internal Revenue Service	
FY 2016 Enacted	\$11,235.0
Changes to Base:	
Maintaining Current Levels (MCLs)	\$170.4
Pay Raise	100
Pay Annualization	27
Non-Pay Inflation Adjustment	43.4
FY 2017 Current Services	\$11,405.4
FY 2017 Enacted	\$11,235.0
Current Services Shortfall	(\$170.4)

Increase e-File Savings

FY 2019 Projected Savings: (-\$6,695,000 / -128 FTE)

FY 2017 Actual Savings Realized: (-\$2,169,600/ -48 FTE)

The IRS realized savings of 48 FTE and \$2.17 million in FY 2017 as a result of increases in electronically filed returns. The numbers of paper returns received by the IRS decreased by 1 million from FY 2016 to FY 2017 while the number of electronically filed returns increased by 3.4 million over the same period.

Rent

FY 2019 Annualized Savings: (-\$9,703,414)

Rent is one of the IRS's largest organizational operating expenses. The IRS will complete 28 projects to release more than 567,986 rentable square feet of space from inventory for an annual rent savings of more than \$9.7 million.

Section IV – Appendix

4.1 – Appropriations Detail Table with Program Integrity Cap Adjustment

Dollars in thousands

Internal Revenue Service Appropriated Resources	FY 2017 Enacted ¹		FY 2018 Annualized CR ²		FY 2019 Request ³		Change FY 2018 to FY 2019 Request		% Change FY 2018 to FY 2019 Request	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Taxpayer Services	28,692	\$ 2,455,754	26,977	\$ 2,349,688	24,668	\$ 2,241,000	(2,309)	(\$ 108,688)	-8.56%	-4.63%
Pre-Filing Taxpayer Assistance and Education	4,700	607,043	4,451	603,424	4,460	607,753	9	4,329	0.20%	0.72%
Filing and Account Services	23,992	1,848,711	22,526	1,746,264	20,208	1,633,247	(2,318)	(113,017)	-10.29%	-6.47%
Enforcement	36,550	\$ 4,640,000	34,662	\$ 4,606,996	36,157	\$ 4,832,847	1,495	\$ 225,851	4.31%	4.90%
Investigations	3,079	595,206	2,913	576,802	3,093	631,596	180	54,794	6.18%	9.50%
Exam and Collections	32,602	3,914,546	30,811	3,874,918	32,107	4,042,437	1,296	167,519	4.21%	4.32%
Regulatory	869	130,248	938	155,276	957	158,814	19	3,538	2.03%	2.28%
Operations Support	10,835	\$ 3,849,246	10,813	\$ 3,913,988	11,155	\$ 4,312,724	342	\$ 398,736	3.16%	10.19%
Infrastructure		869,732		847,444		886,032		38,588		4.55%
Shared Services and Support	4,777	991,504	4,588	994,559	4,706	1,035,568	118	41,009	2.57%	4.12%
Information Services	6,058	1,988,010	6,225	2,071,985	6,449	2,391,124	224	311,139	3.60%	15.40%
Business Systems Modernization	557	\$ 290,000	516	\$ 288,031	516	\$ 110,000		(\$ 178,031)		-61.81%
Subtotal New Appropriated Resources	76,634	\$ 11,235,000	72,968	\$ 11,158,703	72,496	\$ 11,496,571	(472)	\$ 337,868	-0.65%	3.03%
Other Resources:										
Reimbursables	853	152,161	1,033	173,557	552	113,535	(481)	(60,022)	-46.56%	-34.58%
Offsetting Collections - Non Reimbursables		16,407		16,407		17,227		820		5.00%
User Fees	161	241,485	75	499,100	71	498,900	(4)	(200)	-5.33%	-0.04%
Recovery from Prior Years		2,497		18,351		17,549		(802)		-4.37%
Unobligated Balances from Prior Years	36	297,310	827	351,715		341,709	(827)	(10,006)	-100.00%	-2.84%
Transfers In/Out		17								
Resources from Other Accounts	1		1		1					
Subtotal Other Resources	1,051	\$ 709,877	1,936	\$ 1,059,130	624	\$ 988,920	(1,312)	(\$ 70,210)	-67.77%	-6.63%
Total Budgetary Resources	77,685	\$ 11,944,877	74,904	\$ 12,217,833	73,120	\$ 12,485,491	(1,784)	\$ 267,658	-2.38%	2.19%

¹FY 2017 Enacted reflects levels appropriated in H.R. 255, the Consolidated Appropriations Act of 2017. For further details on the execution of these resources, see the 2019 Budget Appendix chapter for the Department of the Treasury. Includes \$220 million interappropriation transfer from Enforcement to Taxpayer Services (\$90 million) and Operations Support (\$130 million). FY 2017 Enacted also includes \$290 million in Section 113 Administrative Provision funding allocated in the following amounts: \$209.2 million in Taxpayer Services and \$80.8 million in Operations Support. FY 2017 full-time equivalent (FTE) are actuals and reconcile to the final FY 2017 Obligations and Expenses report, which included the 36 FTE funded from prior year balances shown in the table above. Other Resources are actuals. Resources from Other Accounts include other direct FTE funded by the Federal Highway Administration.

²FY 2018 Annualized Continuing Resolution (CR) reflects a rescission of 0.6791 percent applied to the FY 2017 Enacted levels. FY 2018 Annualized CR also includes a notional \$220 million interappropriation transfer from Enforcement to Operations Support to cover anticipated operations and maintenance requirements in FY 2018. The IRS will submit a formal transfer to request to Congress as part of the IRS FY 2018 Operating Plan upon enactment of a final appropriations bill. FY 2018 Annualized CR includes \$288 million in Section 113 Administrative Provision funding in the following amounts: \$208 million in Taxpayer Services and \$80 million in Operations Support. FY 2018 Annualized CR does not include resources to implement new requirements under the Tax Cuts and Jobs Act (Public Law 115-97).

Program Integrity Cap Adjustment

In addition to the base appropriations request of \$11.135 billion, the FY 2019 Budget proposes a \$362 million cap adjustment to fund new and continuing investments in expanding and improving the effectiveness and efficiency of the IRS's overall tax enforcement program. The proposed FY 2019 enforcement investments will yield additional revenue. The Budget also proposes additional cap adjustments for new investments each year through FY 2023 that are sustained with additional adjustments through FY 2028 to account for economic factors, such as inflation. The investments will generate about \$44 billion in additional revenue over 10 years and will cost about \$15 billion for an estimated net savings of \$29 billion. Notably, the return on investment (ROI) likely is understated because it includes only amounts directly recovered; it does not reflect the effect that enhanced enforcement has on deterring non-compliance.

IRS FY 2019 Program Integrity Cap Adjustment for Deficit Reduction

Description	FY 2019 -										
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2028
Base	\$8,784	\$8,874	\$8,966	\$9,058	\$9,151	\$9,246	\$9,341	\$9,437	\$9,534	\$9,632	\$92,023
Cap	\$362	\$749	\$1,098	\$1,450	\$1,806	\$1,893	\$1,895	\$1,904	\$1,913	\$1,922	\$14,990
Total	\$9,146	\$9,623	\$10,064	\$10,508	\$10,957	\$11,138	\$11,236	\$11,341	\$11,447	\$11,554	\$107,013
Revenues	\$152	\$787	\$1,825	\$3,033	\$4,330	\$5,554	\$6,416	\$6,931	\$7,270	\$7,505	\$43,804
Net Savings	(\$209)	\$38	\$727	\$1,583	\$2,525	\$3,661	\$4,521	\$5,027	\$5,358	\$5,583	\$28,814

Return on Investment (ROI) for FY 2019 Enforcement Investments

Enforcement efforts increase revenue by encouraging voluntary compliance for taxpayers who would otherwise seek to avoid meeting their tax obligations under the law. The IRS calculates a return on investment for both revenue generating and revenue protecting investments. Revenue generated is from compliance efforts that yield direct, measurable results through enforcement activities such as examination and collection returns. Protected revenue is revenue the IRS protects from being refunded erroneously. It is associated with activities that occur before issuing a taxpayer's refund, including the identification of fraud and questionable returns.

FY 2019 Revenue Generating Investments

The FY 2019 budget includes \$290.1 million in investments for traditional enforcement and strategic revenue programs, which are projected to generate \$2 billion in revenue once the investments reach full potential in FY 2021 with an expected total ROI of \$5.2 to \$1. This request includes \$111.8 million to support strategic revenue producing investments, including improving identity assurance and strengthening the Return Review Program, among other initiatives. While the strategic revenue producing investments do not have an immediately measurable ROI, they have clear long-term positive revenue effects.

Return on Investment (ROI) for IRS FY 2019 Enforcement Initiatives

Dollars in Millions

	First Year (FY 2019)			Second Year (FY 2020)			Full Performance (FY 2021)		
	Cost	Revenue	ROI	Cost	Revenue	ROI	Cost	Revenue	ROI
FY 2019 Revenue Producing Enforcement Initiatives	\$290.1	\$345.2	1.2	\$389.5	\$1,492.0	3.8	\$382.8	\$2,005.3	5.2
Before Cap Adjustment Enforcement Initiative	\$18.0	\$0.0	0.0	\$14.0	\$0.0	0.0	\$13.7	\$0.0	0.0
Increase Audit Coverage	2.9	0.0	0.0	2.9	0.0	0.0	2.8	0.0	0.0
Increase Collection Coverage	1.7	0.0	0.0	2.0	0.0	0.0	1.9	0.0	0.0
Improve Identity Assurance	13.4	0.0	0.0	9.1	0.0	0.0	9.0	0.0	0.0
Cap Adjustment Enforcement Initiatives	\$290.1	\$345.2	1.2	\$389.5	\$1,492.0	3.8	\$382.8	\$2,005.3	5.2
Immediate and Directly Measurable Revenue-Producing Initiatives	\$178.3	\$345.2	1.9	\$257.7	\$1,492.0	5.8	\$252.0	\$2,005.3	8.0
Increase Collection Coverage	64.0	98.8	1.5	91.9	595.5	6.5	90.5	756.6	8.4
Increase Audit Coverage	114.3	246.4	2.2	165.8	896.5	5.4	161.5	1,248.7	7.7
Strategic Revenue-Producing Initiatives (which do not have immediately measurable ROI, but clear long-term revenue effects)	\$111.8	\$0.0	0.0	\$131.8	\$0.0	0.0	\$130.8	\$0.0	0.0
Improve Identity Assurance	29.6	0.0	0.0	33.5	0.0	0.0	33.6	0.0	0.0
Return Review Program	54.2	0.0	0.0	61.8	0.0	0.0	61.8	0.0	0.0
Tax Return Preparer Compliance and Professional Responsibility Activities	17.2	0.0	0.0	23.3	0.0	0.0	22.4	0.0	0.0
Expand CI for Cyber, Counterterrorism, and ID Theft Investigations	8.5	0.0	0.0	9.2	0.0	0.0	9.0	0.0	0.0
Prevent IDT & Refund Fraud and Reduce Improper Payments	2.3	0.0	0.0	4.0	0.0	0.0	4.0	0.0	0.0

FY 2019 Revenue Protecting Investments

The benefits of IRS activities that prevent erroneous refunds are not captured in IRS's ROI calculations above. However, the IRS estimates that investment in these activities should protect \$1.1 billion in revenue that otherwise would have been recovered from downstream enforcement actions for an estimated ROI of \$13.7 to \$1 by FY 2021. These investments also

support IRS’s Agency Priority Goal on Fraud Prevention, which is part of the *FY 2018-2022 Treasury Strategic Plan* to reduce the amount of unprotected identity theft tax refunds paid by two percent by December 21, 2019.

FY 2019 Revenue-Protecting Enforcement Initiatives

Dollars in Millions									
	First Year (FY 2019)			Second Year (FY 2020)			Full Performance (FY 2021)		
	Cost	Revenue	ROI	Cost	Revenue	ROI	Cost	Revenue	ROI
Revenue Protecting Initiatives <i>(which protect taxpayer information, prevents identity theft, and results in long-term revenue protection)</i>	\$71.6	\$362.9	5.1	\$82.8	\$775.0	9.4	\$80.8	\$1,103.8	13.7
Cap Adjustment Revenue Protecting Initiative	\$71.6	\$362.9	5.1	\$82.8	\$775.0	9.4	\$80.8	\$1,103.8	13.7
Increase Audit Coverage (revenue-protecting portion)	17.9	56.0	3.1	27.3	405.0	14.8	27.2	675.0	24.8
Prevent IDT & Refund Fraud and Reduce Improper Payments (revenue-protecting portion)	53.7	306.9	5.7	55.5	370.0	6.7	53.6	428.8	8.0

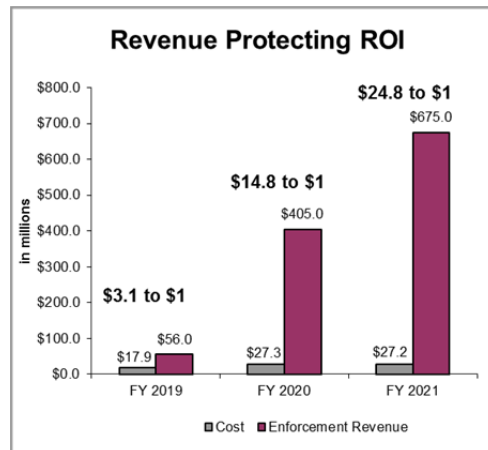
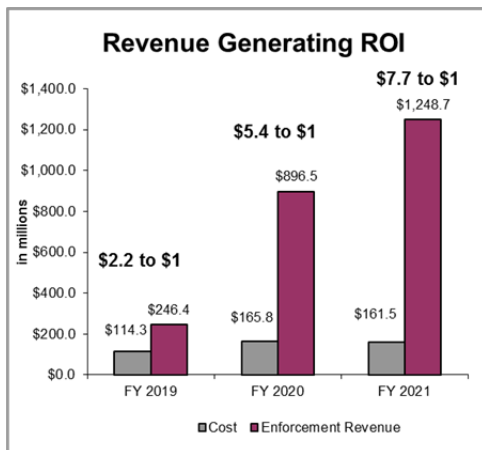
Cap Adjustment Program Increases.....+\$361,571,000 / +1,691 FTE

Increase Audit Coverage +\$132,201,000 / +940 FTE

The IRS is requesting additional examination employees to increase staffing. The individual audit coverage rate has shrunk from 1.1 percent in FY 2010 to an estimated target of 0.6 percent in FY 2019, which increases the risk of undermining the integrity of the nation’s voluntary tax compliance system. Examination program resources will cover a broad range of compliance priorities and move towards achieving the goal of earlier case assignment and resolution. The investment is projected to produce more than \$1.2 billion in additional revenue annually and an ROI estimated at 7.7 to 1, and protect revenue of \$675 million, a protected ROI of 24.8 to 1, once the new hires reach full potential in FY 2021. These resources will help to:

Position Type/Other Costs	FTE	\$ 000
Examination Coverage	290.50	\$51,004
Revenue Agent	196.00	37,355
Tax Technician	78.00	12,402
Manager/Support Staff	16.50	1,247
Specialty Programs	209.00	\$26,603
Revenue Agent	34.50	7,373
Tax Technician	1.00	90
Tax Examiner	147.50	15,541
Attorney	3.50	691
Support Staff	22.50	2,908
Correspondence Examination	65.00	\$6,084
Tax Technician	1.50	233
Tax Examiner	50.50	4,832
Manager/Support Staff	13.00	1,019
Document Matching	161.00	\$16,794
Tax Examiner	143.50	15,100
Support Staff	17.50	1,694
Other Direct Costs	215.00	\$31,716
Revenue Agent	25.00	4,057
Tax Examiner	18.00	1,953
Appeals Officer	40.00	6,816
Attorney	29.50	5,344
Paralegal	4.00	508
Contact Representative		330
TAS Specialist		96
HR Specialist	83.00	10,431
Manager/Program Analyst/Support Staff	15.50	1,911
Analyst - Seasonal		270
Total	940.50	\$132,201

- Close more than 41,000 correspondence examination cases and 38,000 individual field examination cases;
- Improve the individual audit coverage rate, and expand examination coverage on cases involving employment taxes, estate and gift taxes, and Bank Secrecy Act reporting; and
- Expand the Automated Underreported (AUR) program to process more than 470,000 additional cases and other document matching programs that will process an additional 133,000 cases (document matching of individuals decreased 36 percent from FY 2011 to FY 2017).



Major Activities	Projected Revenue (\$M)	Projected Closures
Field Examination	228.9	32,272
Specialty Programs	37.1	6,545
Correspondence Examination	216.0	41,860
AUR	541.6	471,393
BMF Underreporter/Document Matching	225.1	133,785
Total	\$ 1,248.7	685,855

Increase Audit Coverage – Other Direct Costs (+\$31.7 million / +215 FTE, included in total for Increase Audit Coverage above)

Dollars in thousands

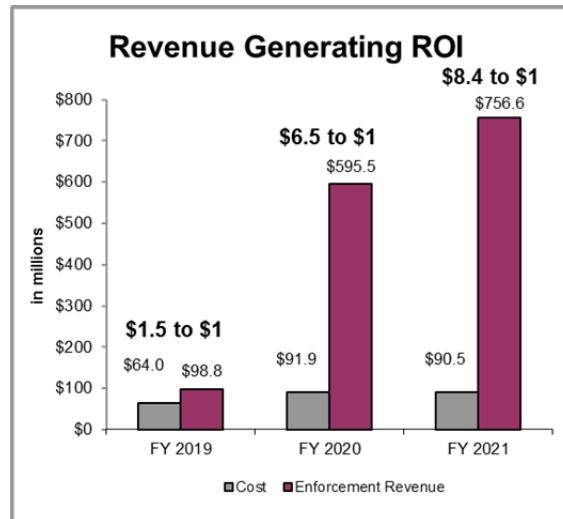
IRS Activity	Cost	FTE Positions	Explanation
Appeals	\$12,827	83.00	166 Support examination efforts on key compliance areas focused on improving voluntary compliance and providing a high level of customer service.
Chief Counsel	\$6,692	41.50	83 Provide support for increases in requests for legal advice, litigation assistance, and published guidance on issues raised in audits.
Human Capital Office	\$10,430	83.00	83 LR support to handle the increase in front-line positions and the expectation that new managerial positions will be created. Employment bargaining unit positions require internal and external postings that involve various assessments and work processes. Personnel Security FTE handle background and suitability checks.
SB/SE Human Capital Office	\$762	4.00	8 Hiring positions support the onboarding of new hires. Training positions focus on developing and updating course material and delivering effective training.
Privacy, Governmental Liaison and Disclosure	\$292	3.50	7 Address the increase in Freedom of Information Act requests as result of increased compliance activity.
Taxpayer Advocate Service (TAS)	\$97		Ensure the IRS follows appropriate procedures and does not create unnecessary burdens or compromise taxpayers' rights.
WAGE -- Customer Service Representatives	\$618		Support examination efforts by ensuring staffing is available to handle downstream impact in accounts management operations.
Total	\$31,716	215.00	347

Increase Collection Coverage +\$63,932,000 / +433 FTE

The IRS is requesting additional resources to improve its capacity to work the collection inventory and answer taxpayer phone calls about that inventory. Increased staffing will address the overall collection coverage rate, which has declined 16 percent from FY 2010 to FY 2017. This investment is expected to produce additional annual enforcement revenue of \$756.6 million, an ROI of \$8.4 to \$1, once the new hires reach full potential in FY 2021. These resources will help the IRS to:

Position Type/Other Costs	FTE	\$ 000
Field Collection	172.50	\$30,929
Revenue Officer	172.50	30,929
ACS & ACS Support	113.00	\$12,161
Contact Representative	113.00	12,161
Correspondence Collection	32.00	\$2,738
Tax Examiner	21.50	1,800
Manager/Support Staff	10.50	938
Other Direct Costs	115.50	\$18,104
Appeals Officer	52.00	8,861
Tax Examiner	9.00	977
TAS Specialist		193
Attorney	12.50	2,300
Paralegal	2.00	254
Support Staff	4.00	425
HR Specialist	18.00	2,260
HR Support Staff	18.00	2,593
Contact Representative		135
Manager/Support Staff		16
Seasonal		90
Total	433.00	\$63,932

- Provide nearly 350 additional field collection staff to expand programs that address non-filing and underpayment of taxes and to handle more than 60,000 additional collection cases with an estimate of \$43.4 billion in aggregate assessed balance;
- Provide more than 220 additional Automated Collection System (ACS) staff to address additional 358,000 ACS cases, including incoming calls generated by the issuance of levies, delinquent returns, and/or unpaid tax liabilities. ACS staffing has decreased by 25 percent since the end of FY 2010, resulting in a substantial increase in unhandled ACS cases and a decreased level of service to taxpayers; and
- Expand several Compliance Services Collection Operations (CSCO) programs that address non-filing and underpayment of taxes through the notice process by sending more than 350,000 notice dispositions and cases. CSCO investments will increase balance due work and expand the following programs: Automated Substitute for Return, Offers in Compromise, and Insolvency.



Major Activities	Projected Revenue (\$M)	Projected Closures
Field Collection	330.6	63,470
Automated Collection System	405.6	358,658
Offers In Compromise	5.2	3,510
Compliance Services Collection Operation	15.2	65,919
Total	\$756.6	491,557

Increase Collection Coverage - Other Direct Costs (+\$18.1 million / +115.5 FTE)

Dollars in thousands

IRS Activity	Cost	FTE Positions	Explanation
Appeals	\$9,837	61.00	122 Support collection efforts and provide a high level of customer service on key compliance areas, particularly the Trust Fund Recovery Penalty and Collection Due Process workstreams.
Chief Counsel	\$2,980	18.50	37 Provide support for increases in requests for legal advice, litigation assistance, and collection due process.
Human Capital Office	\$3,900	31.00	31 LR support to handle the increase in front-line positions and the expectation that new managerial positions will be created. Employment bargaining unit positions require internal and external postings that involve various assessments and work processes. Personnel Security FTE handle background and suitability checks.
SB/SE Human Capital Office	\$952	5.00	10 Hiring positions support the onboarding of new hires. Training positions focus on developing and updating course material and delivering effective training.
Taxpayer Advocate Service (TAS)	\$193		Ensure the IRS follows appropriate procedures and does not create unnecessary burdens or compromise taxpayers' rights.
WAGE -- Customer Service Representatives	\$242		Support collection efforts by ensuring staffing is available to handle downstream impact in accounts management operations.
Total	\$18,104	115.50	200

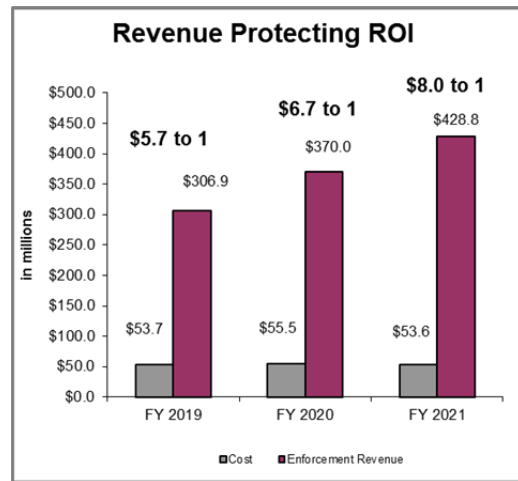
Prevent Identity Theft & Refund & Reduce Improper Payments +\$56,017,000 / +140 FTE

Resources from this investment provide the means to fulfill IRS agreements with state and industry partners, and to analyze and act on potentially millions of additional tax fraud leads in real time, thereby stopping millions of fraudulent refunds. New staff will conduct case reviews to validate potential areas of abuse and test procedures to prevent refund fraud. These resources will allow the IRS to protect revenue by identifying potentially false returns and verifying as-reported wage and withholding accuracy. This investment is expected to protect \$428.8 million of revenue, a projected ROI of \$8.0 to \$1, once the new hires reach full potential in FY 2021.

Position Type/Other Costs	FTE	\$ 000
Identity Theft	43.50	\$24,619
Special Agent	32.00	13,510
Analyst/Support Staff	8.50	845
IT Specialist	3.00	316
Contractual Services		9,948
Security Summit	42.50	\$14,572
Special Agent	32.00	13,510
Analyst/Support Staff	7.50	746
IT Specialist	3.00	316
Pursue Employment Tax & Prevent Abusive Tax Schemes	42.00	\$14,523
Special Agent	32.00	13,510
Analyst/Support Staff	7.00	697
IT Specialist	3.00	316
Other Direct Costs	12.00	\$2,303
Attorney	9.50	2,060
Support Staff	2.50	243
Total	140.00	\$56,017

This investment provides staff ways to analyze more than 41 additional data points from returns filed by industry partners to enhance the determination of accurate indicators of identity theft. Additional leads also will be received and verified from financial institutions and state departments of revenue. The IRS will apply the new information to current year returns and future year filters/models.

This investment will help to stop problems from becoming a source of criminal activity and lost revenue. In addition, the investment includes contractor support that will identify classes of fraud cases, defining how they vary across the fraud actor communities; facilitate sharing anonymized data for analysis and identification of fraud classes; monitor tax fraud communication on the deep web to increase awareness of criminal activity; examine the fraud lifecycle to identify steps that non-compliant taxpayers take and the ways the IRS can defend against each step; determine how to build effective prevention and defense early in the lifecycle; develop machine-ingestible common vocabulary for fraud intelligence that allows non-compliant characteristics and techniques to be efficiently shared; validate fraud prevention mechanisms to assess their effectiveness; and maintain and share current contact information with all partners.



Prevent Identity Theft & Refund & Reduce Improper Payments - Other Direct Costs (+\$2.3 million / +12 FTE)

Dollars in thousands

IRS Activity	Cost	FTE Positions	Explanation
Chief Counsel	\$2,303	12.00	24 Provide support for increases in requests for legal advice, litigation assistance, and collection due process.
Total	\$2,303	12.00	24

Improve Identity Assurance +\$29,586,000/ +21 FTE

This investment will increase security, usability, and analytics for identity assurance—the process of authenticating, authorizing, and accessing taxpayer-facing online services. As the Federal Government strives to deliver services online, it increases the need to safeguard electronic transactions involving such information. Both the electronic system and the user need assurance that the user’s identity can be confirmed: the system needs to know that the user is authorized to exchange the information, which in turn allows the user to have confidence that the system will not release sensitive information to unauthorized users. This confirmation of user identity is known as authentication.

Position Type/Other Costs	FTE	\$ 000
Taxpayer Authentication Assistance		\$1,343
Manager/Analyst/Support Staff		501
Manager - Seasonal		56
Analyst - Seasonal		786
E-Authentication	21.00	\$4,243
Program Analyst		312
IT Specialist	21.00	3,931
Reform Plan		\$24,000
Hardware & Software		3,360
Contractual Services		20,640
Total	21.00	\$29,586

This investment will also include support for the e-Authentication Help Desk that will assist taxpayers with establishing or accessing their online accounts, and will enable the IRS to pursue new technologies for identity proofing and authentication and will decrease the time and effort required to resolve account issues.

This investment will help taxpayers create a Secure Access account and shift them to less expensive online self-service channels. The new e-Authentication capabilities will enable more taxpayers to use IRS applications. The ongoing application and monitoring enhancements will improve security and the overall user experience. Funds will provide for transaction costs, design and development support and tool integration, expansion of additional use cases and business reengineering, and developing prototypes for key tax pro account features.

Tax Return Preparer Compliance and Program Responsibility +\$17,152,000 / +75 FTE

This investment 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 preparers engaged in fraudulent activities, including noncompliant Earned Income Tax Credit (EITC) return preparers. This investment also provides resources for the IRS’s Office of Professional Responsibility (OPR) to conduct oversight of return preparers who represent taxpayers and who are subject to Circular 230, *Regulations Governing Practice Before the Internal Revenue Service (C230)*. This investment is critical 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.

Position Type/Other Costs	FTE	\$ 000
Enforce Tax Return Preparer Compliance	39.50	\$6,825
Revenue Agent	30.00	5,694
Revenue Officer	1.00	179
Attorney	0.50	74
Tax Examiner	3.00	287
Tax Technician	2.00	318
Analyst/Support Staff	3.00	273
Pursue Tax Return Preparer Fraudulent Activity	17.00	\$6,764
Special Agent	12.00	5,067
Analyst/Support Staff	5.00	497
Contractual Services		1,200
Tax Debt Resolution	1.00	\$168
Attorney	0.50	103
Paralegal	0.50	65
Ensure Ethnical Standards of Conduct Practitioners	17.50	\$3,096
Attorney	5.00	1,030
Paralegal	2.50	325
Support Staff	10.00	1,741
Technology Enhancements	0.00	\$299
Contractual Services		299
Total	75.00	\$17,152

Key activities and deliverables of this investment 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

Tax Return Preparer Compliance and Program Responsibility – Enforce Tax Return Preparer Compliance (+\$6.8 million / +39.50 FTE)

Given the important role that tax return preparers play in 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 manage 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 return 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 assess penalties.

The Administration is also proposing enhanced authority to oversee paid preparers.

Tax Return Preparer Compliance and Program Responsibility – Pursue Tax Return Preparer Fraudulent Activity (+\$6.8 million / +17 FTE)

These funds provide resources for CI to form multi-agency taskforces dedicated to preventing fraudulently obtained refunds from financing and supporting criminal activity. Special agents will conduct outreach efforts with the practitioner community to educate them on their legal responsibilities and will develop leads on unscrupulous return preparers. CI will work 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 criminal rings for maximum compliance results and publicity.

Tax Return Preparer Compliance and Program Responsibility – Tax Debt Resolution (+\$0.2 million / +1 FTE)

These funds provide resources to fund one attorney and paralegal to address the deceptive and misleading practices suspected in the tax debt resolution industry.

Tax Return Preparer Compliance and Program Responsibility – Ensure Ethical Standards of Conduct for Practitioners (+\$3.1 million / +17.50 FTE)

The population of those subject to the ethical standards contained in C230 is expanding to include unlicensed tax return preparers who represent taxpayers in disputes involving returns and claims for refund that 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 a focus on a practitioner's own tax non-compliance to a focus on complex practitioner conduct that 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.

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. We also have observed that, in the wake of the recent *Loving v. Commissioner* decisions, the tax community has become more likely to push proceedings into litigation rather than to 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.

Tax Return Preparer Compliance and Program Responsibility – Technology Expansion (+\$0.3 million / 0 FTE)

- 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. 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.

Tax Return Preparer Compliance and Program Responsibility – Video Conference Capability

To reduce travel costs and enhance the ability to provide due process remotely, OPR is seeking resources for a video conferencing capability to conduct mandatory disciplinary conferences.

Expand Cyber and Counterterrorism Investigative Activities +\$8,500,000 / +25 FTE

Funding for this investment will strengthen cybercrimes and counterterrorism by enhancing several areas, including:

Position Type/Other Costs	FTE	\$ 000
Expand Cyber and Counterterrorism Investigative Activities	25.00	\$8,500
Special Agent	12.00	5,066
Analyst	11.00	1,094
IT Specialist	2.00	343
Contractual Services		1,997
Total	25.00	\$8,500

- Supplementing Special Agent and Investigative Support resources to combat cyber-criminals that exploit stolen taxpayer Personally Identifiable Information (PII) obtained through sophisticated data breaches and intrusions.
- Allowing for increased participation in multi-agency cyber and counterterrorism taskforces to target large-scale crime rings to maximize compliance.
- Expanding criminal investigations through analysis of rich data from Suspicious Activity Reports (SARs).
- Funding the build-out of CI's cybersecurity and cybercrime divisions.
- Identifying geographically driven issues.

This request funds contractor support that will:

- Identify classes of fraud use cases, defining how they vary across the fraud actor community;
- Facilitate sharing anonymized data for analysis and identification of fraud classes; monitor tax fraud communication on the deep web to increase awareness of criminal activity focused on undermining protection barriers and fraud filters;
- Examine the fraud lifecycle to identify steps that non-compliant taxpayers take and the ways CI can defend against each step;
- Determine how to build effective prevention and defense early in the fraud lifecycle;
- Develop machine ingestible common vocabulary for fraud intelligence that allows non-compliant characteristics and techniques to be shared efficiently in a timely way;
- Validate fraud prevention mechanisms to assess their effectiveness; and
- Maintain and share current contact information with all partners.

Return Review Program +\$54,183,000 / +57 FTE

This investment provides funding for 57 FTE, hardware, software, and contractual services for deployed Return Review applications. RRP deployed an Integrated Data Warehouse, In-Line Screening engine, and Offline Prevention

Position Type/Other Costs	FTE	\$ 000
Return Review Program Operations and Maintenance	57.00	\$54,183
IT Specialist	57.00	10,331
Software & Hardware		13,671
Contractual Services		30,181
Total	57.00	\$54,183

environment that enhanced the IRS's ability to detect, resolve, and prevent criminal fraud and civil tax non-compliance. Since October 2016, the RRP has been the IRS's primary system for detecting tax return fraud and other anomalies in tax filings, with the current focus being on individual tax return data. Since the start of Filing Season 2015, the RRP has protected over \$6.51 billion of revenue in confirmed fraud, with a return on investment of more than 1,500 percent.

Funding will allow the IRS to provide support for the deployed capabilities by:

- Enhancing applications, data modeling and mining, database development, business rules development, infrastructure support, performance engineering and testing, and application testing;
- Supporting annual hardware maintenance fees and purchases to refresh computers, network equipment, and storage;
- Updating and maintaining the system software, including operating systems, database, data integration, and utility software; and
- Updating rules engines and data analytics.

4.2 – Summary of IRS FY 2019 Identity Theft Budget Request

Bureau: Internal Revenue Service Summary of FY 2019 Identity Theft Request	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT		BSM		TOTAL	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
FY 2018 Annualized CR Level ¹	\$185,580	2,696	\$282,779	2,694	\$58,848	44	\$15,689		\$542,896	5,434
Changes to Base:										
Maintaining Current Levels (MCLs)	\$4,593		\$6,999		\$1,456				\$13,048	
Pay Annualization	882		1,343		280				2,504	
Non-Pay Inflation Adjustment	3,712		5,656		1,177				10,544	
Subtotal FY 2019 Changes to Base	\$4,593		\$6,999		\$1,456				\$13,048	
FY 2019 Current Services	\$190,173	2,696	\$289,778	2,694	\$60,304	44	\$15,689		\$555,944	5,434
Program Changes:										
Before Cap Adjustment Program Increases										
Stabilize, Secure and Transform IT Operations					24,300	21			24,300	21
Identity Assurance - e-Authentication Enhancements and Authorization Integration					24,300	21			24,300	21
Support Taxpayer Services and Online Account Activities	5,449	60							5,449	60
Subtotal FY 2019 Program Increases Before Cap Adjustment	\$5,449	60			\$24,300	21			\$29,749	81
FY 2019 Request Before Cap Adjustment	\$195,622	2,756	\$289,778	2,694	\$84,604	65	\$15,689		\$585,693	5,515
Cap Adjustment Program Increases										
Prevent Identity Theft & Refund Fraud & Reduce Improper Pymts			47,495	140	8,522				56,017	140
Return Review Program					54,183	57			54,183	57
Subtotal FY 2019 Cap Adjustment Investments			\$47,495	140	\$62,705	57			\$110,200	197
Total FY 2019 Request Including Cap Adjustment	\$195,622	2,756	\$337,273	2,834	\$147,309	122	\$15,689		\$695,893	5,712
¹ The FY 2018 Annualized CR Level includes a proposed Interappropriation Transfer in the amount of \$220M from Enforcement to the Operations Support appropriation account										
Dollar/FTE Change FY 2019 Request over FY 2018 Annualized CR	\$10,042	60	\$54,494	140	\$88,461	78			\$152,997	278
Percent Change FY 2019 Request over FY 2018 Annualized CR	5.41%	2.23%	19.27%	5.20%	150.32%	177.27%			28.18%	5.12%

4.3 – Summary of IRS FY 2019 ACA Budget Request

Bureau: Internal Revenue Service Summary of FY 2019 ACA Request	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT ¹		TOTAL	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
FY 2018 Annualized CR Level	\$106,823	1,695	\$21,537	186	\$54,547	313	\$182,907	2,194
Changes to Base:								
Maintaining Current Levels (MCLs)	\$510		\$106		\$334		\$950	
Pay Annualization	509		103		249		861	
Non-Pay Inflation Adjustment	1		3		85		89	
Subtotal FY 2019 Changes to Base	\$510		\$106		\$334		\$950	
FY 2019 Current Services	\$107,333	1,695	\$21,643	186	\$54,881	313	\$183,857	2,194
Total FY 2019 Request	\$107,333	1,695	\$21,643	186	\$54,881	313	\$183,857	2,194
¹ FY 2018 Annualized CR Level excludes \$147 million in User Fees. The total with User Fees would be \$330 million.								
Dollar/FTE Change FY 2019 Request over FY 2018 Annualized CR	\$510		\$106		\$334		\$950	
Percent Change FY 2019 Request over FY 2018 Annualized CR	0.48%		0.49%		0.61%		0.52%	

4.4 – Summary of IRS FY 2019 Cyber Security Budget Request

Bureau: Internal Revenue Service Summary of FY 2019 Cyber Security Request	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT ¹		TOTAL	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
FY 2018 Annualized CR Level	\$10,978	12	\$10,837	58	\$227,756	444	\$249,571	514
Changes to Base:								
Maintaining Current Levels (MCLs)	\$272		\$268		\$5,637		\$6,177	
Pay Annualization	52		51		1,082		1,185	
Non-Pay Inflation Adjustment	220		217		4,555		4,991	
Subtotal FY 2019 Changes to Base	\$272		\$268		\$5,637		\$6,177	
FY 2019 Current Services	\$11,250	12	\$11,105	58	\$233,393	444	\$255,748	514
Program Changes:								
Before Cap Adjustment Program Increases								
Stabilize, Secure and Transform IT Operations					40,000	10	40,000	10
<i>Strengthen Cyber Security</i>					40,000	10	40,000	10
Support Taxpayer Services and Online Account Activities	7,953						7,953	
Subtotal FY 2019 Program Increases Before Cap Adjustment	\$7,953				\$40,000	10	\$47,953	10
FY 2019 Request Before Cap Adjustment	\$19,203	12	\$11,105	58	\$273,393	454	\$303,701	524
Cap Adjustment Program Increases								
Subtotal FY 2019 Cap Adjustment Investments								
Total FY 2019 Request Including Cap Adjustment	\$19,203	12	\$11,105	58	\$273,393	454	\$303,701	524

¹ FY 2018 Annualized CR Level in the amount of \$249,571 million excludes \$38.8 million in User Fees. The total including User Fees would be \$288,371 million.

Dollar/FTE Change FY 2019 Request over FY 2018 Annualized CR	\$8,225		\$268		\$45,637	10	\$54,130	10
Percent Change FY 2019 Request over FY 2018 Annualized CR	74.92%		2.47%		20.04%	2.25%	21.69%	1.95%

4.5 – Summary of IRS FY 2019 Request

Bureau: Internal Revenue Service Summary of FY 2019 CJ Request	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT		BSM		TOTAL	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
FY 2018 Annualized CR Level¹	\$2,349,688	26,977	\$4,606,996	34,662	\$3,913,988	10,813	\$288,031	516	\$11,158,703	72,968
Changes to Base:										
Maintaining Current Levels (MCLs)	\$13,115		\$26,598		\$53,808		\$172		\$93,693	
Pay Annualization	9,697		21,035		7,823		172		38,727	
Non-Pay Inflation Adjustment	3,418		5,563		45,985				54,966	
Efficiency/Savings	(\$6,695)	(128)			(\$6,103)				(\$12,798)	(128)
Increase e-File Savings	(6,695)	(128)			(102)				(6,797)	(128)
Space Optimization					(6,001)				(6,001)	
Reinvestment					12,798				12,798	
Support Aging IT Infrastructure					12,798				12,798	
Subtotal FY 2019 Changes to Base	\$6,420	(128)	\$26,598		\$60,503		\$172		\$93,693	(128)
FY 2019 Current Services	\$2,356,108	26,849	\$4,633,594	34,662	\$3,974,491	10,813	\$288,203	516	\$11,252,396	72,840
Program Changes:										
Program Decreases										
Actions to Achieve Workforce Management Goals	(\$133,134)	(2,307)	(\$5,390)						(\$138,524)	(2,307)
Realignment from BSM to Operations Support							(\$178,203)		(\$178,203)	
Subtotal FY 2019 Program Decreases	(\$133,134)	(2,307)	(\$5,390)				(\$178,203)		(\$316,727)	(2,307)
Before Cap Adjustment Program Increases										
Stabilize, Secure and Transform IT Operations					181,305	146			181,305	146
Strengthen Cyber Security					40,000	10			40,000	10
Identity Assurance - e-Authentication Enhancements and Authorization Integration					24,300	21			24,300	21
Aging Technology Infrastructure					39,000				39,000	
Migration to Cloud Services					20,000				20,000	
Stabilize IT Operations					58,005	115			58,005	115
Support Taxpayer Services and Online Account Activities	18,026	126							18,026	126
Subtotal FY 2019 Program Increases Before Cap Adjustment	\$18,026	126			\$181,305	146			\$199,331	272
FY 2019 Request Before Cap Adjustment	\$2,241,000	24,668	\$4,628,204	34,662	\$4,155,796	10,959	\$110,000	516	\$11,135,000	70,805
Cap Adjustment Program Increases										
Increase Audit Coverage			91,240	854	40,961	86			132,201	940
Increase Collection Coverage			45,338	402	18,594	31			63,932	433
Prevent Identity Theft & Refund Fraud & Reduce Improper Pymts			47,495	140	8,522				56,017	140
Improve Identity Assurance					29,586	21			29,586	21
Tax Return Preparer Compliance and Pro. Responsibility Activities			12,999	75	4,153				17,152	75
Expand CI for Cyber and Counterterrorism Investigations			7,571	25	929				8,500	25
Return Review Program					54,183	57			54,183	57
Subtotal FY 2019 Cap Adjustment Investments			\$204,643	1,496	\$156,928	195			\$361,571	1,691
Total FY 2019 Request Including Cap Adjustment	\$2,241,000	24,668	\$4,832,847	36,158	\$4,312,724	11,154	\$110,000	516	\$11,496,571	72,496

¹See footnotes in 1.1 – Appropriations Detail Table