



# **INTERNAL REVENUE SERVICE FY 2012 BUDGET REQUEST**

## **CONGRESSIONAL BUDGET SUBMISSION**



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**February 14, 2011**



## Internal Revenue Service

### 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.*

### Program Summary by Appropriations Account

Dollars in Thousands

Appropriations Internal Revenue Service	FY 2010	FY 2011	Request	FY 2012	
	Enacted <sup>1</sup>	Annualized CR Level		\$ Change	%
Taxpayer Services	\$2,278,830	\$2,278,830	\$2,345,133	\$66,303	2.91%
Enforcement	5,504,000	5,504,000	5,966,619	462,619	8.41%
Operations Support	4,083,884	4,083,884	4,620,526	536,642	13.14%
Business Systems Modernization	263,897	263,897	333,600	69,703	26.41%
Health Insurance Tax Credit Administration	15,512	15,512	18,029	2,517	16.23%
<b>Total Appropriated Resources</b>	<b>\$12,146,123</b>	<b>\$12,146,123</b>	<b>\$13,283,907</b>	<b>\$1,137,784</b>	<b>9.37%</b>
Offsetting Collections - Reimbursable	\$137,758	\$137,279	\$138,272	993	0.72%
Mandatory Appropriation - User Fees	\$175,529	\$204,428	\$204,428		
<b>Total Program Operating Level</b>	<b>\$12,459,410</b>	<b>\$12,487,830</b>	<b>\$13,626,607</b>	<b>\$1,138,777</b>	<b>9.12%</b>
Direct FTE	94,766	94,766	99,878	5,112	5.39%
Reimbursable FTE	659	659	659		
User Fees FTE	93				
<b>Total FTE</b>	<b>95,518</b>	<b>95,425</b>	<b>100,537</b>	<b>5,112</b>	<b>5.36%</b>

<sup>1</sup> FY 2010 Enacted represents the approved FY 2010 Operating Plan.

### FY 2012 Priorities

The IRS collects the revenue that funds the government and administers the nation's tax laws. In FY 2010, the IRS collected \$2.345 trillion in taxes (gross receipts before tax refunds), 93 percent of federal government receipts. To protect the flow of revenue to the government, the IRS pursues a robust service and enforcement agenda. The service agenda supports and protects the trillions in revenue that come into the Treasury each year voluntarily from taxpayers. The enforcement agenda vigorously pursues those who evade their responsibility to pay the taxes they owe. The IRS collected \$57.6 billion in revenue in FY 2010, \$8.7 billion, or 18 percent, more than FY 2009. This increase in enforcement revenue demonstrates that the substantial investment in the IRS over the past two years is producing a significant return on investment.

In the FY 2012 request, the IRS seeks additional funding for:

- **Taxpayer Service** – Improve taxpayer service and the IRS.gov website;
- **Enforcement** – Implement legislative mandates, handle new information reporting requirements, increase compliance efforts to address offshore tax evasion, focus on corporate and high-wealth returns, increase examination and collection coverage, and enforce tax return preparer compliance;

- **Infrastructure** – Enhance employee security, develop disaster recovery systems capability, and develop the information technology, infrastructure, and systems to implement the various ACA provisions; and
- **Business Systems Modernization** – Continue migration of applications to CADE 2 and the expansion of Modernized e-File.

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## Section 1 – Purpose

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### 1A – Description of Bureau Vision and Priorities

The IRS Strategic Plan 2009-2013 guides program and budget decisions and supports the Department of the Treasury Strategic Plan and High Priority Performance Goals. The IRS Strategic Plan recognizes the increasing complexity of tax laws, changing business models, expanding use of electronic data and related security risks, accelerating growth in international tax activities, and growing human capital challenges.

The IRS Strategic Plan goals and objectives are:

<p style="text-align: center;"><b>IRS Strategic Goals</b></p> <p style="text-align: center;">Improve Service to Make Voluntary Compliance Easier</p> <p style="text-align: center;">Enforce the Law to Ensure Everyone Meets Their Obligation to Pay Taxes</p>
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To improve service to and make voluntary compliance easier, the IRS must:

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

To enforce the law to ensure everyone meets their obligation to pay taxes, the IRS must:

- Enforce the law proactively in a timely manner while respecting taxpayer rights and minimizing taxpayer burden;
- Expand enforcement approaches and tools;
- Meet the challenges of international tax administration;
- Allocate compliance resources using a data-driven approach to target existing and emerging high-risk areas;
- Continue focused oversight of the tax-exempt sector; and



- Ensure that all tax practitioners, tax preparers, and other third parties in the tax system adhere to professional standards and follow the law.

To achieve the service and enforcement goals, the IRS must:

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

### **Treasury High Priority Performance Goals**

The IRS budget request includes resources to achieve the following Treasury High Priority Performance Goals.

#### **Increase voluntary tax compliance**

- Make progress against the Tax Gap through improved service and enhanced enforcement of the tax laws:
  - Achieve 4.5 million document matching closures in FY 2012 (where IRS information does not match taxpayer reported information); and
  - Achieve 80 percent of individual taxpayers receiving refunds on a 5-day cycle in the new Customer Account Engine database in FY 2012.
- Assist Americans in voluntarily meeting their tax obligations:
  - Achieve individual income tax filers' American Customer Satisfaction Index score of 70 percent; and
  - Improve telephone level of service to 80 percent by the end of FY 2012.

#### **Significantly increase the number of paperless transactions with the public**

- Achieve individual e-File rate of 76 percent and report performance.

## **FY 2012 Budget Request**

The IRS FY 2012 President's Budget request is \$13,283.9 million, \$1,137.8 million, 9.37 percent, more than the FY 2010 enacted level.

<b>Appropriation Account</b>	<b>(\$ in Millions)</b>
Taxpayer Services	\$2,345.1
Enforcement	5,966.6
Operations Support	4,620.6
Business Systems Modernization	333.6
Health Insurance Tax Credit Administration	<u>18.0</u>
<b>Total Appropriated Resources</b>	<b>\$13,283.9</b>

The \$1,137.8 million increase consists of:

- +\$299.0 million for changes to the base:
  - +\$401.7 million adjustment to reach the FY 2011 President's policy level;
  - +\$85.7 million to fund the non-pay inflation adjustment and retirement contribution;
  - -\$189.9 million for efficiency savings and non-recur activities; and
  - +\$1.5 million for a submission processing consolidation reinvestment.
- +\$838.8 million for program changes:
  - +\$114.3 million to improve taxpayer service and the IRS.gov website;
  - +\$605.7 million to implement legislative mandates, handle new information reporting requirements; increase compliance efforts to address offshore tax evasion, focus on corporate and high-wealth returns, increase examination and collection coverage, enforce tax return preparer compliance, and address workload growth in Appeals and Counsel; and
  - +\$118.8 million to enhance employee security, develop disaster recovery systems capability, and develop the information technology, infrastructure, and systems to implement the various Affordable Care Act (ACA) provisions.

## **Reducing the Tax Gap**

Recent investments in IRS enforcement programs have yielded significant increases in enforcement revenue. Enforcement revenue was \$57.6 billion in FY 2010 for a total IRS-wide return on investment (ROI) of 4.7 to 1. The return on investment estimate does not include the revenue effect of the deterrence value of these investments and other IRS enforcement programs, which is conservatively estimated to be at least three times the direct revenue impact.

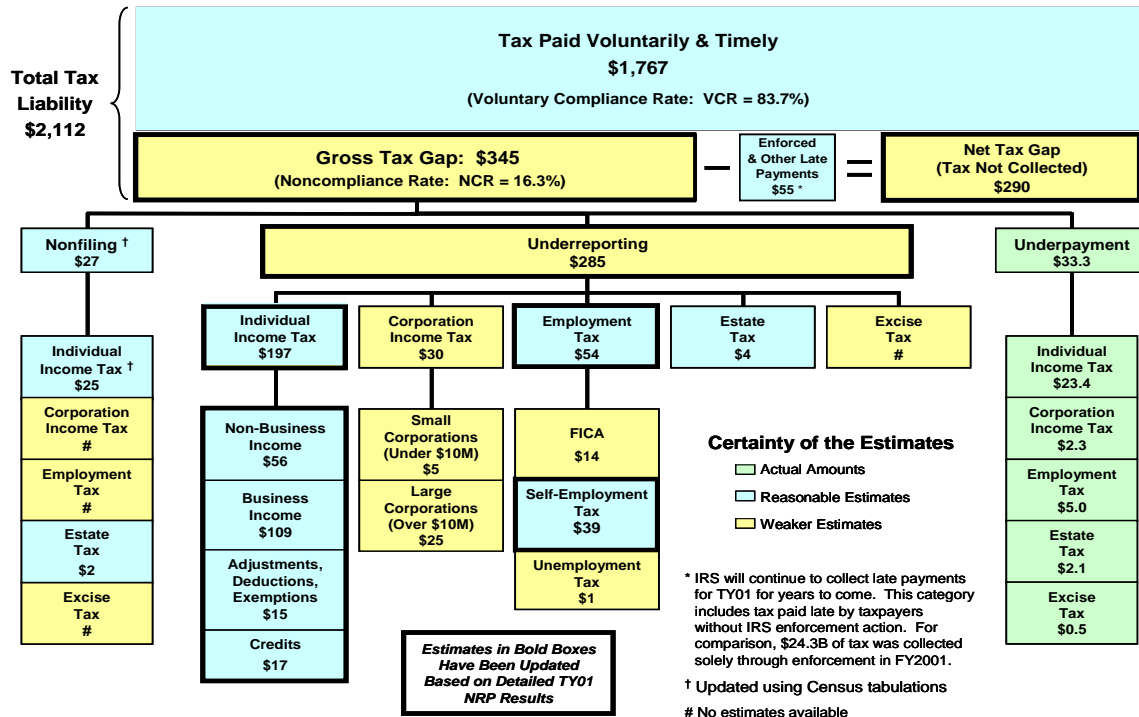
In 2006, the IRS released updated results of its first study in two decades of the difference between taxes owed and taxes actually paid on a timely basis – the “tax gap.” The IRS estimated that taxpayers initially underpaid by \$345 billion in 2001 (see *Tax Gap Map for Tax Year 2001*, below). This equates to a voluntary compliance rate of almost 84 percent. Late payments and IRS enforcement action reduced this to a net tax gap of \$290 billion.

As a result of an increase in funding included in the IRS FY 2009 budget, the Department of the Treasury and the IRS have initiated intensive efforts to update the estimate of the tax gap on an ongoing basis, which will permit more regular and effective assessments. Starting in 2011, ongoing updates of the tax gap estimate will form the basis for assessing progress towards that goal on a regular basis.

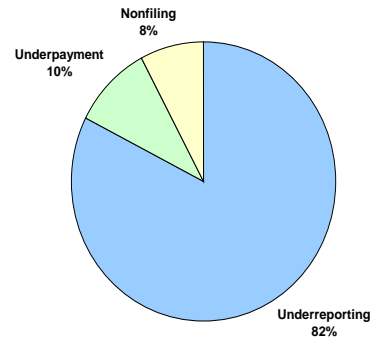
The three components of the tax gap are:

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

### TAX GAP MAP for Tax Year 2001 (in \$ Billions)



Underreporting tax liability (\$285 billion) comprises 82 percent of the gross tax gap (\$345 billion). The remainder is almost evenly divided between nonfiling (\$27 billion, 8 percent) and underpaying (\$33 billion, 10 percent). The IRS remains committed to finding ways to increase compliance and reduce the tax gap, while minimizing the burden on the vast majority of taxpayers who pay their taxes accurately and on time.



### **Taxpayer Service and Enforcement Programs Complement Each Other**

The IRS serves individuals, businesses, non-profit organizations, and processed more than 230 million tax returns in 2010. The system of voluntary tax compliance requires the IRS to excel in taxpayer service for those who are trying to meet their obligations under the law and provide a robust enforcement program for those who shirk their responsibilities to their fellow citizens. Most taxpayers comply with the law by filing returns and paying their taxes on time, but some do not comply because they do not understand their obligations under the complex tax laws. Noncompliance can stem from a wide range of causes, including lack of knowledge, confusion, poor recordkeeping, differing legal interpretations, unexpected personal emergencies, and temporary cash-flow problems.

#### **Taxpayer Service**

Providing quality taxpayer service is especially important to help taxpayers avoid making unintentional errors. Assisting taxpayers with their tax questions before they file their returns prevents inadvertent noncompliance and reduces burdensome post-filing notices and other correspondence from the IRS. Accordingly, the IRS provides year-round assistance to millions of taxpayers through many sources, including outreach and education programs, issuance of tax forms and publications, rulings and regulations, toll-free call centers, IRS.gov, Taxpayer Assistance Centers (TAC), Volunteer Income Tax Assistance (VITA) sites, and Tax Counseling for the Elderly (TCE) sites. Many of these sites provide information in Spanish as well as in English.

Helping taxpayers understand their obligations under the tax law is critical to improving compliance and addressing the tax gap. To this end, the IRS remains committed to a balanced program of assisting taxpayers to understand the tax law and remit the proper amount of tax. The IRS remains committed to improving voluntary compliance and reducing the tax gap through both taxpayer service and enforcement programs.

#### **Enforcement**

Vigorous enforcement encourages voluntary compliance for those taxpayers who seek to avoid meeting their tax obligations under the law, further increasing revenue. Increased resources for IRS compliance programs yield direct, measurable results through high return on investment activities. As shown in the table below, the proposed IRS FY 2012

enforcement initiatives will generate \$1,332.1 million annually, an ROI of 6.4 to 1, in additional annual enforcement revenue once the new hires reach full potential in FY 2014.

### Return on Investment for FY 2012 Enforcement Initiatives

Dollars in Millions						
	First Year (FY 2012)			Full Performance (FY 2014)		
	Cost	Revenue	ROI	Cost	Revenue	ROI
<b>FY 2012 Enforcement Investment<sup>1</sup></b>						
All Enforcement Initiatives	\$339.3	\$646.2	1.9	\$296.4	\$1,332.1	4.5
<b>Direct Revenue Producing Program Integrity Initiatives</b>	<b>\$243.8</b>	<b>\$646.2</b>	<b>2.7</b>	<b>\$207.8</b>	<b>\$1,332.1</b>	<b>6.4</b>
Increase International Service and Enforcement	72.6	234.0	3.2	57.1	467.1	8.2
Increase Collection Coverage	52.0	177.3	3.4	45.2	398.3	8.8
Implement Merchant Card and Basis Reporting	35.8	72.4	2.0	30.8	185.7	6.0
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	29.8	42.7	1.4	27.3	80.8	3.0
Ensure Accurate Delivery of Tax Credits	51.0	110.2	2.2	45.0	183.3	4.1
Administer New Statutory Reporting Requirements	2.6	9.6	3.7	2.4	16.9	7.0
<b>Other Enforcement Initiatives</b>	<b>\$95.5</b>	<b>\$0.0</b>	<b>0.0</b>	<b>\$88.6</b>	<b>\$0.0</b>	<b>0.0</b>
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	24.5	0.0	0.0	23.2	0.0	0.0
Ensure Accurate Delivery of Tax Credits	33.6	0.0	0.0	33.5	0.0	0.0
Administer New Statutory Reporting Requirements	7.6	0.0	0.0	7.5	0.0	0.0
Leverage Return Preparer Program to Reduce Noncompliance	16.6	0.0	0.0	12.6	0.0	0.0
Address Appeals Workload Growth	9.1	0.0	0.0	7.9	0.0	0.0
Implement Uncertain Tax Position Reporting Requirements	4.1	0.0	0.0	3.9	0.0	0.0

<sup>1</sup>For the purpose of ROI calculation, capital IT expenses related to the IRS implementation of ACA have been excluded.

**The Affordable Care Act (ACA):** The FY 2012 request includes funding for ACA (Public Law 111-148) to administer a premium credit to subsidize the cost of health insurance for Americans who do not have access to affordable coverage; a small business tax credit to encourage employers to provide health insurance coverage for their employees; new information reporting and sharing requirements; an excise tax on tanning services; a new aggregate annual fee on businesses engaged in manufacturing and importing branded prescription drugs sold to specified government programs; new reporting requirements for tax-exempt hospitals; and an individual coverage requirement for employees who can afford health insurance, but fail to obtain minimum essential coverage. These and other provisions of the ACA will require additional resources to build new IT systems; modify existing tax processing systems; provide taxpayer outreach and assistance services; make enhancements to notices, collections, and case management systems to address and resolve taxpayer issues timely and accurately; and conduct focused examinations to encourage compliance. While these activities are spread across the three primary IRS appropriations, the vast majority of the funding request is in the Operations Support account that funds information technology and infrastructure.

Further information is provided in Section 2A, Budget Increases and Decreases Description.

## **1B – Program History and Future Outlook**

The IRS administers America's tax laws and collects 93 percent of the revenues that fund most government operations and public services. Performance in FY 2010 confirms that the IRS is making significant progress in achieving its goals of providing service to taxpayers and enforcing the tax laws in a balanced manner while continuing to make steady gains in better serving America's taxpayers.

### **Taxpayer Service**

The IRS website has become the preferred source of information for millions of taxpayers to get answers to their tax questions, to questions about economic recovery legislation, and about how to prepare and file a federal tax return accurately and on time. IRS.gov/Español offers many of the same services and information in Spanish.

To improve service to taxpayers during the 2010 filing season, the IRS enhanced IRS.gov by providing a rotating spotlight feature on the front page. The spotlight, which changes every few seconds, highlights important taxpayer information by identifying how tax law changes such as the *Making Work Pay* and *First-Time Homebuyer Credit* can benefit different types of taxpayers; and how to access on-line applications such as *Where's My Refund?*, an online tool for taxpayers to check on the status of their refund, and *What If?*, a list of questions and answers to assist taxpayers who are having difficult times financially handle various scenarios related to payment of taxes and other financial problems. In 2010, there were 304.8 million visits to the website and more than 66.9 million taxpayers accessed the popular application, *Where's My Refund?*, to find out the status and anticipated receipt of their tax refund. Taxpayers also can use electronic tools such as the EITC Assistant to determine if they qualify for the refundable tax credit.

The IRS also is committed to continuing efforts to redesign IRS correspondence to improve clarity, accuracy, and effectiveness. In FY 2010, the IRS:

- Completed the redesign of 115 notices (25 in Spanish) to provide clear and simple explanations of the notice purpose and required taxpayer actions;
- Redesigned the area of IRS.gov that provides information on locating specific notices and an explanation of the redesign process; and
- Released the first group of nine new notices. These notices account for approximately two million pieces of correspondence with individuals, businesses and exempt organizations.

The IRS completed a successful 2010 filing season, rising to challenges posed by the implementation of provisions in the American Reinvestment and Recovery Act of 2009 (Recovery Act), the Worker, Homeownership, and Business Assistance Act of 2009 (WHBAA), and increased telephone demand for Economic Recovery Payment inquiries. The IRS received more than 141.9 million individual returns, of which 69.3 percent were e-filed. The number of taxpayers e-filing their returns from a home computer continued

to grow. More than 34.6 million taxpayers prepared their own e-file return, a 7.5 percent increase over 2009.

The IRS issued 109.5 million refunds to individual taxpayers totaling \$366 billion. The average dollar refund was \$3,048 compared to \$2,682 in 2009, an increase of almost 14 percent. IRS also direct-deposited more than 73 million refunds compared to 72.4 million in 2009.

Beginning in the 2010 filing season, taxpayers could purchase up to \$5,000 of Series I U.S. Savings Bonds using their federal tax refund. More than 22,300 taxpayers took advantage of this opportunity, requesting more than 98,000 bonds totaling approximately \$11.1 million.

In FY 2010, the IRS expanded outreach and educational services to improve information, news, and taxpayer interaction through social media networks (Facebook, Twitter, YouTube, etc.). For the first time, the IRS produced a number of podcasts that were available on IRS.gov and iTunes. In addition, the IRS created more than a dozen YouTube videos on a variety of subjects including the *Education Tax Credit*, *Making Work Pay*, and the *New Homebuyer Credit*. These videos attracted more than 963,800 upload views and were available in English, American Sign Language, and Spanish.

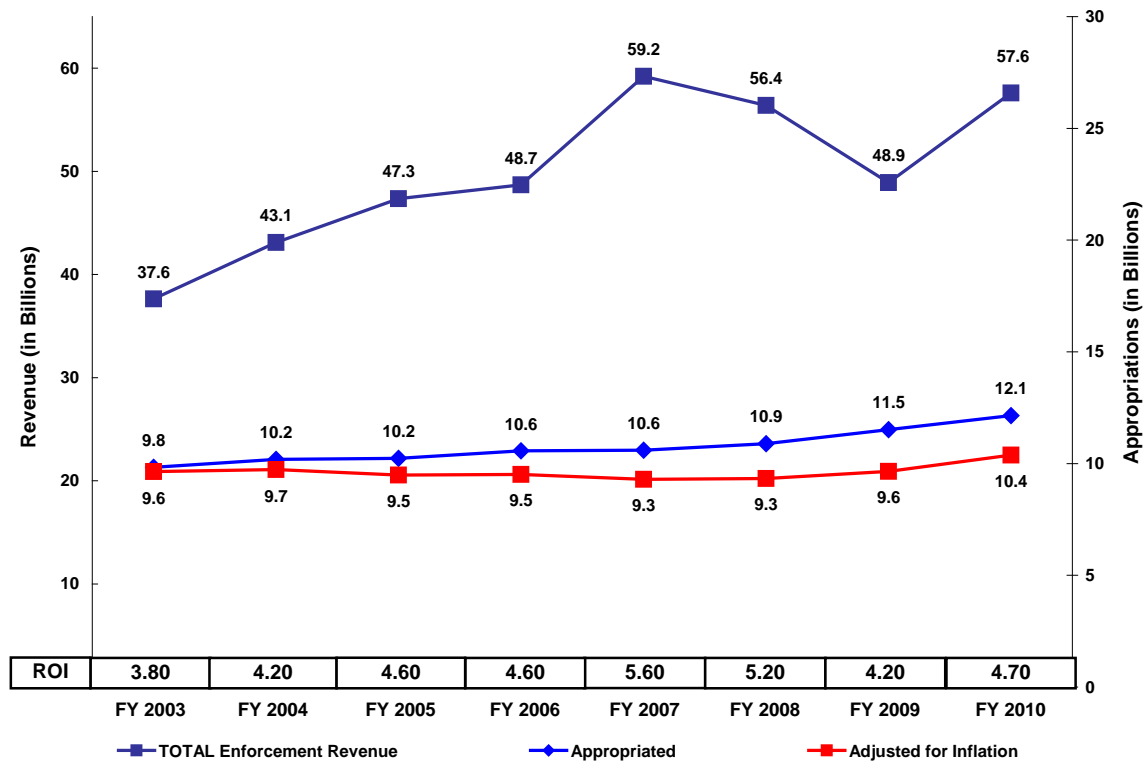
As always, providing high-quality, toll-free telephone service is important in helping taxpayers navigate the complex tax code. IRS telephone assistors answered 36.7 million calls, 6.3 percent fewer than in 2009 while at the same time the IRS received 35.1 million automated calls, 21 percent more than in 2009, reflecting the growing taxpayer demand for self-service options. Telephone level of service (LOS) increased to 74 percent from the FY 2009 LOS of 70 percent. This reflects the success rate of taxpayers who call the IRS for live telephone assistance on the 1-800 help lines. In 2010, the IRS added an estimated wait time feature so taxpayers could make informed choices about whether to wait for a live assistor or use another service channel (i.e., self-assisted automated telephone services or IRS.gov) to answer their questions. Accuracy rates for both customer tax law and account questions remain above 92 percent.

The IRS also provides in-person service at its Taxpayer Assistance Centers (TACs), for taxpayers to resolve tax issues and receive help to prepare their tax returns. Approximately 6.4 million taxpayers visited a TAC, three percent more than in 2009. Walk-in service remains popular among elderly taxpayers, those with limited English and computer proficiency, and taxpayers without internet access.

During the 2010 filing season, the IRS expanded hours of service at 16 geographically dispersed TACs, and seven were open every Saturday. In 27 locations, low-income taxpayers took advantage of IRS help in the preparation of both their state and federal tax returns. The IRS held Open House events at 200 TACs and partner sites nationwide to help taxpayers prepare their returns and resolve their tax issues. As a result, more than 31,400 taxpayers were served and over 7,700 returns were prepared at these events.

## Enforcement

In FY 2010, revenue from all enforcement sources reached \$57.6 billion, 18 percent more than in FY 2009. This increase in enforcement revenue demonstrates that the investment in the IRS over the past two years is producing a significant return.



In FY 2010 the IRS expanded its enforcement presence in the international field, continued to pursue high-wealth/high-income noncompliant taxpayers, and audited more charities and other tax-exempt organizations. As a result, the IRS made improvements compared with FY 2009 in these key areas:

- Examined more than 1.58 million individual returns, an increase of 11 percent, reaching the highest rate in the past decade;
- Increased high-income/high-wealth audits on taxpayers with income greater than \$200,000 by 5.5 percent and audits for those with income greater than \$1 million by more than 8 percent;
- Increased automated underreporter contact closures by 19.8 percent, surpassing the four million mark for the first time, with more than 4.3 million;
- Increased collection case closures by 6.3 percent and criminal investigations by 12.4 percent;



- Increased large corporate audits by 8.1 percent, a significant achievement given the size (assets greater than \$10 million) and complexity of these corporate entities and audits of foreign corporations by almost 48 percent; and
- Increased tax exempt and government entities compliance contacts by roughly 20 percent.

As part of an overall strategy to improve offshore compliance, in FY 2010 the IRS continued to take aggressive steps to track tax evaders that hide their wealth by engaging in offshore tax evasion schemes. The IRS realigned and renamed its Large and Mid-Size Business Division to Large Business and International as part of its continuing strategy to improve international tax administration. The organizational realignment will allow the IRS to focus its expertise on the most pressing international issues. In addition, the IRS more than doubled its offshore presence by opening new offices in Asia and Central America, placed additional law enforcement personnel at its existing offices throughout the world, and expanded its interaction with key international organizations involved in tax and financial law compliance. All of these steps are designed to develop new leads in ongoing criminal tax and financial crime investigations.

Other notable accomplishments include:

- Expanding international presence and coordination with treaty partners and international organizations to improve offshore compliance;
- Establishing a global illicit financial unit to identify and investigate large multinational tax and financial crime cases generally perpetrated by organized crime syndicates; and
- Identifying and examining 17,888 foreign resident tax returns with tax deficiencies totaling more than \$1.64 billion.

In addition, the IRS Voluntary Disclosure Program (VDP) provided information on banks and professionals, including foreign professionals, who facilitate tax evasion. More than 15,000 Americans with offshore accounts, some holding hundreds of millions of dollars, came forward during a voluntary disclosure period that ended in October 2009 to disclose information, bringing them back into the U.S. tax system. An additional 3,000 Americans came forward with accounts at various banks since October 2009, with the total disclosures over the period expected to reach 20,000. In FY 2010, the IRS began reviewing the information from program participants to identify financial institutions, advisors, and others who promoted or otherwise helped Americans hide assets and income offshore.

The IRS continues to ensure that the largest corporate taxpayers are in compliance using strategies that are less time and resource intensive. The Compliance Assurance Process (CAP) program resolves issues early and ensures the filing of accurate returns. The CAP program allows taxpayers who identify their tax issues to get certainty with respect to their tax obligations at the time the return is filed, rather than waiting for the IRS to examine issues during an audit. In FY 2010, participation increased to 112 corporate

taxpayers, with all 102 from 2009 returning. The IRS plans to issue guidance that will make CAP permanent and available to a greater number of taxpayers.

Research improves service to taxpayers and helps in the development of better ways to identify noncompliance and reduce the tax gap. The FY 2010 National Research Program (NRP) included a study to assess the reporting compliance of employment taxes. The study spanned three tax years, from 2008 through 2010, examining approximately 2,200 randomly-selected taxpayers each year. The new study complements the ongoing study of individual reporting compliance.

Beginning in FY 2010, the IRS launched a number of important changes to its oversight of the tax return preparer community to improve tax administration and tax compliance. The IRS and external stakeholders agree that setting higher standards for the tax return preparer community will significantly enhance protections and services for taxpayers, increase confidence in the tax system and result in greater compliance with the tax laws.

Important changes included:

- Requiring registration and the assignment of a preparer tax identification number (PTIN) for all paid tax return preparers (through December 31, 2010, more than 523,000 return preparers received PTINs utilizing the new application system);
- Establishing mandatory testing and continuing education for paid tax return preparers who are not an attorney, certified public accountant, or enrolled agent;
- Developing a public database so that the public can ensure that their tax return preparer is registered with the IRS; and
- Making all return preparers subject to the ethical standards of Treasury Circular 230 and subject to discipline by the IRS.

### **Business System Modernization**

IRS modernization efforts continue to focus on core tax administration systems designed to provide more sophisticated tools to taxpayers and to IRS employees. The following highlights IRS accomplishments:

- Customer Account Data Engine (CADE) posted more than 41.2 million returns, generated more than 35.8 million refunds and, for the first time, accepted more than seven million payments submitted with taxpayer returns. In FY 2010, the IRS revised its CADE strategy to implement a new taxpayer account database for the 2012 filing season. This new database will accelerate the refund processing time for most taxpayers.
- Modernized e-File (MeF) deployed an additional release that allowed for the acceptance of Form 1040 and 22 supporting forms and schedules. This new functionality is designed to reach 61 percent of the e-File population, or approximately 55.1 million filers.

- Account Management Services (AMS) final release provided IRS employees with the ability to view taxpayer correspondence images online and on demand, eliminating reliance on a manual process to obtain copies of images. This direct access reduced the case cycle time from 10 to 14 days to zero.

## **Future Outlook**

In FY 2012, the IRS will continue to seek less costly ways of improving taxpayer service and bolstering enforcement.

The service and enforcement agenda supports the Administration's goals to reduce the federal deficit by increasing tax receipts. Delivering cost-effective and efficient services to meet taxpayer demands within a constrained budget environment will continue to be a challenge for the IRS. With this in mind, the IRS will focus efforts on the following priorities in FY 2012.

**Taxpayer Service** – Increase the telephone level of service and improve the IRS website where an increasing percentage of taxpayers find the help they need.

Assisting taxpayers with their tax questions before they file prevents inadvertent noncompliance and reduces burdensome post-filing notices and other correspondence from the IRS. In FY 2012, the IRS plans to increase level of service by adding resources to meet the ever-increasing demand and continuing to make efficiency improvements such as automated self-service applications that allow taxpayers to obtain information on less complex issues such as refund inquiries. These improvements will free up staff to deal with the more complex tax law issues stemming from the passage of new legislation. In addition, the IRS continues to study the effects of services it offers to taxpayers on the internet, at walk-in sites, and on its toll-free telephone lines as well as exploring the relationships between taxpayer errors and unclear correspondence to aid in the development of new approaches to service.

Provisions that become effective in later years, when new options for buying health insurance through state-sponsored exchanges go into effect, place significant new administrative responsibilities on the IRS that require the design and development of new IT systems and business processes along with substantial coordination with other federal and state entities.

**Enforcement** – Implement legislative mandates, handle new information reporting requirements, increase compliance efforts to address offshore tax evasion, focus on corporate and high-wealth returns, increase examination and collection coverage, develop initiatives to improve issue resolution with large business taxpayers, and enforce tax return preparer compliance.

In FY 2012, the IRS will implement changes required by enactment of various legislative mandates such as the Foreign Account Tax Compliance Act (FATCA) included in the Hiring to Restore Employment (HIRE) Act of 2010 (Public Law 111-147), the merchant payment card and third party reimbursements enacted in the Housing and Economic

Recovery Act of 2008 (Public Law 110-289) and basis reporting on security sales enacted in the Emergency Economic Stabilization Act of 2008 (Public Law 110-343). These legislative mandates include new information reporting requirements for individuals and businesses.

The IRS will continue to invest in strong compliance programs, including robust international enforcement initiatives to address offshore tax evasion. Enforcement initiatives will address underreporting of income associated with international activities and expand enforcement efforts on noncompliance among corporate and high-wealth taxpayers and the complex business enterprises they control (including corporations, partnerships, and trusts). The IRS will use audit results and intelligence from ongoing offshore initiatives to refine case identification and selection methods to identify promoters, facilitators, and participants in abusive offshore arrangements. The IRS also will improve the way compliance risks are identified and addressed in large, complex global businesses and high-wealth individuals.

In addition, the IRS will continue to pursue other important initiatives, such as the CAP program, industry issue resolution projects, and fast track settlements, aimed at earlier and speedier issue resolution and greater efficiency and certainty. These initiatives are a major part of the overall retooling of IRS's relationships with large corporate taxpayers.

The IRS will continue to implement the recommendations of the Tax Return Preparer Strategy by addressing the challenges associated with the implementation of registration, continuing education, and testing requirements for tax return preparers that are scheduled to go into effect in FY 2011. The IRS took a major step forward in launching the new PTIN online registration process. The process gives the IRS an important and improved line of sight into the return preparer community. The IRS will use the information to analyze trends, spot anomalies, and potentially detect fraud. In addition, the IRS will continue to develop and implement legislation to increase electronic filing among the paid preparer community.

**Business Systems Modernization** – Continue the development of the new taxpayer account database.

Data and technology are central to the future of tax administration. For the 2012 filing season, the IRS will complete the new taxpayer account database and continue to make investments in the electronic filing systems. Completion of the core taxpayer account database is the cornerstone of IRS IT modernization that will expedite refunds to millions of individual taxpayers. It is also a prerequisite for other major initiatives, such as expansion of online paperless services. The ability of the IRS to support increasingly complex taxpayer service and compliance initiatives will be severely limited until the new taxpayer account database is completed.

## **Implement the Affordable Care (ACA) Act.**

Implementation of the Affordable Care Act (ACA) of 2010 presents a major challenge to the IRS. ACA represents the largest set of tax law changes in more than 20 years, with more than 40 provisions that amend the tax laws. Although the new law goes into effect gradually over many years, many provisions required immediate action, including the *Small Business Health Care Tax Credit*, the *Qualifying Therapeutic Discovery Credit*, and the expanded *Adoption Credit*.

To enact the range of provisions that were retroactive to 2009 and immediately effective for calendar year 2010, the IRS focused on: developing new systems and business processes for near-term provisions; conducting initial planning for longer-term provisions; and defining appropriate outreach activities for each affected group.

## Section 2 – Budget Adjustments – Internal Revenue Service

The IRS Budget Request for FY 2012 is \$13,283,907,000 in direct appropriations and 99,878 FTE. This is an increase of \$1,137,784 or 9.37 percent and 5,112 FTE more than the FY 2010 enacted level of \$12,146,123,000 and 94,766 FTE.

### Program Summary by Appropriations Account and Budget Activity

Dollars in Thousands

Appropriations / Budget Activity	FY 2011		Request	FY 2012	
	FY 2010 Enacted <sup>1</sup>	Annualized CR Level		\$ Change	% Change
<b>Internal Revenue Service</b>					
Taxpayer Services	\$2,278,830	\$2,278,830	\$2,345,133	\$66,303	2.91%
Pre-filing Taxpayer Assistance and Education	679,924	679,924	701,035	21,111	3.10%
Filing and Account Services	1,598,906	1,598,906	1,644,098	45,192	2.83%
Enforcement	\$5,504,000	\$5,504,000	\$5,966,619	\$462,619	8.41%
Investigations	639,363	639,363	678,849	39,486	6.18%
Exam and Collections	4,700,345	4,700,345	5,103,420	403,075	8.58%
Regulatory	164,292	164,292	184,350	20,058	12.21%
Operations Support	\$4,083,884	\$4,083,884	\$4,620,526	\$536,642	13.14%
Infrastructure	895,202	895,202	986,045	90,843	10.15%
Shared Services and Support	1,311,127	1,311,127	1,313,050	1,923	0.15%
Information Services	1,877,555	1,877,555	2,321,431	443,876	23.64%
Business Systems Modernization	\$263,897	\$263,897	\$333,600	\$69,703	26.41%
Health Insurance Tax Credit Administration	\$15,512	\$15,512	\$18,029	\$2,517	16.23%
<b>Total Appropriated Resources</b>	<b>\$12,146,123</b>	<b>\$12,146,123</b>	<b>\$13,283,907</b>	<b>\$1,137,784</b>	<b>9.37%</b>
Offsetting Collections - Reimbursable	\$137,758	\$137,279	\$138,272	\$993	0.72%
Mandatory Appropriation - User Fees	\$175,529	\$204,428	\$204,428		
<b>Total Program Operating Level</b>	<b>\$12,459,410</b>	<b>\$12,487,830</b>	<b>\$13,626,607</b>	<b>\$1,138,777</b>	<b>9.12%</b>
Direct FTE	94,766	94,766	99,878	5,112	5.39%
Reimbursable FTE	659	659	659		
User Fees FTE	93				
<b>Total FTE</b>	<b>95,518</b>	<b>95,425</b>	<b>100,537</b>	<b>5,112</b>	<b>5.36%</b>

<sup>1</sup> FY 2010 Enacted represents the approved FY 2010 Operating Plan.

## 2.1 – Budget Adjustments Table

Dollars in Thousands

### Internal Revenue Service

Internal Revenue Service	FTE	Amount
FY 2010 Enacted Budget <sup>1</sup>	94,766	\$12,146,123
FY 2011 Annualized CR Level	94,766	\$12,146,123
Changes to Base:		
Adjustment to Reach FY 2011 President's Policy Level	1,653	\$401,665
Maintaining Current Levels		\$85,754
Other Adjustments	501	
Technical FTE Adjustments	501	
Efficiencies/Savings	(523)	(\$189,957)
Non-Recur Savings		(22,090)
Increase e-File Savings	(416)	(22,444)
Reduce IT Infrastructure		(75,000)
Reduce Contracts		(20,754)
Reduce Administrative Expenses	(66)	(14,331)
Eliminate Lockbox Fees		(4,000)
Reduce Certain Mailings		(4,000)
Reduce Training, Travel and Programs	(41)	(27,338)
Reinvestment		\$1,486
Consolidate Submission Processing Site (Atlanta)		1,486
<b>Subtotal Changes to Base</b>	<b>1,631</b>	<b>\$298,948</b>
<b>Total FY 2012 Base</b>	<b>96,397</b>	<b>\$12,445,071</b>
Program Changes:		
Program Increases:		
Taxpayer Service Initiatives	534	\$114,307
Improve Taxpayer Service	519	81,307
Expand Online Options through IRS.gov Improvements	15	33,000
Enforcement Initiatives	2,917	\$605,671
Increase International Service and Enforcement	377	72,596
Increase Collection Coverage	413	52,000
Implement Merchant Card and Basis Reporting	415	35,730
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	497	96,718
Ensure Accurate Delivery of Tax Credits	834	260,293
Administer New Statutory Reporting Requirements	187	58,505
Leverage Return Preparer Program to Reduce Noncompliance	108	16,600
Address Appeals Workload Growth	66	9,100
Implement Uncertain Tax Position Reporting Requirements	20	4,129
Infrastructure Initiatives	90	\$118,858
Enhance Security and Disaster Recovery Systems Capability	5	12,000
Update Integrated Financial System (IFS)	5	27,500
Leveraging Data to Improve Compliance	5	1,400
Enhance Physical Security for Federal Employees	10	15,481
Implement Individual Coverage Requirement and Employer Responsibility Payments	65	62,477
Business Systems Modernization (BSM) Initiative	(60)	
Continue Migration from Aging Tax Administration System	(60)	
<b>Subtotal Program Changes</b>	<b>3,481</b>	<b>\$838,836</b>
<b>Total FY 2012 Request</b>	<b>99,878</b>	<b>\$13,283,907</b>
Adjustments to Request		
User Fees		204,428
<b>Total FY 2012 Request</b>	<b>99,878</b>	<b>\$13,488,335</b>

<sup>1</sup>FY 2010 Enacted represents the approved FY 2010 Operating Plan

## 2A – Budget Increases and Decreases Description

### Treasury Strategic Goals and Outcome

The IRS FY 2012 initiatives support the Treasury Strategic Goal: “Effectively Managed U.S. Government Finances” and the Treasury Strategic Outcome: “Revenue collected when due through a fair and uniform application of the law” and the Treasury Strategic Goal: “Prevented Terrorism and Promoted the Nation’s Security Through Strengthened International Financial Systems” and Treasury Strategic Outcome: “Removed or reduced threats to national security from terrorism, proliferation of weapons of mass destruction, drug trafficking, and other criminal activity on the part of rogue regimes, individuals, and their support networks.”

The table that follows lists FY 2012 resources by Strategic Goal, Objective and Outcome outlined in the FY 2007-2012 Treasury Strategic Plan. The Treasury Strategic Plan is a corporate-level plan for the Department that provides a description of what the agency intends to accomplish over the five-year period.

### Budget by Strategic Outcome

Dollars in Thousands

Treasury Strategic Outcome	FY 2010	FY 2011	FY 2012	Percent
	Enacted <sup>1</sup>	Annualized CR Level	Request	Change
Revenue collected when due through a fair and uniform application of the law	11,908,430	11,908,050	13,025,396	9.4%
Removed and reduced threats to national security from terrorism, proliferation of weapons of mass destruction, drug trafficking, and other criminal activity on the part of rogue regimes, individuals, and their support networks	237,693	238,073	258,511	8.6%
<b>Total Request</b>	<b>\$12,146,123</b>	<b>\$12,146,123</b>	<b>\$13,283,907</b>	<b>9.4%</b>

<sup>1</sup>The FY 2010 Enacted represents the approved FY 2010 Operating Plan.

### Initiative Costing Methodology

The IRS uses a variety of methods to cost its initiatives. Costs for initiatives that require labor funding are calculated by converting the workload to the number and type of staff (e.g., Revenue Agents, Revenue Officers, or Special Agents) needed to deliver targeted performance goals. Once the number 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 cost and/or savings. The UCR calculator fully costs the salary, benefits, and support costs needed for each FTE.



**Total Changes to Base**

**+\$298,948,000 / +1,631 FTE**

**Adjustment to Reach FY 2011 President's Policy Level**

**+\$401,665,000 / +1,653 FTE**

Adjustment from the FY 2011 Annualized Continuing Resolution (CR) Rate to reach the FY 2011 President's Policy Level. The President's Policy Level is equal to the FY 2011 President's Budget as adjusted for the proposed pay freeze.

**Maintaining Current Levels (MCLs)**

**+\$85,754,000 / 0 FTE**

Funds are requested for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies and equipment, and health benefits and the increase in Federal Employee Retirement System participation. No inflation adjustment is requested for pay in FY 2012.

**Other Adjustments**

**\$0 / +501 FTE**

*Technical FTE Adjustments*

*\$0 / 501 FTE*

This adjustment reflects permanent changes made to ensure FTE levels are fully funded in the base budget and to add FTEs where activities are now funded in-house instead of through contractor services.

**Efficiencies and Savings**

**-\$189,957,000 / -523 FTE**

*Non-Recur Savings*

*-\$22,090,000 / 0 FTE*

This is the net reduction of non-recurring, one-time costs associated with the FY 2011 enforcement initiatives (e.g., IT equipment and training).

*Increase e-File Savings*  
-\$22,444,000 / -416 FTE

This decrease is a result of savings from increased electronic filing (e-File). Savings are based on e-File projected growth, modernization, and the completion of the phased implementation of the Worker, Homeowner, and Business Assistance Act of 2009 (Public Law 111-92), which requires electronic filing by tax return preparers. As a result, the IRS needs 416 fewer FTE in submission processing, generating a savings of \$22.4 million.

*Reduce IT Infrastructure*  
-\$75,000,000 / 0 FTE

The IRS will reduce the unit costs of infrastructure through use of the Capability Maturity Model (i.e., a process improvement approach that yields efficiencies in software engineering); the Information Technology Infrastructure Library (ITIL) that will allow the IRS to improve the quality of IT services; and the further consolidation of security activities in the Cybersecurity organization to leverage security best practices.

*Reduce Contracts*  
-\$20,754,000 / 0 FTE

In accordance with the 2009 Presidential guidance on controlling contracting costs, the IRS will achieve targeted savings through reduced contracting expenses. The FY 2012 Budget saves \$20.8 million through better acquisition and acquisition-related program practices in project support, web learning, equipment, marketing, technical support contracts and, as a result of implementing the e-file requirement for tax return preparers, lower marketing expenses associated with promoting e-filing.

*Reduce Administrative Expenses*  
-\$14,331,000 / -66 FTE

The IRS will reduce administrative expenses, including targeted attrition through hiring freezes.

*Eliminate Lockbox Fees*  
-\$4,000,000 / 0 FTE

The IRS will eliminate lockbox fees that now will be paid by taxpayers in installment agreements.

*Reduce Certain Mailings*

-\$4,000,000 / 0 FTE

The IRS will eliminate printing and mailing of certain forms and publications and reduce the number of inserts in mailings.

*Reduce Training, Travel and Programs*

-\$27,338,000 / -41 FTE

The IRS will reduce agency-wide non-technical training and non-case related travel; and will implement various program efficiencies. Reductions in training costs will be achieved by reducing out-of-town training and the length of training, as well as by leveraging technology. The IRS will reduce travel expenses by making greater use of technology, increasing the use of hoteling, and eliminating/reducing travel reimbursements to field-based employees reporting to duty stations. The IRS will achieve program efficiencies in the Business Systems Modernization (BSM) (\$1.0 million), Health Insurance Tax Credit Administration (HITCA) (\$1.1 million), and the taxpayer communication and education programs (\$4.3 million and 41 FTE).

**Program Reinvestment**

+\$1,486,000 / 0 FTE

*Consolidate Submission Processing Site (Atlanta)*

+\$1,486,000 / 0 FTE

Increased use of electronic filing has led to a consolidation of individual return processing sites. A portion of the *Increase e-File Savings* will be reinvested to fund one-time separation costs associated with the September 30, 2011, closure of the Atlanta submission processing site. As the Atlanta consolidation approaches, the IRS will continue to assist employees to find employment either inside or outside of the organization. The funding will allow the IRS to provide Voluntary Separation Incentive Payments (VSIP) and severance pay to affected Atlanta employees.

## Program Increases

+\$838,836,000 / +3,481 FTE

### *Improve Taxpayer Service*

+\$81,307,000 / +519 FTE

Funding for Improve Taxpayer Service and the \$25.9 million increase included in the FY 2011 President's Policy level will provide staffing to address rising demand and increase the Customer Service Representative Level of Service (LOS) from the planned target of 71 percent in FY 2010 to 80 percent in FY 2012 while maintaining a 93 percent customer satisfaction rate for toll-free

Position Type/Other Costs	FTE	\$000
<b>Increase LOS</b>	369	\$30,000
Customer Service Representative	369	30,000
<b>Implement Affordable Care Act (ACA)</b>	150	\$51,307
<b>Assisting Taxpayers in Understanding New Provisions</b>	150	\$22,170
Customer Service Representative	143	13,158
Media & Pubs Program Analysts	5	8,739
Customer Account Specialists	2	273
<b>Call Center Changes</b>		\$15,300
<b>Infrastructure</b>		\$13,837
<b>Total</b>	519	\$81,307

telephone services. This initiative also includes funding to help taxpayers understand the new tax law provisions and to make related call center and infrastructure changes to handle anticipated inquiries, including ACA-related service questions.

### Increase Customer LOS (+\$30.0 million / +369 FTE)

From FY 2006 to FY 2009, taxpayer demand for IRS toll-free assistor services increased by more than 30 percent from 46 million to more than 60 million. In 2009, the National Taxpayer Advocate identified access to the IRS toll-free service as the most serious problem for taxpayers. The IRS has been aggressively pursuing strategies to mitigate telephone demand, including a restructuring of telephone routing systems and creating internet applications to divert telephone traffic to IRS.gov.

Taxpayers need effective service to understand their tax obligations and pay their taxes in a timely manner. In addition, increased enforcement activities have caused a significant increase in telephone inquiries to address balance-due accounts and establish installment agreements. Working with these taxpayers earlier in the process allows the IRS to resolve inquiries quickly in a more cost-effective manner and thereby increase taxpayer satisfaction.

This initiative also requests \$0.1 million for Information Resources Accessibility Program equipment to evaluate the needs of new hires with disabilities; evaluate new assistive technologies for potential use within the IRS; determine the appropriate assistive technology to accommodate functional limitations; purchase assistive technology, maintenance, and training, if required; and assist customers with assistive technology features and functions.

Implement Taxpayer Service Programs for New Tax Law Provisions  
(+\$51.3 million / +150 FTE)

- Assisting Taxpayers in Understanding New Provisions  
(+\$22.2 million / +150 FTE)

This request further incorporates additional resources to help taxpayers understand new ACA provisions. Proactive outreach, education, and educational tools will be critical to ensuring that individuals and employers understand the changes to the tax law that come into effect starting in 2014. In addition, various provisions in the law already are effective (e.g., small employer tax credits and the excise tax on tanning services) which require IRS taxpayer service resources. IRS requests resources to develop and deliver new publications and informational tools to help taxpayers understand their obligations. In addition, to meet immediate customer service needs, the IRS requests additional customer service staffing for its toll-free service operation to help maintain LOS at 80 percent.

- Call Center Changes (+\$15.3 million)

The IRS operates one of the largest and most complex phone support operations in the world. In order to prepare for a number of ACA provisions coming into effect in 2014 for individuals and employers, a number of changes must be made to the existing IRS call center systems. The IRS must update its call center applications and make enhancements to notices, collections, and case management systems to address and resolve taxpayer issues promptly and accurately.

- Infrastructure Costs to Support Recently-Enacted Law Service Inquiries  
(+\$13.8 million)

Existing call sites are operating at capacity. In order to absorb the requested additional staffing needed to deliver an acceptable level of service to taxpayers, the IRS needs infrastructure resources to ensure adequate space and technology to support ACA-related service inquiries.

Other Direct Costs

There are no other direct costs associated with this initiative.

*Expand Online Options through IRS.gov Improvements*  
 +\$33,000,000 / +15 FTE

Funding for Expand Online Options through IRS.gov Improvements will continue the multi-year effort to replace the outdated web portal environment and provide additional online services to taxpayers. The Taxpayer Assistance Blueprint, Phase 2, targeted migration to the electronic channel and services as one of the five areas for improvement of IRS service delivery.

Position Type/Other Costs	FTE	\$000
<b>IRS.gov RUP/EUP Portal Migration</b>	15	\$25,000
IT Project Specialist	15	2,277
Contractor Service		22,723
<b>Taxpayer and Tax Practitioner Applications</b>	0	\$8,000
Contractor Service		8,000
<b>Total</b>	<b>15</b>	<b>\$33,000</b>

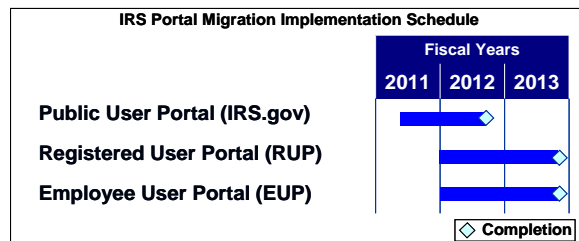
This initiative will allow the IRS to:

- Continue the replacement of an outdated web portal environment that has reached the end of its useful life; and
- Implement e-Notices enhancements.

Completion of these activities will allow the IRS to achieve efficiencies by moving high-volume transactions to IRS.gov, thereby improving self-service, reducing taxpayer burden, increasing compliance, reducing costs, and improving security. These improvements will position IRS.gov as the preferred delivery channel of choice for taxpayer service. Taxpayer satisfaction with IRS.gov also will be improved by better integrating access to information and transaction services, improving IRS.gov navigation, enriching content quality, and enhancing IRS.gov search capabilities.

IRS.gov – Registered User Portal (RUP) and Employee User Portal (EUP) Migration  
 (+\$25.0 million / +15 FTE)

This initiative funds the second year of a three-year effort to replace the aging infrastructure of the portals and complete the migration of the RUP/EUP by the end of FY 2013. This initiative will re-engineer the portal and migrate the RUP/EUP applications that interface with core IRS systems, resulting in an overall



improvement and in significant enhancements to online capabilities for tax preparers and other registered users. This request is driven by the need to complete the transition of the RUP/EUP to the new web environment by August 2013 when the existing RUP and EUP contracts expire. Failure to complete the portal migration by August 2013 will result in increased portal operating costs and increased risk under existing sole source contracts. In addition, taxpayer and tax practitioners will continue to use more expensive, labor intensive service delivery channels such as calling the 1-800 number or visiting an IRS taxpayer assistance center.

The additional FY 2012 resources will allow the IRS to complete the build-out of the consolidated web environment and migrate the RUP transactional applications and integrate them with the tax information on IRS.gov by the end of FY 2013. Some of the RUP applications that the IRS plans to migrate include:

- *Where's My Refund?* – Allows authorized users to look up the status of refunds reported on their tax returns;
- Online Employer Identification Number (EIN) – Allows users to apply online for a new EIN and, in most cases, receive the new number immediately;
- Preparer Taxpayer Identification Number (PTIN) Application – Allows tax professionals to apply online for a PTIN without submitting a paper application form and existing users to look up a forgotten PTIN; and
- Online e-File – Allows tax professionals to apply online to become an authorized e-File Electronic Return Originator (ERO).

Activities to migrate the EUP will begin in FY 2012 and be completed in FY 2013. EUP migration activities will complete the build-out of the consolidated web environment for the secure employee-facing applications and move the applications from the existing EUP. Transitioning these applications to the new environment will allow IRS employees to process, update and analyze taxpayer returns and information online. Some of the applications to be migrated in FY 2012-FY 2013 include:

- Modernized e-File (MeF) – Provides authorized IRS employees the capability to view MeF return data and run reports on taxpayer information; and
- Integrated Financial System (IFS) - Provides authorized IRS employees with timely and detailed financial, cost accounting, property accounting and procurement data.

Online Service Applications – e-Notices (Installment Agreement Reminder Notice)  
(+\$8.0 million / +0 FTE)

This initiative funds implementation of new online functionality for e-Notices that will deliver cost-effective services to the taxpayer while reducing the taxpayer burden. E-Notices will securely deliver taxpayer correspondence electronically through an integrated, web-based system. Development of the e-Notice concept could result in significant cost savings to the IRS if expanded to other higher volume notices. The development of the e-Notices Installment Agreement Reminder will provide taxpayers who have entered into an installment agreement to opt for monthly electronic payment reminders by logging into the IRS Registered User Portal (RUP) to define their preference.

Implementation of e-Notices will provide specific benefits such as:

- Reduced taxpayer burden in both time and cost;
- Electronic delivery option to meet taxpayer preferences;
- Reduced risk of taxpayer social security number exposure through mail delivery;  
and
- Expedited communications that may result in quicker receipt of payment.

Other Direct Costs

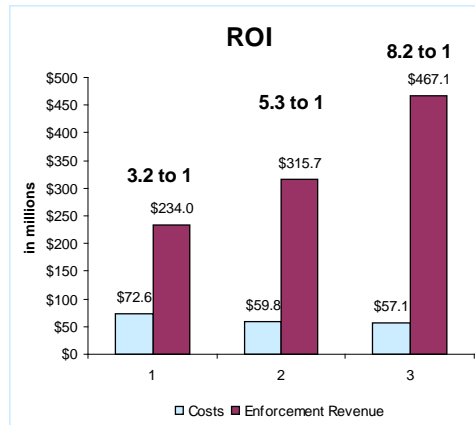
There are no other direct costs associated with this initiative.



*Increase International Service and Enforcement*  
 +\$72,596,000 / +377 FTE

Funding for Increase International Service and Enforcement will implement changes required by enactment of the Foreign Account Tax Compliance Act (FATCA) included in The Hiring Incentives to Restore Employment (HIRE) Act of 2010, (Public Law 111-147). The IRS will implement the reporting, disclosure and withholding requirements and expand coverage of international filings, conduct more in-depth international compliance work, strengthen compliance efforts related to offshore activity and expand the Global High-Wealth compliance group, producing additional annual enforcement revenue of \$467.1 million with an ROI of 8.2 to 1 once the new hires reach full potential in FY 2014.

Position Type/Other Costs	FTE	\$000
<b>Implement FATCA Legislation</b>	186	\$35,000
Revenue Agent	75	14,349
Tax Examiner	43	3,749
Special Agent	4	923
Customer Service Representative	40	3,260
Attorney	8	1,414
Support Staff	16	1,305
IT Equipment		10,000
<b>Increase International Coverage</b>	107	\$15,777
Revenue Agent	58	10,539
Tax Technician	15	2,131
Tax Examiner	8	699
Other Support	26	2,408
<b>Criminal Investigation International Expansion</b>	36	\$8,552
Special Agent	29	7,471
Other Support	7	1,063
IT Equipment		18
<b>International Data Analysis</b>	19	\$8,784
Revenue Agent	4	705
Other Support	11	1,269
Research Analyst	4	780
Contractor Services and Equipment		6,030
<b>Other Costs</b>	29	\$4,483
Appeals Officer	10	1,484
Attorney	15	2,492
Support Staff	4	507
<b>Total</b>	<b>377</b>	<b>\$72,596</b>



Major Activities	Projected Revenue \$M	Individual Audits	Cases Completed	Business Audits	Specialty Program Audits
<b>Implement FATCA Legislation</b>					
Address Foreign Withholding Compliance	\$171.6				117
Expand Coverage of Int'l Tax Return Filings	\$32.4	21,540			
International Compliance Field Operations	\$83.0	614		155	
Criminal Investigation			7		
<b>Increase International Coverage and Compliance</b>					
Expand Global High-Wealth Coverage	\$180.1	25		274	
<b>Criminal Investigation International Expansion</b>					
			21		
<b>Total</b>	<b>\$467.1</b>	<b>22,179</b>	<b>28</b>	<b>429</b>	<b>117</b>

Implement Foreign Account Tax Compliance Act (FATCA) Legislation  
(+\$35.0 million / +186 FTE)

The number of business and individual returns with international activity continues to increase. According to the Department of the Treasury Report on Foreign Portfolio Holdings of U.S. Securities dated June 30, 2009, the total long-term and short-term foreign holdings of U.S. securities grew from \$4.3 billion in June 2002 to \$9.6 billion in June 2009 (Filings of Form 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding*). The total U.S. source income, income where the activity for which the payment is being made is in the U.S., was \$139.6 million in tax year 2000 and \$646.5 million in tax year 2007, an increase of 363 percent. This growth creates two areas of concern for tax administration: (1) U.S. taxpayers avoiding taxation by shielding their identity using foreign accounts; and (2) foreign citizens benefiting from withholding rates that they are not entitled to use.

This initiative will allow IRS to:

- Address Foreign Withholding Compliance

IRS implementation of the reporting, disclosure and withholding requirements mandated by FATCA for international investors and financial institutions will augment IRS activities to address international noncompliance.

Every person who earns income subject to U.S. withholding or reporting generally must identify himself or herself to both the U.S. government and all intermediaries (e.g., banks, brokers, and custodians) through whose hands that income passes. The Qualified Intermediary Program (QIP) is responsible for the withholding and related documentation requirements for foreign banks, foreign branches of U.S. banks, and other non-U.S. financial institutions that must comply with withholding tax laws. In general, a Qualified Intermediary (QI) is a foreign financial institution or foreign branch of a U.S. financial institution that enters into an agreement with the IRS. The QIP will implement the FATCA withholding requirements and ultimately the reporting of U.S.-source income sent offshore.

In addition, the Withholding Tax Refund Program will be updated to create new electronic forms and reports to support the HIRE Act filing and disclosure requirements, handle the thousands of expected claims, provide data storage and analysis, and ensure proper and timely processing of returns and cases. The number of entities applying to become QIs will increase significantly from the current 5,014 QIs to approximately 20,000 to 100,000 entities. As a result, the IRS expects a high volume of customer inquiries in response to the influx of new QIs. The IRS will not enter into a QI withholding that provides for the use of documentary evidence obtained under a country's know-your-customer (KYC) rules if it has not received the KYC practices and procedures for opening accounts and responses to specific questions. The additional staffing will approve KYC rules of these additional jurisdictions and perform outreach where needed.

Automatic matching of payments to annual income tax return data is the most efficient and effective tool that the IRS uses to ensure compliance. The Form 1042-S will be used to determine whether tax is owed on U.S. source income flowing to an offshore locality by determining the identity of the recipients. The enhancement of systems to reconcile Form 1042, *Annual Withholding Tax Return for U.S. Source Income of Foreign Persons*, 1041-T, *Allocation of Estimated Tax Payments to Beneficiaries*, with Form 1042-S will provide significant steps toward achieving international compliance in an efficient manner.

With passage of the HIRE Act, the U.S. Withholding Agent will be responsible for establishing the Form 1042 Advanced Review Program (ARP). Additional resources will allow IRS to establish this program to work with taxpayers to resolve issues before filing their 1042 withholding tax return.

Withholding taxes on payments to foreign financial institutions and non-financial foreign entities that do not agree to make the disclosures are intended to function like a back-up withholding tax, so that beneficial owners would be eligible to claim a refund or credit for any withholding in excess of their tax liabilities. As a result of the enacted legislation and the need for increased withholding of income taxes on payments to foreign persons, the IRS will implement revenue protection systems that will check for erroneous tax refund claims. As in prior years, thousands of claims for a refund of taxes withheld or paid are likely. The legislation will add to the number of withholding returns as well as claims, and the IRS must increase the capabilities of the Withholding Tax Refund System to respond to these additional claims to protect revenue.

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

This initiative will allow IRS to conduct 117 more specialty program audits.

- Development and Improvement of IT Systems and Specialized Tools

The funding also will allow for the development and improvement of systems to carry out key areas of the FATCA legislation and for the development of specialized tools to detect abuses and trends in international taxpayer data and the

linking of international data to tax return data. This includes system capabilities to:

- Enable secure Web-based interactivity to implement provisions that require the creation of formal working agreements between the IRS and Foreign Financial Institutions (FFI);
- Accept, store and retrieve FFI information such as FFI agreements, annual account reporting, and certifications;
- Automate the interface between the data secured via the Web-based Portal and the IRS Master File (MF) stored data;
- Perform document matching on IRC sections 1471 (imposes a 30 percent tax on foreign financial institutions who do not meet certain reporting requirements) and 6038D (requires U.S. persons to report foreign investments) and Report of Foreign Bank and Financial Accounts (FBAR) account data;
- Generate reports on FATCA Audit and Registration certifications; and
- Provide public access to published FFI information.

Automatic matching of payments to annual income tax return data is the most efficient and effective tool that the IRS uses to ensure compliance. The Form 1042-S will be used to determine whether tax is owed on U.S. source income flowing to an offshore locality by determining the identity of the recipients. The enhancement of systems to reconcile Forms 1042, 1041-T, with Forms 1042-S will provide significant steps toward achieving international compliance in an efficient manner.

- **Expand Coverage of International Tax Return Filings**

With the increased reporting of withholding requirements required by FATCA legislation, this initiative funds withholding compliance activities. It provides new coverage for discrepancies identified through third-party correlations based on FATCA and will enhance and centralize coverage for non-filer taxpayers and those with withholding-related issues. The funding also will allow IRS to handle the calls/communications resulting from notices sent to taxpayers for resolution by the Campus Compliance Unit (CCU) that will identify emerging issues with FATCA compliance with respect to international tax filings or other international tax issues. IRS will compile data and reports that will provide more complete background information during the initial set up of related audit case files. The building of these case files will create increased efficiencies during the examination process by highlighting the FATCA non-compliance areas for examiners relative to the unique needs of this compliance initiative.

These additional resources will increase the number of correspondence examinations by 21,540 individual audits.

- International Compliance Field Operations

Offshore financial centers offer strict financial secrecy and low tax rates or no taxes to non-residents who maintain bank accounts, investments, and/or other financial assets or structures within their jurisdiction. They also allow for the formation of non-resident entities such as international business corporations, personal investment corporations, and foreign trusts to act as de facto holding companies to shield the beneficial ownership of those financial assets. This lack of transparency makes offshore financial centers a haven for U.S. taxpayers to divert income and shield assets. Further, revenue is lost because of weaknesses in compliance involving Chapter 3 withholding issues. FATCA will strengthen compliance efforts in this area.

With the increased mobility of people and transactions, the chances for non-compliance increase because of the lack of understanding of filing and reporting compliance for individuals living or working abroad. In addition, the internet has made it easier for more U.S. citizens to have investments in foreign countries, resulting in more complex tax situations. An indicator of this growth is the 133 percent increase in individual Americans claiming foreign tax credits from 2000 to 2007.

This funding also will ensure proper coverage of the increasing number of small businesses with assets of less than \$10 million that have expanded into the international markets.

This initiative will allow the IRS to:

- Increase resources needed to identify and audit schemes to avoid FATCA compliance involving offshore financial centers;
- Increase audit coverage for U.S. taxpayers living abroad, non-resident aliens and small businesses operating overseas; and
- Ensure proper application of treaty benefits, foreign tax credits and foreign earned income exclusion.

Once the new hires reach full potential in FY 2014, the IRS will increase the number of examinations by 769 (614 individuals and 155 businesses).

- Criminal Investigation

This initiative also will fund the expansion of criminal investigation efforts to identify and investigate U.S. citizens and residents that hold substantial funds in financial institutions in foreign countries and fail to disclose the holdings to the IRS or fail to follow FATCA reporting and withholding requirements. The IRS and the Financial Crimes Enforcement Network plan to expand the Suspicious Activity Report/Report of Foreign Bank and Financial Accounts (SAR/FBAR) project to countries beyond Mexico.

Once the new hires reach full potential in FY 2014, the IRS will increase the number of cases completed by seven cases.

Increase International Coverage (+\$15.8 million / +107 FTE)

- Expand Global High-Wealth Coverage

High-wealth individuals frequently operate complex enterprises consisting of multiple, interrelated businesses and flow-through entities that often have international components. The complex interrelationships and ownership patterns within these enterprises often mimic those of large corporations and pose significant challenges to effective tax administration. This initiative continues IRS's efforts to focus on Global High-Wealth (GHW) taxpayers by increasing risk identification, case building, and examination capabilities.

The IRS will take a unified look at the entire web of business entities controlled by high-wealth individuals to better assess the risks. Addressing the high-wealth population holistically will allow the IRS to better align and coordinate its resources toward this higher compliance risk population and develop better approaches in accordance with identified risk factors. The goal is to identify alternative treatment and engagement options to encourage greater voluntary compliance. Additional benefits include addressing a concern that traditional methods of assessing high-wealth compliance risk, done largely on a return-by-return, year-by-year basis, may have overlooked aspects of complex enterprise structures frequently employed by high-wealth individuals.

This initiative will allow the IRS to:

- Conduct examinations of GHW individuals and related entities;
- Refine a risk assessment process for GHW enterprises;
- Examine highly-complex returns to address the non-compliant entities;
- Address non-compliance stemming from multi-jurisdictional tax evasion schemes; and
- Improve existing methods of capturing data to allow better and quicker identification of abusive transactions related to complex enterprises and structures.

Once the new hires reach full potential in FY 2014, the IRS will conduct 25 more individual and 274 business examinations.

- International Central Withholding Agreements

Non-resident aliens (NRAs) who earn income also can be subject to U.S. taxation. Increased coverage will ensure that the filed returns of foreign athletes and entertainers, who have entered into Central Withholding Agreements (CWA), properly reflect income and deductions. A CWA is an agreement between the

IRS and a NRA, usually an athlete or entertainer, and their withholding agent and/or promoter based on the net compensation the nonresident alien expects to earn in the United States. From 2004 through 2006, visas issued to foreign athletes and entertainers rose 9 percent each year. There were 78,000 of this type of visa issued in 2006 (most current figure available and does not include residents of Canada and Mexico). At a projected coverage of 70 percent, there are a possible 54,600 CWA candidates.

Criminal Investigation International Expansion (+\$8.5 million / +36 FTE)

The additional resources for Criminal Investigation (CI) will add special agents and support staff to maximize the deterrent effect of CI activities, increase voluntary disclosure, increase the number of potential tax evaders identified, and increase the tax revenue collected. This increased revenue applies not only to the years under investigation but to subsequent years after the taxpayer re-enters the tax system.

Similarly, the IRS will expand cooperation with the Department of Homeland Security (DHS), Immigration and Customs Enforcement (ICE) and Trade Transparency Unit (TTU) to identify import/export businesses involved in trade and transfer pricing transactions designed to facilitate tax evasion and money laundering activities. These programs will enhance IRS's ability to identify and develop leads for criminal investigations within domestic field offices.

The IRS has committed to the Attorney General to support the International Organized Crime (IOC) strategy and agreed to place staff at the International Organized Crime Intelligence and Operations Center (IOC-2) in support of intelligence gathering on international organized crime. While the IOC-2 will generate leads and support case agents, the Global Illicit Finance Team (GIFT) will address the financial investigations at the working agent level. The establishment of a West Coast GIFT and an expansion of the East Coast GIFT will enhance IRS efforts to respond effectively to the escalating demand for special agents to investigate illicit financial transactions on a national and international level. The operations of both IOC-2 and GIFT also will involve substantial coordination with IRS foreign attachés, as well as other federal attachés and other foreign law enforcement agencies.

This initiative will allow the IRS to:

- Further its global presence and its pursuit of offshore tax and financial crimes; and
- Support the Department of Justice Law Enforcement Strategy to combat international organized crime.

Once the new hires reach full potential in FY 2014, the IRS will increase the number of cases completed by 21 cases.

### International Data Analysis (+\$8.8 million / +19 FTE)

This initiative provides funding to perform international data analysis to detect abuses and trends.

The IRS receives annual submissions from tax treaty partners with income and withholding statements for U.S. taxpayers in foreign countries for a variety of income types, including interest, dividends, royalties and capital gains. The IRS also forwards to treaty partners similar information taken from the submissions of Form 1042-S for foreign taxpayers earning income in the U.S. Data are received in various formats by multiple recipients throughout the IRS, but not all business users with a need have access nor is it available in forms that facilitate full usage for tax purposes. For much of the data, effective electronic analysis has not occurred. The initiative would build on the prototype already developed that provides the means for electronically analyzing passport renewal data, security and exchange commission forms, routine exchange data from treaty partners and other data as identified. Currently, the IRS is not incorporating this tax information into information matching programs, and only rarely is this information incorporated into ongoing compliance efforts. This solution will:

- Provide inclusion of foreign income into information matching programs reducing a serious tax gap related to these types of returns;
- Make the data available for compliance research for modeling taxpayer behavior and for the identification of high-risk returns; and
- Strengthen partnerships with tax treaty partners by providing a more effective means of exchanging information in a timely way.

Similarly, the IRS currently has no way to link individual filers with complex international financial transactions to related businesses and other entities to which they have significant or controlling interests. This solution provides the overall approach for providing technology capabilities to support international risk assessments and tax compliance across the IRS and to support several new initiatives, such as the GHW Industry and Transfer Pricing Practice.

To address current limitations of international tax compliance, the IRS seeks additional resources to:

- Increase acquisition, utilization and availability of information on international tax issues such as passport renewal data, security and exchange commission forms, routine exchange data from treaty partners, and any additional data that might be identified;
- Increase international compliance risk assessment (i.e., link GHW industry individual taxpayer behaviors to businesses or tax-exempt organizations);
- Leverage insights into international compliance risks across all international taxpayer segments;



- Improve international compliance workload identification across IRS organizations to assess the total volume of workload exhibiting specific compliance risks; and
- Create an enterprise-wide database with tools and technologies that can be used throughout IRS to:
  - Promote collaborations for cases that cut across the IRS organization;
  - Centralize disparate datasets into a cohesive data sharing strategy;
  - Analyze complex international and offshore cases; and
  - Identify abusive transactions and emerging trends.

Other Direct Costs (+\$4.5 million / +29 FTE)

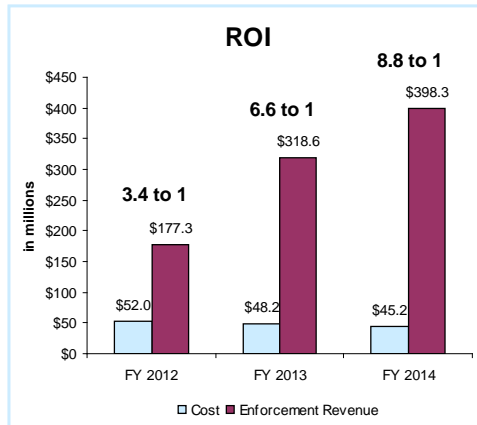
*Dollars in Millions*

IRS Activity	Cost	FTE	Explanation
Appeals	\$1.5	10	Ensure proper handling of cases, fair enforcement of laws, and – when appropriate – equitable application of taxes and penalties.
Chief Counsel	\$3.0	19	Support examinations of Forms 1042 and 1042S and assist audit teams in addressing complicated withholding issues.
<b>Total</b>	<b>\$4.5</b>	<b>29</b>	

*Increase Collection Coverage*  
 +\$52,000,000 / +413 FTE

Funding for Increase Collection Coverage will expand work on the collection inventory and improve collection processes to bring taxpayers who fail to pay their tax debt into compliance and produce additional annual enforcement revenue of \$398.3 million with an ROI of 8.8 to 1 once the new hires reach full potential in FY 2014.

Position Type/Other Costs	FTE	\$000
<b>Nonfiling/Underpayment Compliance</b>	282	\$26,300
Customer Service Representative	254	22,737
Support Staff	28	3,202
Safeguard Travel		361
<b>Offers-In-Compromise (OIC)</b>	75	\$7,920
Revenue Officer	25	4,127
Tax Examiner	17	1,493
Support Staff	33	2,300
<b>Other Costs</b>	56	\$5,755
Appeals Officer	5	750
Revenue Agent	1	137
Attorney	10	1,773
Customer Service Representative	35	2,618
Support Staff	5	477
<b>IT Projects</b>	0	\$12,025
Electronic Lien (e-Lien)		3,000
Business Masterfile CCNIP		3,025
Integrated Collection System (ICS)		2,000
Consolidated Decision Analytics (CDA)		3,000
Online Offer-in-Compromise (OIC)		1,000
<b>Total</b>	413	\$52,000



Major Activities	Projected Revenue	TDI	TDA
	\$M	Closures	Closures
Nonfiling/Underpayment Compliance	\$398.3	25,200	144,300

Nonfiling/Underpayment Compliance (+\$26.3 million / +282 FTE)

This initiative funds the expansion of the Automated Collection Systems (ACS) program to address nonfiling and underpayment compliance more effectively. The increase will allow the IRS to address growing collection case inventories and call volumes. This effort will help reduce the nonfiling tax gap, estimated at \$27 billion (approximately 8 percent), and the underpayment tax gap, estimated at \$33 billion (approximately 10 percent).

The ACS is a call-site operation and is the most productive IRS program for revenue collection. In FY 2010, ACS call volume was 11 percent more than in 2009. Significant increases in phone volume occurred after IRS representatives began leaving messages identifying IRS as the caller. ACS support staff will be increased in Atlanta to help place

employees who will be effected by the closing of the Atlanta Submission Processing Center scheduled for the end of FY 2011. These ACS resources will address the workload generated by increased balance due and delinquent return notices and the expansion of the international examination program, which resulted in a significant increase in workload.

Offers In Compromise (OIC) (+\$7.9 million / +75 FTE)

The OIC program processes taxpayer requests to reduce or eliminate their tax liabilities because of extreme circumstances and/or hardship. In FY 2010, the requests for OIC services was 8.5 percent more than in 2009. The funding will address the increased workload attributable to more taxpayers experiencing economic hardship and the IRS focus on assisting unemployed taxpayers. Even with the additional resources requested in the FY 2011 budget request, current submission levels will overwhelm the program and will result in case processing delays.

Collection IT Requirements (+\$12.0 million)

The IRS cannot pursue a large portion of its collection inventory because of resource constraints and is developing innovative approaches to inventory selection. The following projects will allow the IRS to innovate and improve the collection process:

- Consolidated Decision Analytics (CDA) – Improve the selection, prioritization, and assignment of collection cases. The initiative supports the enhancement of workload prediction and selection models, allowing the IRS to allocate collection resources more effectively to reduce the tax gap and address the inventory of unpaid assessments.
- Integrated Collection System (ICS) – Continue the modernization of ICS through automation of manual processes, improving employee efficiency and productivity, and providing a streamlined process for capturing financial data.
- Business Masterfile Case Creation Non-filer Identification – Identify business return non-filers, including unknown non-filers who may be delinquent in filing their tax returns. Expand current algorithms and data sets and incorporate available state return data to improve the quality of case selection and allow the system to become the primary repository where cases are created, prioritized, selected and maintained.
- Electronic Lien (eLien) System – Develop an eLien system to deliver liens electronically. More than one million federal tax lien documents are mailed each year to more than 4,000 state and local jurisdictions. This system will eliminate GAO findings by reducing the time to file lien releases and resolve lost liens. Tax liens are a significant tool in the IRS collection program, resulting in the filing of over 450,000 liens annually.

Other Costs (+\$5.8 million / +56 FTE)

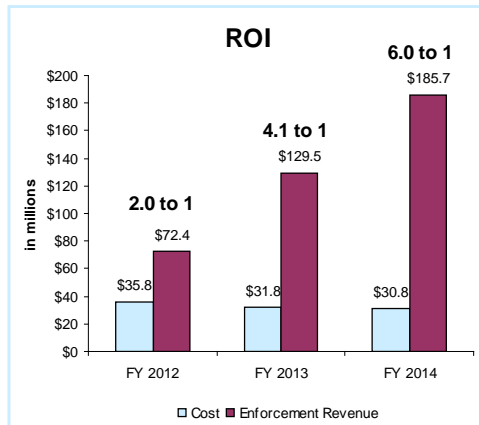
*Dollars in Millions*

<b>IRS Activity</b>	<b>Cost</b>	<b>FTE</b>	<b>Explanation</b>
Appeals	\$1.0	7	Support examination efforts on key compliance areas focused on improving voluntary compliance.
Chief Counsel	\$2.0	12	Provide advice related to refundable credits and assist in litigation against promoters of schemes to fraudulently claim these credits and any cases resulting from denial of refunds. Advise examiners hired to do employment tax audits.
Taxpayer Advocate Service	\$0.3	3	Ensure the IRS follows appropriate procedures and does not create unnecessary burdens or compromise taxpayers' rights.
Wage & Investment	\$2.5	34	Support examination efforts by ensuring staffing available to handle downstream impact in collection, accounts management and submission processing operations.
<b>Total</b>	<b>\$5.8</b>	<b>56</b>	

*Implement Merchant Card and Basis Reporting*  
 +\$35,730,000 / +415 FTE

Funding for Implement Merchant Card and Basis Reporting will staff programs to implement information reporting on merchant payment card and third party reimbursements enacted in the Housing and Economic Recovery Act of 2008 (Public Law 110-289) and basis reporting on security sales enacted in the Emergency Economic Stabilization Act of 2008 (Public Law 110-343), producing additional annual enforcement revenue of \$185.7 million with an ROI of 6.0 to 1 once the new hires reach full potential in FY 2014.

Position Type/Other Costs	FTE	\$000
<b>Information Reporting on Merchant Card Reimbursements AUR</b>		
	327	\$27,456
Tax Examiner	185	17,529
Data Transcriber	126	8,291
Support Staff	16	1,142
IT Equipment		494
<b>Basis Reporting on Security Sales</b>		
	20	\$1,316
Data Transcriber	20	1,316
<b>Other Costs</b>		
	68	\$6,958
Revenue Officer	13	1,763
Revenue Agent	1	137
Customer Service Representative	28	2,099
Attorney	4	725
Paralegal	3	265
Support Staff	19	1,969
<b>Total</b>	<b>415</b>	<b>\$35,730</b>



Major Activities	Individual and Business Return Audits
Information Reporting on Merchant Card Reimbursements	325,000

The IRS is building new IT systems and modifying existing systems to create the Business Master File Automated Underreporting Program (BMF AUR) to implement document matching for merchant card payment transactions. In FY 2011, the IRS requested resources to pilot the Business Master File AUR program and test new procedures. The FY 2012 initiative will allow the IRS to implement additional document matching for merchant payment card and third party entities that transfer payments and money between banks and merchants to report the amount of the transaction, and the name, address, and taxpayer identification number (TIN) of each payee receiving payments from reportable transactions on Form 1099-K, *Merchant Card and Third Party Payments*.

Information Reporting on Merchant Payment Card Reimbursements – Underreporter  
(+\$27.5 million / + 327 FTE)

Underreported business income accounts for a significant portion of the individual income tax gap. A business receives payments for goods or services through a consumer payment card or through third party entities. These receipts can go unreported by businesses, thereby significantly contributing to the tax gap.

The enacted legislation allows the IRS to validate income reported by businesses with their payment card receipts and third party transactions through additional information reporting:

- Payment card processors will report total payments made to a business; and
- Third party settlement organizations will report network transactions settled among participating payees.

The legislation will help reduce the tax gap in three ways:

- A business could reconcile merchant card payments and third party network transactions to an official year-end statement;
- A business could avoid underreporting knowing the IRS performs income validation through document matching; and
- A business that evades its tax obligations by not filing or understating its income would be easier for the IRS to identify.

To implement the document matching of Merchant Payment Card reimbursements, this initiative funds 126 FTE for data transcribing to capture payment information and new line items from income tax forms and 185 FTE (AUR tax examiners) to reconcile approximately 242,000 additional tax returns beginning in FY 2012. Once new hires reach full potential in FY 2014, this investment will produce 325,000 more individual and business return reconciliations.

Basis Reporting on Security Sales (+\$1.3 million / +20 FTE)

GAO estimated that 36 percent of individual taxpayers misreported their securities capital gains or losses in tax year 2001. The estimated capital gains tax gap for Tax Year 2001 is \$11 billion. The enacted legislation requires investment brokers to report the adjusted basis of publicly traded securities owned by customers. The Basis Reporting on Security Sales program audit workload levels would remain the same. However, the additional information would improve productivity, case selection, and greatly reduce the “no change” rate.

This initiative includes 20 FTE to transcribe basis information from Form 1099-B, *Proceeds From Broker and Barter Exchange Transactions*, and related income tax line items on Form 1040 *Schedule D, Capital Gains and Losses*. This information will capture basis reporting on securities sales to improve document matching.

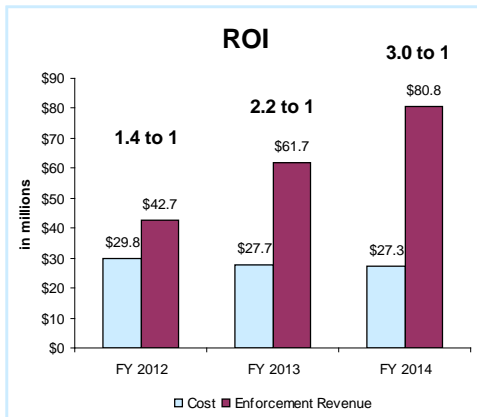
Other Direct Costs (+\$6.9 million / +68 FTE)

*Dollars in Millions*

<b>IRS Activity</b>	<b>Cost</b>	<b>FTE</b>	<b>Explanation</b>
Appeals	\$2.0	15	Support examination efforts on key compliance areas focused on improving voluntary compliance.
Chief Counsel	\$1.1	9	Litigate those cases that are not resolved at the audit or appeals stages.
Taxpayer Advocate Service	\$1.7	16	Ensure the IRS follows appropriate procedures and does not create unnecessary burdens or compromise taxpayers' rights.
HCO	\$0.1	1	Handle increased workload to hire and support staff.
Wage & Investment	\$2.0	27	Support examination efforts by ensuring staffing available to handle downstream impact in collection, accounts management and submission processing operations.
<b>Total</b>	<b>\$6.9</b>	<b>68</b>	

*Increase Coverage to Address Tax Law Changes and Other Compliance Issues*  
 +\$96,718,000 / +497 FTE

The Increase Coverage to Address Tax Law Changes and Other Compliance Issues initiative addresses compliance issues and new responsibilities arising from recent tax law changes included in major legislation such as the American Recovery and Reinvestment Act of 2009 (Recovery Act) (Public Law 111-5) and the Affordable Care Act (ACA) (Public Law 111-148). This initiative will fund compliance programs needed for new provisions such as direct-pay bonds, new requirements on tax-exempt hospitals, a new fee on manufacturers and importers of branded prescription drugs, the excise tax on indoor tanning, and also will increase specialty programs (i.e., employment tax, excise tax, and estate and gift tax) audits. These resources would produce additional annual enforcement revenue of \$80.8 million with an ROI of 3.0 to 1 once the new hires reach full potential in FY 2014.



Position Type/Other Costs	FTE	\$000
<b>Expand Coverage of Specialty Taxes</b>	<b>45</b>	<b>\$6,730</b>
Revenue Agent	32	4,408
Attorney	11	1,642
Support Staff	2	180
Contractor Service		500
<b>Support Expansion of Direct-Pay Bonds</b>	<b>16</b>	<b>\$2,550</b>
Revenue Agent	8	1,093
Tax Law Specialist	4	825
Program Manager	2	460
Clerk	2	164
Support Services		8
<b>Taxpayer Service Support for AUR Soft Notices</b>	<b>36</b>	<b>2,742</b>
Customer Service Representative	23	1,707
Tax Examiner	13	855
Additional Postage for Soft Notices		180
<b>Examination IT Requirements</b>		<b>\$5,975</b>
Correspondence Imaging Compliance (CIC)		5,975
<b>Other Costs</b>	<b>37</b>	<b>\$5,106</b>
Revenue Agent	3	410
Appeals Officer	23	3,446
Attorney	2	402
Customer Service Representative	3	287
Taxpayer Advocacy Specialist	2	209
Manager, Analyst, and Support Staff	4	352
<b>Implement Affordable Care Act (ACA)</b>	<b>312</b>	<b>\$65,606</b>
<b>Promote Compliance with New Excise Tax</b>	<b>81</b>	<b>\$11,506</b>
Revenue Agent	58	9,166
Tax Examiner	8	687
Tax Technician	2	181
Manager, Analyst, and Support Staff	13	1,472
<b>Administer New Fees on Drug Manufacturer and Health Insurers</b>	<b>76</b>	<b>\$29,278</b>
Revenue Agent	5	1,025
IT Project Specialist	67	10,747
Manager, Analyst, and Support Staff	4	764
Contractor Service		12,092
Software		750
Computer Equipment		3,900
<b>Strengthen Oversight of Exempt Hospitals</b>	<b>84</b>	<b>\$9,861</b>
Revenue Agent	35	3,965
Tax Law Specialist	22	3,433
Manager, Analyst, and Support Staff	27	2,463
<b>Update Existing IT Systems for Tax Law Changes</b>	<b>71</b>	<b>\$14,961</b>
IT Project Specialist	71	11,361
Computer Equipment		3,600
<b>Other ACA Costs</b>	<b>51</b>	<b>\$8,009</b>
Appeals Officer	10	1,879
Attorney	8	1,501
Taxpayer Advocacy Specialist	17	1,641
Manager, Analyst, and Support Staff	16	2,988
<b>Total</b>	<b>497</b>	<b>\$96,718</b>

Major Activities	Projected Revenue	Specialty Program	Exams
	\$M	Audits	
Specialty Programs	\$43.0	2,210	
IRS Bond Enforcement Activities			675
<b>Affordable Care Act</b>			
Promote Compliance with New Excise Tax	\$37.8	1,000	
Strengthen Oversight of Exempt Hospitals			1,700
<b>Total</b>	<b>\$80.8</b>	<b>3,210</b>	<b>2,375</b>



### Expand Coverage of Specialty Taxes (+\$6.7 million / +45 FTE)

This initiative increases compliance activities in the Employment, Excise, and Estate and Gift Tax Programs:

- The *Employment Tax* program would focus on misclassification of employees as independent contractors through an increase in worker classification audits. It also would focus on tip compliance by assessing the employer share of FICA taxes on unreported tip income and expanding the Voluntary Compliance Agreement process for governmental employers.
- The *Excise Tax* program would focus on the increased workload involving international issues of foreign entities such as insurance brokers and foreign airlines, referrals from large business audits, and non-filers.
- The *Estate and Gift Tax* program would focus on changes in the estate tax law and on expanding non-filer work in both programs. IRS non-filer work has improved using data from state agencies and new research to develop and refine both estate and gift non-filer models. The expansion of efforts to address non-filers is critical to achieving a higher level of voluntary compliance with estate and gift laws.

Once the new hires reach full potential in FY 2014, this investment will produce 2,210 more specialty program return audits and generate \$43 million in revenue.

### Support Expansion of Direct-Pay Bonds (+\$2.6 million / +16 FTE)

Build America Bonds (BABs) are tax-credit bonds created by the Recovery Act, which were extended and expanded by the Hiring Incentives to Restore Employment Act (Public Law 111-147). The requested resources would allow IRS enforcement to keep pace with the projected growth in these and similar refundable credit bonds by:

- Performing critical pre-payment and post-issuance compliance checks on direct payment bonds;
- Regulating the volume cap limitations;
- Preventing the risk of lost revenue by maintaining a strong examination program to address both traditional tax exempt bonds and new tax advantaged issuances such as BABs; and
- Meeting the demand for new bond issuances.

The direct payment feature of BABs and other refundable tax credit bonds introduces new risks to the Treasury. Through November 2010, state and local governments issued more than 2,000 direct-pay bonds worth \$165 billion. Since enactment of the Recovery Act, the IRS has completed pre-payment compliance reviews for more than \$2.5 billion in refundable credit payments. Without the requested resources, the risk of fraudulent credit payments made to BABs and other direct-pay bonds (potentially in the millions of dollars) would increase, and the ability of the IRS to prevent, detect, and remedy

noncompliant bond transactions would decrease. Additionally, many of these new bond arrangements are subject to volume cap limitations that restrict the aggregate value of bond issuances.

These staffing resources would be dedicated to monitoring the dollar limitations for tax-preferred bonds, would strengthen IRS's ability to ensure compliance with the volume cap rules, would allow the IRS to conduct pre-payment reviews for each related bond return, and would ensure that direct-pay bonds meet compliance requirements throughout their life cycle. Without this staffing, BAB and direct-pay bond compliance activities would strain existing enforcement resources and would decrease the number of completed exams in the Tax Exempt Bond examination program.

#### Taxpayer Service Support for AUR Soft Notices (+\$2.7 million / +36 FTE)

The IRS Strategic Plan includes the expansion of enforcement tools such as soft notices. A soft notice asks the taxpayer to self-correct to avoid the traditional compliance treatment resulting in additional phone calls and an increase in the number of amended returns filed. The AUR program minimizes revenue loss through document matching of taxpayer account information. Approximately 12 million taxpayers each year misreport income based on matching with third-party information returns. Of these taxpayers, the AUR program processes about four million cases. This initiative allows the IRS to issue notices to more non-compliant taxpayers.

#### Examination Information Technology (IT) Requirements (+\$6.0 million)

The IRS requests resources to make the exam process more efficient through the following technology initiatives:

- Correspondence Imaging Compliance (CIC) – Campus Compliance annually receives about 16 million pieces of correspondence averaging 10 pages each. The current manual process causes lengthy delays between receipt and disposition, resulting in increased telephone calls and resubmissions. CIC would replace the manual process with an electronic imaging system that would use existing technology. This investment:
  - Allows real-time access to documents when taxpayers contact the IRS;
  - Provides better management of correspondence inventory;
  - Allows correspondence to be available within one to three days, versus weeks;
  - Reduces cycle time or days in inventory; and
  - Reduces call volumes and duplicative mail receipts.

Hard copy document storage at the Federal Records Center and transshipments cost savings of \$12.1 million also would be realized during the project life cycle.

Implement Tax Code Changes (+\$65.6 million / +312 FTE)

- Promote Compliance with New Excise Tax (+\$11.5 million / +81 FTE)

The ACA imposes a new 10 percent excise tax on indoor tanning services provided on or after July 1, 2010. As many as 25,000 businesses provide indoor tanning services, including about 10,000 businesses that offer tanning services along with other services, such as spas, health clubs, and beauty salons. These entities typically do not have experience filing federal excise tax returns. This tax is expected to nearly double the number of Form 720, *Quarterly Federal Excise Tax Return*, that the IRS receives each quarter, from about 25,000 to more than 45,000.

To promote compliance with this new tax, the IRS has developed a comprehensive strategy to identify the affected population and reduce non-filing through the use of notices sent before initiating compliance activity. The IRS would select entities for examination based on risk, with an emphasis on non-filers. The IRS expects to close about 1,000 excise tax cases annually by FY 2013.

- Administer New Fees on Drug Manufacturers and Health Insurers (+\$29.3 million / +76 FTE)

The IRS must administer a new aggregate annual fee on businesses engaged in manufacturing and importing branded prescription drugs sold to specified government programs. The fee, set at \$2.8 billion for 2012 and 2013, represents a significant new source of revenue and requires the development of new systems and new processes for interacting with the affected business community. The IRS will receive and process information from manufacturers/importers and specific government programs (Veterans Affairs, Medicare Parts D and B, Medicaid, Department of Defense and TriCare) to determine each manufacturer's fee assessment. Continuing administration includes IRS collection of data, computation of each entity's fee amount, and notification of payment due. This system also would provide a technology platform for administering fees on health insurance policies and self-insured health plans, which become effective after September 30, 2012.

- Strengthen Oversight of Exempt Hospitals (+\$9.9 million / +84 FTE)

The ACA establishes new requirements for tax-exempt hospitals, which include a majority of the hospitals in the United States. IRS submission processing operations will need additional staff to process these new reporting requirements. In addition, the IRS is required to review, at least once every three years, the community benefit activities of tax-exempt hospital organizations to which new Section 501(r) applies (estimated at more than 5,100 entities). This initiative will increase the number of compliance reviews of tax-exempt hospitals by 1,700.

The first cycle of compliance reviews is scheduled to be completed by September 2013.

Additionally, the IRS (in consultation with the HHS) must develop and deliver a new annual report to Congress on levels of charity care in the hospital sector. These are substantial new requirements and additional resources are required to ensure the legislative intent of these changes is satisfied.

- Update Existing IT Systems for Tax Law Changes (+\$14.9 million / +71 FTE)

In the last few years recent tax law changes have required not only the design of new systems, but also have necessitated changes and upgrades to existing IRS systems to ensure that they accurately reflect the new requirements and can interact with other new systems. These changes allow the IRS to keep pace with new tax law, avoid the development of costly manual procedures to counteract unanticipated problems, and maintain the efficiency of IRS programs. It is critical that IRS systems reflect current law and exchange data and information reliably. These additional resources would help the IRS meet its tax administration responsibilities by keeping existing IT systems current with recent tax law changes that require the IRS to integrate new information reporting data, calculate and assess new taxes, administer new taxes (e.g., update tax accounts, send notices, provide updates to customer service), and assess penalties for incorrect reporting, failure to pay, etc.

Other Direct Costs (+\$13.1 million / +88 FTE)

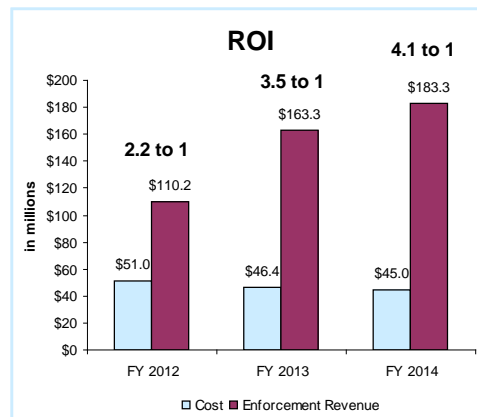
*Dollars in Millions*

IRS Activity	Cost	FTE	Explanation
Appeals	\$6.0	39	Support examination efforts on key compliance areas focused on improving voluntary compliance.
Chief Counsel	\$2.0	12	Provide advice related to refundable credits and assist in litigation against promoters of schemes to fraudulently claim these credits and any cases resulting from denial or refunds. Advise examiners hired to do employment tax audits.
Taxpayer Advocate Service	\$1.0	19	Ensure the IRS follows appropriate procedures and does not create unnecessary burdens or compromise taxpayers' rights.
Wage & Investment	\$2.0	3	Support examination efforts by ensuring staffing available to handle downstream impact in collection, accounts management and submission processing operations.
HCO	\$0.1	1	Handle increased workload to hire and support staff.
ACA Program Management (CFO/NHQM/WAGE)	\$2.0	14	Overall program management and administration of ACA tax law changes.
<b>Total</b>	<b>\$13.1</b>	<b>88</b>	

*Ensure Accurate Delivery of Tax Credits*  
 +\$260,293,000 / +834 FTE

Recognizing IRS's important role in delivering economic incentives through tax credits, the Ensure Accurate Delivery of Tax Credits initiative will improve the delivery of existing credits through a combination of improved technology tools and increased enforcement staffing. The initiative also funds the information technology and other systems required to implement the new ACA premium assistance tax credit, which becomes effective in 2014. The IRS must build new systems to support eligibility determinations based on household income, and modify existing tax processing systems to support reconciliation of advance payments of the credit. The initiative also funds the appropriate compliance resources for the small employer tax credit, which came into effect in 2010. The resources devoted to improving administration of existing credits would produce additional annual enforcement revenue of \$183.3 million with an ROI of 4.1 to 1 once the new hires reach full potential in FY 2014.

Position Type/Other Costs	FTE	\$000
<b>Establish Refundable Credit Compliance Office</b>	314	\$30,176
Revenue Agent	5	605
Tax Compliance Officer	35	3,606
Tax Examiner	220	20,097
Manager, Analyst, and Support Staff	54	5,868
<b>Other Costs</b>	16	\$2,621
Attorney	13	2,376
Manager, Analyst, and Support Staff	3	245
<b>Implement Affordable Care Act (ACA)</b>	453	\$213,459
<b>Provide Coverage for New Health Care Tax Credits</b>	234	\$23,927
Revenue Agent	193	20,113
Customer Service Representative	2	167
Tax Examiner	8	708
Manager, Analyst, and Support Staff	31	2,939
<b>Provide Facilities and Infrastructure for New Compliance Staffing</b>		\$13,837
<b>Expand IT Infrastructure for New Tax Credits</b>	219	\$175,695
IT Project Analyst	219	35,885
Contractor Service		111,960
Software		10,850
Computer Equipment		17,000
<b>Other ACA Costs</b>	51	\$14,037
Appeals Officer	10	1,858
Attorney	7	1,322
Taxpayer Advocacy Specialist	16	1,550
Manager, Analyst, and Support Staff	18	9,307
<b>Total</b>	834	\$260,293



Major Activities	Projected Revenue \$M	Protected Revenue \$M	Individual Audit	Business Audits	Exams
Refundable Credit Compliance Office	\$128.9	\$128.9	75,700		
Affordable Care Act	\$54.4		5,000	9,000	1,000
<b>Total</b>	<b>\$183.3</b>	<b>\$128.9</b>	<b>80,700</b>	<b>9,000</b>	<b>1,000</b>

### Establish Refundable Credit Compliance Office (+\$30.2 million / +314 FTE)

The Refundable Credit Compliance Office will develop a comprehensive and integrated compliance strategy for administering refundable credits and rapidly addressing refund schemes.

A refundable tax credit is a credit that can reduce tax liability below zero and can result in a negative tax liability. If the credit exceeds the total tax liability, the excess is refundable and the government incurs an outlay. Examples of refundable credits are the Earned Income Tax Credit (EITC) and the Child Tax Credit.

Establishing an office dedicated to refundable credit work allows the IRS to address non-compliance and fraud trends that emerge from existing and future refundable credits. Once the new hires reach full performance in 2014, the IRS will complete 37,850 more post-refund audits, generating annual enforcement revenue of \$128.9 million. The additional 37,850 pre-refund audits will protect an additional \$128.9 million in revenue.

The additional staffing would allow the IRS to maintain broad exam coverage by meeting the challenges of new credits without reducing its coverage of existing returns. The IRS would work both individual and small business cases produced by the new refundable credits.

The initiative funding:

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

### Implement New Legislative Provisions (+213.4 million / +453 FTE)

- Provide Coverage for New Health Care Tax Credits  
(+\$23.9 million / +234 FTE)

The ACA created a significant new credit for small employers to encourage these employers to provide health insurance coverage for their employees. This credit is equivalent to 35 percent of the employer's health care premium expenses (25 percent refundable credit for tax-exempt employers). The credit percentage increases to 50 percent (35 percent for tax-exempt organizations) for tax year 2014 and beyond. The IRS has identified and communicated with more than four million small businesses potentially eligible for this credit. These additional resources will allow the IRS to conduct focused examinations to encourage compliance with this credit and would allow the IRS to include this issue in routine examinations of small employer tax returns without reducing coverage of other tax compliance issues. This initiative also provides resources to address the expanded adoption tax credit.

- Provide Facilities and Infrastructure for New Compliance Staffing (+\$13.8 million)

Administration of various credits established by the ACA (especially the Premium Assistance Tax Credit) requires additional IRS campus staffing. Although the premium credit does not become effective until 2014, the IRS must begin the process of acquiring and building out new facilities in 2012 so that they will be available and functioning when these new employees are hired. This request includes funds for acquiring space and equipping facilities with the telecommunications and networking infrastructure needed for enforcement staff to perform their job duties effectively.

- Expand IT Infrastructure for New Tax Credits (+\$175.7 million / +219 FTE)

The ACA establishes a new premium credit to subsidize the cost of health insurance for millions of Americans who do not have access to affordable coverage. For a number of reasons, administering this credit will require a significant investment in new technology. First, the eligibility for the credit is based on household-level income information that is not currently maintained. This initiative would create a new tax data repository to support the eligibility determination for this new credit.

In addition, a new accounting and payment system would be needed to administer this benefit. The system would aggregate payments to insurers on the participants' behalf and track payments by insurer and participant.

Furthermore, individuals must reconcile any advance payments received throughout the year with the actual income reported on the tax return. IRS must modify systems, forms and instructions to support this process.

Finally, the IRS will build the infrastructure needed to perform document matching and other decision analytics to detect fraud and other non-compliance. Together, these systems ensure prompt and accurate delivery of the premium credit to eligible taxpayers while ensuring that this subsidy is not abused.

Other Direct Costs (+\$16.7 million / +67 FTE)

*Dollars in Millions*

<b>IRS Activity</b>	<b>Cost</b>	<b>FTE</b>	<b>Explanation</b>
Appeals	\$1.9	10	Staffing for increased receipts.
Chief Counsel	\$4.3	26	Counsel providing legal support for compliance activities.
Taxpayer Advocate Service	\$1.5	16	Staffing to handle additional case receipts.
ACA Program Management	\$9.0	15	Overall program management and administration of ACA tax law changes.
<b>Total</b>	<b>\$16.7</b>	<b>67</b>	

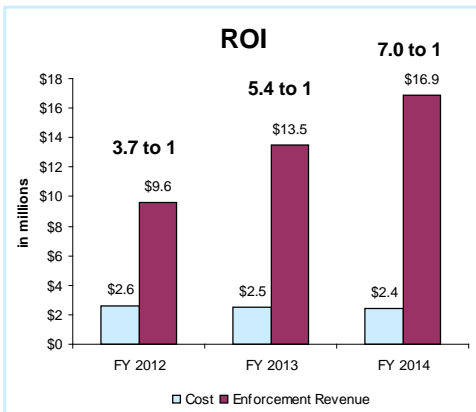


*Administer New Statutory Reporting Requirements*  
 +\$58,505,000 / +187 FTE

Recent legislation established significant new information reporting and sharing requirements from third parties (such as employers, health insurance providers), and the exchanges to administer the ACA's premium assistance tax credit, the individual coverage requirement, and the employer responsibility payment. Effective implementation requires significant enhancements to existing information returns systems to handle the additional volumes and new information reporting categories. This initiative also includes resources to implement provisions that allow IRS to share tax data with state and federal entities to determine eligibility for the advance premium credit. This request also includes resources to ensure secure exchange of information.

Position Type/Other Costs	FTE	\$000
<b>Implement Affordable Care Act (ACA)</b>	182	\$57,676
<b>Implement New 1099 Reporting Requirements</b>	82	\$23,286
Tax Examiners	29	2,627
IT Project Specialist	53	9,659
Contractor Services		6,000
Software		2,000
Computer Equipment		3,000
<b>Implement New Health Coverage Information Reporting</b>	100	\$34,390
Tax Technician	7	1,121
Manager, Analyst, and Support Staff	28	5,676
IT Project Specialist	65	10,480
Contractor Services		13,888
Software		1,225
Computer Equipment		2,000
<b>Other ACA Costs</b>	5	\$829
Attorney	4	751
Support Staff	1	78
<b>Total</b>	187	\$58,505

In addition, the ACA, as enacted, also amends Section 6041 of the Internal Revenue Code to require businesses to file Form 1099 information returns starting in 2012 for all aggregate purchases of services or property greater than \$600. The initial campus staff included in this initiative to handle the inventory resulting from this provision will produce additional annual enforcement revenue of \$16.9 million with an ROI of 7.0 to 1 once the new hires reach full potential in FY 2014.



Major Activities	Projected Revenue \$M	TDA/TDI Closures
<b>Affordable Care Act</b>		
Nonfiler Compliance	\$16.9	70,000
<b>Total</b>	<b>\$16.9</b>	<b>0</b>

Implement New 1099 Reporting Requirements (+\$23.3 million / +82 FTE)

Under ACA, the Form 1099 reporting requirement for a taxpayer making payments to a recipient aggregating \$600 or more for services or determinable gains in the course of a trade or business in a calendar year was expanded to include payments to corporations and payments for property. The IRS will need resources to hire additional campus staff and upgrade the Filing Information Returns Electronically (FIRE) system. The FIRE system provides the capability for businesses and others to file required information returns with the IRS in a cost-effective, electronic manner. In order to manage the additional workload from this provision, the IRS will need to upgrade the current system that is unable to handle the increased volume of submissions. This initiative also will provide the initial campus compliance staffing (29 FTE) to establish the program, including hiring and training of enforcement resources, to handle the additional inventory of non-filer assessments expected because of the expanded Form 1099 information reporting requirements from this enacted provision.

*Note: The Administration has proposed to repeal this provision based on the burden it places on small businesses. Should this provision be repealed, the IRS would adjust its initiative needs accordingly.*

Implement New Health Coverage Information Reporting (+\$34.4 million / +100 FTE)

The ACA establishes new requirements for employers and health insurance providers to report information to the IRS. It also creates new information sharing needs among the IRS, the HHS, and state health insurance exchanges. These requirements require the IRS to modify existing systems and develop new systems to accept, validate, process, aggregate, and store new information. This initiative includes IT resources to develop these systems and new staffing (35 FTE) to expand IRS safeguards and data protection.

Other Direct Costs (+\$0.8 million / +5 FTE)

*Dollars in Millions*

IRS Activity	Cost	FTE	Explanation
Chief Counsel	\$0.8	5	Develop policy for new reporting requirements and issue appropriate guidance to clarify requirements.
<b>Total</b>	<b>\$0.8</b>	<b>5</b>	

*Leverage Return Preparer Program to Reduce Noncompliance*  
 +\$16,600,000 / +108 FTE

Funding for Leverage Return Preparer Program to Reduce Noncompliance will increase tax return oversight to ensure that tax return preparers are competent and that the IRS collects the right amount of taxes. This initiative will ensure uniform and high ethical standards of conduct for tax return preparers by enforcing preparer compliance with IRS rules, increasing preparer examinations, and monitoring and pursuing preparers engaged in fraudulent activities. This initiative is core to the IRS’s tax gap strategy and will increase government revenue.

Position Type/Other Costs	FTE	\$000
<b>Enforcement Support of the Return Preparer Program</b>		
Revenue Agent	46	7,430
Revenue Officer	3	346
Tax Technician	22	2,429
Program Analyst	1	195
Special Agent	18	4,225
Appeals Officer	1	146
Attorney	1	162
Support Staff	16	1,667
Total	108	\$16,600

Competent tax return preparers who are well educated in the rules and subject matter of their field can prevent costly errors, potentially saving a taxpayer from unwanted problems later on and relieving the IRS from expending valuable examination and collection resources. Given the important role that tax return preparers play in federal tax administration, the IRS has a significant interest in being able to identify tax return preparers and monitor their tax return preparation activities. This effort also will support the Department’s High Priority Performance Goal of increasing voluntary compliance.

This initiative provides funding to ensure preparers are compliant with IRS rules and to design a preparer activity-monitoring program that will allow the IRS to:

- Match preparer information to the filed returns;
- Ensure return preparers are adhering to professional standards and the law;
- Ensure return preparers are compliant with their own tax returns; and
- Provide assurances to the taxpaying public that paid preparers are competent.

This initiative will deploy a coordinated return preparer compliance strategy by conducting visits and investigating suspicious activity, especially of abusive return preparers. The IRS plans to use undercover shopping, where appropriate, in the investigation of suspicious return preparer activity. The planning and synchronizing of shopping activities is a labor-intensive investigative tool. In an effort to enhance enforcement activities to identify unscrupulous return preparers, the IRS is requesting funding that will support the expansion of investigative efforts to include approximately 300 undercover shops each year.

To increase enforcement presence, the IRS will establish multi-agency tax administration taskforces to seek prosecution where appropriate with a focus on eliminating fraudulently obtained tax refunds. Special Agents will conduct outreach efforts that address return

preparer concerns year round while working with the various state taxing agencies to leverage resources and collaborate in prosecution efforts.

This initiative establishes a Scheme Development Center (SDC) that will focus on detecting international tax avoidance schemes. The SDC will develop proactive approaches to protect the integrity of the U.S. tax system by:

- Developing and implementing procedures for compliance checks of international return preparers who specialize in preparing returns for U.S. citizens living abroad (expatriates) and foreign persons subject to U.S. tax on U.S. earned income;
- Developing leads received by attachés involving abusive promoters preparing bad returns for citizens abroad;
- Identifying taxpayers abusing the foreign tax credit; and
- Analyzing data received as a result of the voluntary disclosure process.

A one-visit comprehensive return preparer compliance check will be used to verify compliance of a return preparer. This approach will increase direct compliance time by eliminating administrative redundancies of operating individual programs and shifting resources to a more holistic review of the preparer. While providing a full treatment strategy to the highest risk preparers, this approach also will support any specialized emphasis that might occur (e.g., greater weight to monitoring of new tax law provisions, in particular refundable credits that provide unique opportunities for abuse).

#### Other Direct Costs

There are no other direct costs associated with this initiative.

*Address Appeals Workload Growth*  
 +\$9,100,000 / +66 FTE

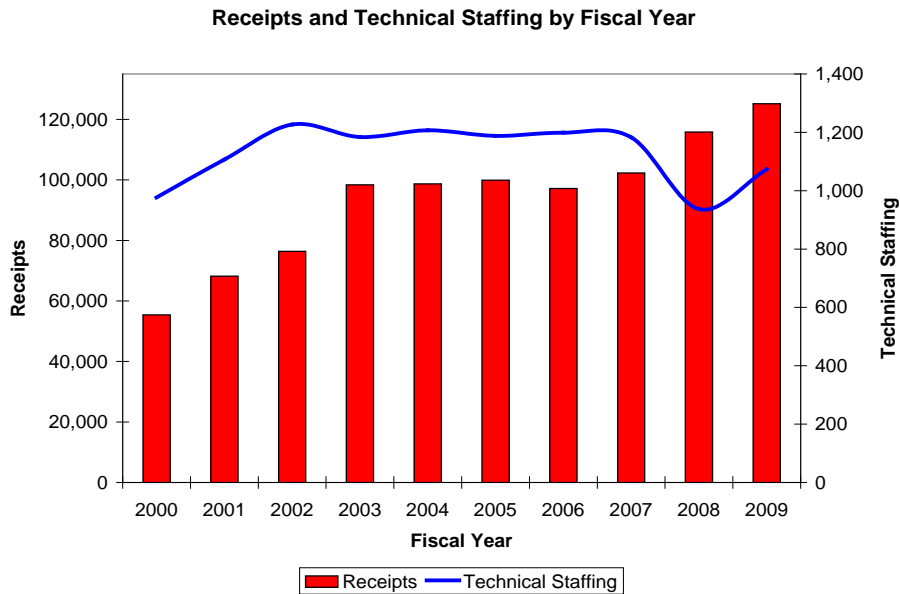
Funding for Address Appeals

Workload Growth will allow the IRS to increase Appeals staffing. Despite improvements in cycle time and increased efficiency in working cases, Appeals continues to experience rising inventories, and because of the nature of Appeals work, the cases are processed manually. Increased Appeals settlements lead to increased revenue.

Position Type/Other Costs	FTE	\$000
<b>Appeals Workload Growth</b>	66	\$9,100
Appeals Officer	20	2,902
Revenue Officer	46	6,198
<b>Total</b>	66	\$9,100

From FY 2000 through 2009, Appeals experienced significant workload growth. Case receipts increased by almost 126 percent, from 55,000 cases to more than 125,000 cases. However, Appeals staffing levels remained relatively constant. In FY 2000, Appeals had 977 case-working staff. After years of decline in staffing levels and recent hiring, staffing levels reached 1,074 case-working staff in FY 2009. Although Appeals case workload grew 126 percent, Appeals case work staffing levels grew by less than 10 percent. As a result, the average case inventory per Appeals caseworker increased from 36 cases in FY 2000 to 70 cases in FY 2010.

The chart below illustrates the relationship between Appeals workload and staffing over the past decade:



Over the next several years, Appeals workload will continue to grow. Current projections indicate that by FY 2012 case receipts will exceed 152,000, an increase of nearly 22 percent. Growth will continue beyond FY 2012 as well, reaching a projected 181,000 case receipts in FY 2015, a 38 percent increase above current levels and a 227 percent increase since FY 2000.

To meet the challenges posed by the growing number of receipts, Appeals needs additional technical staff to handle the large number of cases it receives:

- Appeals Officers are highly trained tax specialists capable of adjudicating both examination and collection cases at all levels of complexity. The additional Appeals Officer staff will meet the need for additional teams throughout the country.
- Settlement Officers are specialized case-working staff trained to handle collection receipts. Due to the substantial growth in these cases over the past several years, Appeals needs additional Settlement Officers throughout the country to help resolve this work efficiently and effectively.

#### Other Direct Costs

There are no other direct costs associated with this initiative.

*Implement Uncertain Tax Position Reporting Requirements*  
 +\$4,129,000 / +20 FTE

Funding to Implement Uncertain Tax Position Reporting Requirements will allow the IRS to provide guidance and certainty on tax positions and meet increasing taxpayer demands for this service.

Position Type/Other Costs	FTE	\$000
Implement New Reporting Requirements	20	\$4,129
Attorney	20	4,129
<b>Total</b>	<b>20</b>	<b>\$4,129</b>

This increased workload is expected as a result of changes the IRS has proposed (Announcement 2010-9, Uncertain Tax Positions – Policy of Restraint) that require certain large business taxpayers to report information about their uncertain tax positions that could affect their U.S. federal income tax liability. It is a critical part of IRS’s work to gain greater transparency into large corporate tax returns.

The IRS expects both the volume and complexity of workload to increase in areas listed below as taxpayers seek certainty on the most complex issues facing their organizations and tax administration.

- Advanced Pricing Agreements (APA);
- Private Letter Rulings (PLR);
- Non-PLR Closing Agreements (CLAG);
- Actions on Decisions (AOD);
- Published guidance of all types;
- Legal advice (Pre-Filing); and
- Inquiries and general information letters (as part of training).

Taxpayers subject to this requirement will provide a concise description of each uncertain tax position for which the taxpayer or a related entity has recorded a reserve for U.S. federal income tax in its financial statements. As proposed, a taxpayer also would be required to report those positions for which no reserve was established because the taxpayer expects to litigate the position and prevail in litigation.

The requirement will apply to business taxpayers with assets of more than \$10 million and a financial statement prepared under FIN 48 (i.e, a standard for accounting for uncertainty in income taxes recognized in an enterprise’s financial statements) or other similar accounting standard, such as International Financial Reporting Standards (IFRS), that reflects uncertain tax positions. Under this proposal, for each uncertain tax position identified, the taxpayer will be required to:

- Use a new schedule to disclose their uncertain tax positions and file it with the taxpayer’s Form 1120, *U.S. Corporation Income Tax Return*, or other business tax returns; and

- Rank their uncertain positions from highest to lowest based on the size of the position (based on U.S. federal income tax reserve amounts).

The schedule was implemented in 2010 for corporations filing Form 1120, Form 1120F, *U.S. Income Tax Return of a Foreign Corporation*, Form 1120L, *U.S. Life Insurance Company Income Tax Return*, and Form 1120PC, *U.S. Property and Casualty Insurance Company Income Tax Return*.

Other Direct Costs

There are no other direct costs associated with this initiative.



*Enhance Security and Disaster Recovery Systems Capability*  
 +\$12,000,000 / +5 FTE

Funding for Enhance Security and Disaster Recovery Systems Capability is part of a multi-year improvement strategy to support the continued deployment of critical disaster recovery capabilities. It would improve the resiliency of two critical business processes: *Processing Remittances and Processing Tax Returns*.

Position Type/Other Costs	FTE	\$000
<b>Develop Security and Disaster Recovery System Capability</b>	5	\$12,000
IT Project Specialist	5	619
IT Equipment		8,381
Software		1,000
Telecommunication Equipment		1,250
Contractor Services		750
<b>Total</b>	5	\$12,000

This initiative enhances the resiliency of existing architectures by deploying systemic improvements to build a more fault-tolerant infrastructure designed to reduce the recovery time dramatically for critical applications supporting remittance and tax return processing. The improvements include:

- Enhancing mainframe and mid-tier system processing;
- Building test and development environments;
- Increasing network and data storage capacities;
- Deploying high-availability and geographically-dispersed data replication architectures;
- Leveraging virtualized infrastructures; and
- Evaluating alternative IT architectures, such as cloud-based computing, that can facilitate the provisioning and scalability of IT resources for disaster recovery requirements.

This initiative also will ensure IRS compliance with government mandates as directed by Critical Infrastructure Protection and Homeland Security Presidential directives.

Enhance Security and Disaster Recovery Systems Capability (+\$12.0 million / +5 FTE)

Recent business impact and technical assessments confirmed that the IRS does not have adequate redundancy capabilities for critical tax processing systems. In the event of a disaster, the IRS would not be able to continue processing revenue, returns, and taxpayer refunds efficiently and provide customer service in a timely manner.

The IRS needs to maintain the capabilities that support its critical business processes. The two processes covered in this initiative represent the highest priority critical business processes in need of disaster recovery capabilities. In addition, Homeland Security Presidential Directive 7 has resulted in designating several IRS core tax processing systems that directly support *Processing Remittances and Processing Tax Returns* as an essential part of the national Critical Infrastructure Protection (CIP) Program.

The IRS CIP assets are part of the overall federal government continuity program that supports the requirements for maintaining national economic stability, national security, public morale, and confidence in government. To meet these requirements, these critical assets must have sustained systems architectures that ensure availability through resiliency and redundancy.

The IRS needs a recovery time of 12 to 36 hours to allow continued processing of revenue and taxpayer refunds. With the current infrastructure, the recovery of the supporting systems will likely take several days, and in some cases weeks. Both internal and external assessments confirm inadequate disaster recovery capabilities for major mainframe-based legacy remittance and tax processing systems. These inadequacies range from no disaster recovery infrastructure to insufficient infrastructure operating at decreased capacity resulting in an inability to meet acceptable recovery time objectives, degraded user capabilities, and extended processing times. Key applications, such as e-Services, which support tax return processing are currently unrecoverable. The profile also shows that other applications (such as the Master File) that support remittance processing and several other critical business processes can be recovered fully only after five days.

The IRS estimates that each hour of unavailability of the Electronic Filing (e-File) system could potentially affect \$199 million in refunds. Moreover, 83 percent of the systems that support the critical processes, *Processing Remittances* and *Processing Tax Returns*, are either currently unrecoverable or have recovery times that exceed 36 hours.

Recent analysis of IRS remittance and tax return processing workloads indicate that extended application recovery times would affect the ability of the IRS to deposit federal tax receipts. In April, deposits were estimated at \$814 million per day representing approximately \$43.4 million in interest revenue. These figures do not include electronic, bank lockboxes or federal tax deposit coupons, which, if added, would significantly increase the daily tax receipts. In addition, a major outage would affect an estimated \$952 million in refund processing for each day of downtime.

Some of the specific improvements include:

- Implementing an automated data replication solution (\$8.7 million). This would reduce the recovery window for major legacy mainframe applications. The potential reduction of the recovery window for Master File would be from five days to nine hours;
- Upgrading disk storage capacity to recover the application development and testing environment (\$1.8 million). This upgrade would significantly reduce the current 60-day window to recover this environment. This is critical for applications such as Master File; and
- Upgrading the network capacity (\$1.5 million). The upgrades would expand IRS's bandwidth, which determines the amount of data that can be carried from one point to another in a given time period (usually a second). Expanding the

bandwidth would provide the capacity necessary to support and fully realize the benefits of automated data replication initiatives.

Other Direct Costs

There are no other direct costs associated with this initiative.

*Update Integrated Financial System (IFS)*  
 +\$27,500,000 / +5 FTE

Funding for Update Integrated Financial System will complete the first phase of an initiative to update IFS.

Position Type/Other Costs	FTE	\$000
<b>Integrated Financial System (IFS)</b>	5	\$27,500
IT Project Specialist	5	770
Contractor Services		26,730
<b>Total</b>	5	\$27,500

Updating to SAP ERP 6.0 software provides the following benefits:

- Ensures compliance with future federal accounting requirements, including Government-Wide Accounting (GWA) standards and Common Government-wide Accounting Classification (CGAC) requirements;
- Moves to an open-services technology platform to allow implementation of standardized interfaces and communication with other federal systems with minimal configuration;
- Allows automatic functional updates to implement SAP enhancements without costly upgrades;
- Provides standardized federal accounting functionality in compliance with federal financial management requirements;
- Eliminates current work-around processes necessary to support adjustments and reimbursable receivables activities not provided in the current system;
- Eliminates the year-end blackout period and multiple budget versions; and
- Eliminates the month-end accrual process because liabilities would post upon receipt.

IFS runs on SAP 4.6C, which is more than ten years old, and the IRS is the only federal agency using this old software. Since January 2007, SAP no longer provides functional updates for Version 4.6C and will not make changes to accommodate new legislative or other federal accounting requirements, including CGAC and GWA standards. SAP provided support through an extended maintenance contract through December 2010. Beginning in 2011, SAP is providing only customer-specific support, charging maintenance plus time and materials to keep 4.6C operational. Thus, IRS is paying a premium to maintain the current level of maintenance support. Upgrade implementation will take approximately 18 months, and therefore, FY 2012 funding would result in implementation in FY 2014.

If the IRS cannot implement subsequent new federal accounting requirements, such as CGAC or changes to existing standards, IRS compliance with federal financial management standards will be jeopardized. Attempts to change the base code of the unsupported software could increase upgrade costs or be so invasive as to prohibit future upgrades, as occurred with the IRS legacy accounting system.

The risks of moving to SAP ERP 6.0 are low because it requires limited data conversion, limited configuration management, and minimal changes to business processes,

interfaces, and reports. Over the past five years, 13 federal agencies successfully moved from SAP 4.6C to 6.0, thus demonstrating the low-risk nature of the move. This was validated by a contractor study that indicated that updating to SAP ERP 6.0 was the best option for IRS.

#### Other Direct Costs

There are no other direct costs associated with this initiative.

*Leveraging Data to Improve Compliance*  
*+\$1,400,000 / +5 FTE*

Funding for Leveraging Data to Improve Compliance will capitalize on the recent significant increase in data reported to the IRS, with the goal of increasing compliance.

Position Type/Other Costs	FTE	\$000
<b>Office of Research Analysis &amp; Statistics</b>	5	\$1,400
Computer Scientist	5	965
Contractor Services		435
<b>Total</b>	5	\$1,400

The IRS is focused on using a data-driven approach to continually innovate and improve its programs. This investment will capitalize on the recent significant increase in data reported to the IRS, with the goal of increasing compliance and evaluating IRS-administered programs. The IRS is administering multiple new tax provisions and programs in an increasingly complex tax system. Inadequate analysis of the information generated by these new activities will hamper improvements in compliance and tax administration.

While the IRS has robust analytical programs and capabilities, they align with existing organizational structures and address tactical performance targets. The existing programs have difficulty merging and mining the increased amount of data now reported to the IRS.

This initiative will use advances in analytical techniques, such as machine learning, neural networks, and data mining, to integrate business and technology aspects to improve core business operations and tax programs. The IRS will establish an office dedicated to new methods of analysis not tied to annual performance targets with a goal of achieving breakthrough insights into compliance.

To facilitate this effort, the IRS must merge large volumes of disparate data elements into a format usable by advanced business analytics. This initiative will:

- Identify emerging areas of non-compliance;
- Promote the use of advanced modeling techniques that, in combination with IRS databases, will provide new insights into taxpayer behavior and into how different types of tax-related provisions affect compliance rates among taxpayers; and
- Address the changing nature of IRS's workload and result in improvements in current analytical techniques to support existing programs. For example, current machine-learning algorithms developed for workload selection for high-income audits would be improved through new techniques.

Other Direct Costs

There are no other direct costs associated with this initiative.

*Enhance Physical Security for Federal Employees*  
 +\$15,481,000 / +10 FTE

The February 2010 attack against the IRS in Austin, Texas, killed one IRS employee and injured several others. Funding for Enhance Physical Security for Federal Employees will provide the investments needed to update and/or upgrade the physical security of IRS facilities. The investments enhance the overall security of IRS employees in the work place, while maintaining open access for the taxpayers that they serve.

Position Type/Other Costs	FTE	\$000
Enhance Security Guard Services		\$10,000
Improve Security Facility		\$1,569
Address Security Threats	10	\$3,912
Special Agent	8	1,852
Attorney	1	196
Support Staff	1	152
IT Equipment		1,712
<b>Total</b>	<b>10</b>	<b>\$15,481</b>

Enhance Security Guard Services (+\$10.0 million)

The additional resources will enhance security by providing guard presence in Taxpayer Assistance Centers (TACs) during the filing season. IRS employees are more exposed to irate or disgruntled taxpayers in TACs. The presence of a security guard can assist in preventing or defusing dangerous situations.

The IRS currently operates 401 TACs of which 26 sites have a permanent guard presence and an additional 36 sites have guards during the January 1 through April 15 filing season only. The IRS developed criteria to identify the TAC sites with the greatest risk. These criteria considered the following:

- The number of incidents;
- Presence of Criminal Investigation (CI) at the site;
- Potentially dangerous taxpayers among contact taxpayer population; and
- Neighborhood crime statistics.

The requested resources fund expanded guard services at those sites with the greatest risk.

Improve Facility Security (+\$1.6 million)

As a result of the Austin attack, the IRS is conducting a security reassessment of all facilities to identify vulnerabilities to employees, information, equipment, and structures. Risk assessments address all layers of security measures, including geography, demographics, crime statistics, effectiveness of existing security, and the age and types of security equipment in place. The resources will be used to purchase and install equipment to address vulnerabilities identified through the reassessment process.

### Address Security Threats (+\$3.9 million / +10 FTE)

There has been an increase in threats against the U.S. Government in general, and the IRS is one of the most public faces of government. The IRS must ensure that its contacts with individuals whose intention may be to incite violence are identified, evaluated, and dealt with quickly and appropriately. CI works closely with partners at Treasury Inspector General for Tax Administration (TIGTA) involved in the domestic terrorism arena to address external security risks and protect against external threats to the IRS. This initiative not only addresses threats to the IRS, but also encompasses all domestic terrorism.

This initiative will provide additional resources to identify and investigate individuals or entities whose anti-government or anti-tax rhetoric exhibit behavioral traits associated with domestic terrorism. CI will focus on the recognition of potential threats or activities that imperil the safety of IRS and other government employees or the physical security of their facilities.

This initiative will allow the IRS to evaluate leads on potential targets and threats; develop financial investigations that detect and disrupt domestic terrorist fundraising and support networks; work with other law enforcement partners to identify and investigate individuals and groups that violate criminal charges within IRS's jurisdiction; and support the following activities:

- Staff fully the Joint Terrorism Task Forces (JTTFs) and the Attorney General's Advisory Counsels (AGACs) nationwide;
- Train and develop agents with the skill sets necessary to carry out assignments, rapidly follow-up on leads developed by the Garden City Counterterrorism Lead Development Center (LDC) in Garden City, New York; and
- Obtain secure network computers that will allow the IRS to communicate securely and efficiently with the intelligence and law enforcement communities, as well as allow Special Agents to communicate classified information within the IRS.

Funding for 29 Treasury Secure Data Network (TSDN) computers will allow the secure and efficient communication of classified information within the IRS and between IRS and other intelligence and law enforcement communities. The new computer and network infrastructure system will provide access to Secret Internet Protocol Router Network (SIPRNet) and the Department of Defense classified communications network.

### Other Direct Costs

There are no other direct costs associated with this initiative.



*Implement Individual Coverage Requirement and Employer Responsibility Payments*  
 +\$62,477,000 / +65 FTE

This initiative will fund the development of the information technology, infrastructure, and systems to implement the provisions of Subtitle F of Title I of the Affordable Care Act (ACA) (Public Law 111-148) that establish shared responsibility payments for both individuals and employers.

Position Type/Other Costs	FTE	\$000
<b>Implement Affordable Care Act (ACA)</b>	65	\$62,477
<b>Administer Individual Coverage Requirement and Employer Responsibility Payments</b>		
IT Project Specialist	62	10,823
Program Management	3	600
Contractor Services		42,980
Computer Equipment		7,033
Software		1,041
<b>Total</b>	65	\$62,477

Beginning in 2014, the ACA requires individuals who are able to afford health insurance to obtain minimum essential coverage or pay a penalty. If affordable coverage is not available, they will be eligible for an exemption. Other exemptions also may apply.

Also beginning in 2014, the ACA requires large employers – those with 50 or more full-time employees – to make a shared responsibility payment if they do not provide affordable coverage to their employees, and at least one of their employees has enrolled in an qualified health plan on an exchange with respect to which a premium assistance tax credit is allowed or paid.

This initiative will fund the significant revisions to existing tax administration information technology systems, as well as development of new systems to administer these provisions. For example, the IRS must make modifications to existing tax systems as well as forms and publications to administer these provisions. Additionally, both provisions involve new information reporting that will streamline IRS verification and compliance efforts. Finally, the IRS must implement appropriate business rules for document matching, conduct penalty calculations and send notices to individuals and employers, and integrate ACA requirements into current collection, case management, and fraud detection systems.

Other Direct Costs

There are no other direct costs associated with this initiative.

## Continue Migration from Aging Tax Administration System

The FY 2012 BSM request of \$333.6 million and 453 FTE will fund the activities of the BSM projects as described in the table below.

This funding will improve taxpayer service and enforcement, and reduce the costs and risks of operating parallel tax processing systems. The IRS will update and settle individual taxpayer accounts in 24 to 48 hours with current, complete and authoritative data, and will facilitate expanded opportunities for compliance, increase analytical capabilities and accelerate the identification of fraudulent trends.

BSM FY 2012 funding allocation is as follows:

### FY 2012 BSM Project Activities

Dollars in Thousands

Business Systems Modernization Projects/Initiatives	FY 2010 Enacted	FY 2011 Annualized CR Level	FY 2011 President's Budget Request	FY 2012 Request <sup>1,2</sup>	\$ Change FY 2011 President's Budget to FY 2012 Request	\$ Change FY 2011 Annualized CR Level to FY 2012 Request
<b>Application Migration to CADE 2 (Taxpayer Account Database)</b>						
<ul style="list-style-type: none"> <li>Address Federal Financial Management System Requirements (FFMSR) compliance for most individual taxpayer accounts.</li> <li>Implement a modular application platform for Penalty and Interest (P&amp;I) calculation with documented standard posting rules to be used by all systems.</li> <li>Replace portions of current CADE 2 applications with state-of-the-art modular applications using a modern programming language (e.g., Java) and tools.</li> </ul>	\$58,100	\$70,008	\$152,119	\$156,800	\$4,681	\$86,792
<b>Current CADE</b>						
Implement tax law changes and enhance the overall security posture.	38,000	38,000	40,000	19,000	(21,000)	(19,000)
<b>Modernized e-File</b>						
Continue the development of Form 94X family of forms, <i>Employment/Unemployment Tax</i> and begin the logical design of Form 1041, <i>U.S. Income Tax Return for Estates and Trusts</i> .	50,000	39,100	39,100	20,500	(18,600)	(\$18,600)
<b>Core Infrastructure</b>						
Provide services in architecture, engineering and deployment of standardized, consolidated, virtual and secure modernized development environments (DITE) and shared infrastructure components (Employee User Portal, Registered User Portal, and Security) of the production environments.	32,000	32,000	38,500	37,700	(800)	5,700
<b>Architecture, Integration and Management</b>						
Provide system engineering management capabilities including systems strategy, architecture, and engineering capabilities across IT Infrastructure, Business Applications, Data Management and IT Security. Provide portfolio control and management processes and tools including governance, enterprise lifecycle support, tiered program management, business rules and requirements, transition management, cost estimation, configuration/change management and risk management.	28,085	28,085	37,000	27,645	(9,355)	(\$440)
<b>Management Reserve</b>	11,712	10,000	10,000	2,622	(7,378)	(7,378)
<b>Subtotal Capital Investments</b>	<b>\$217,897</b>	<b>\$217,193</b>	<b>\$316,719</b>	<b>\$264,267</b>	<b>(\$52,452)</b>	<b>\$47,074</b>
<b>BSM Labor<sup>3</sup></b>	46,000	46,704	70,189	69,333	(856)	22,629
<b>Total BSM</b>	<b>\$263,897</b>	<b>\$263,897</b>	<b>\$386,908</b>	<b>\$333,600</b>	<b>(\$53,308)</b>	<b>\$69,703</b>

<sup>1</sup>The BSM appropriation excludes \$52,000,000 for the operations and maintenance of deployed modernization project releases. These costs are included in the Operations Support appropriation.

<sup>2</sup>The BSM appropriation includes a \$1,026,000 program efficiency reduction.

<sup>3</sup>The BSM appropriation includes a \$450,000 decrease to reflect the FY 2011 pay freeze and a \$168,000 increase for the FY 2012 inflation adjustment for health benefits and FERS.

## Customer Account Data Engine 2 (CADE 2) (\$156.8 million)

The IRS request will continue the development of the CADE 2 Program. The CADE 2 Program will provide an authoritative database with daily processing capabilities for all individual taxpayers and build the foundation for a more efficient and effective tax administration program. An analytical data store will provide business users with tools to use the CADE 2 authoritative database more effectively for improved compliance and customer service.

CADE 2 establishes a set of capabilities that will allow the IRS to achieve business benefits across the tax processing lifecycle:

- Daily processing/posting of individual taxpayer returns filed and other transactions to provide faster processing of taxpayer refunds and payments and prompt adjustments to taxpayer accounts reducing the credit interest paid by government;
- Exception processing/posting of individual taxpayer returns filed to prevent or reduce erroneous refunds;
- Operational database that supports enterprise-wide data access strategy to provide efficiencies, multiple account analysis, and more current and timely account balance information;
- Analytical data store, Integrated Production Model (IPM), to support the enterprise-wide data access strategy; fraud detection through data analytics and filtering (i.e., expanding capabilities to analyze data and establish patterns against which all individual taxpayer data can be compared); enhanced compliance workload selection and resource allocation; and advanced data analytics and data mining (i.e., expanding capabilities to more timely and effectively analyze taxpayer data from different perspectives and summarize it into useful information); and
- Integrated, state-of-the-art processing and data infrastructure to improve service and reduce risk, providing:
  - A single set of authoritative, modular applications that will facilitate system maintenance and allow for greater flexibility and faster response to legislative changes;
  - A common module for a single, authoritative penalty and interest computation resulting in consistent and accurate calculations that allow daily updates to the Integrated Data Retrieval System (IDRS) for early viewing of posted information;
  - Enhanced security capabilities to guard from threats and violations of system data; and
  - Comprehensive disaster recovery capabilities.

The CADE 2 Program will be implemented in two stages:

- Transition State 1 (TS 1) – In January 2012, the IRS will deliver a database that will house all individual taxpayer accounts and update daily from the individual taxpayer account core-processing applications, resulting in faster refunds for millions of individual taxpayers. The key IRS customer service operational database, IDRS, will have the benefit of more timely posted data.

The solution will populate the IPM analytical data store and provide business users with enhanced tools to more effectively use the data from compliance and customer service.

The TS1 solution will:

- Implement required security controls;
  - Leverage security capabilities that are available in the Security and Communications System (SACS) for account viewing;
  - Improve information security; and
  - Provide analytical access to the CADE 2 data residing in the analytical data store and enhanced tools to access the data and provide opportunities for enhanced compliance and improved service.
- Transition State 2 (TS 2) – In FY 2012, the IRS will build upon the foundation established in TS 1 and begin the development of TS 2. TS 2 will focus on resolving financial material weaknesses and building or modifying existing applications for direct interaction with the target database. This solution will leverage elements of the current Individual Master File and current CADE for some functions. A combination of current state and transitional components will be used to fill the function needs of individual taxpayer account processing.

Key elements of Transition State 2 will:

- Incorporate Federal Financial Management Systems Requirements (FFMSR) compliance for most individual taxpayer accounts;
- Implement a modular application platform for Penalty and Interest (P&I) calculation with documented standard posting rules to be used by all systems, to ensure integrity of financial data and more consistent treatment of taxpayers;
- Replace portions of current CADE 2 applications with state-of-the-art, modular applications using a modern programming language (e.g., Java) and tools;
- Establish a standardized, integrated platform and environments for development, integration, testing, and production; and
- Implement essential changes to downstream systems required to support TS 2, with limited capabilities for enhanced data analytics leveraging individual taxpayer account database for improved compliance.

### Current Customer Account Data Engine (\$19.0 million)

The IRS request will implement the necessary tax law changes for deployment during the 2012 Filing Season and begin the shutdown process for the eventual retirement of this system.

### Modernized e-File (MeF) (\$20.5 million)

The IRS request will complete the final phase (Release 7) of a three-phased implementation of the 1040 family of forms. This includes the 125 remaining 1040-related forms and schedules, including Forms 1040A and 1040EZ. MeF provides a standard filing structure for all IRS return types, a robust platform that can meet performance and capacity needs, enhanced and up-to-date technologies, and service benefits to external stakeholders. With MeF, the IRS stores all tax return data in an XML format in a modernized Tax Return Database (MTRDB) so authorized viewers see an entire tax return online.

The \$20.5 million request for MeF will:

- Complete Release 8 physical design and development of Forms 94X, *Employment / Unemployment Tax*, to the MeF platform (\$10.5 million). Forms that would be implemented include Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*, Form 941, *Employer's Quarterly Federal Tax Return*, Form 943, *Employer's Annual Federal Tax Return for Agricultural Employees*, Form 944, *Employer's Annual Federal Tax Return*, and Form 945, *Annual Return of Withheld Federal Income Tax*.
- Complete Release 9, logical design implementation of Form 1041, *U.S. Income Tax Return for Estates and Trusts*, (\$10 million).

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

- Extensive business rule validation and error checking to help ensure the accuracy of the tax return;
- Sophisticated math error validation to increase the likelihood that the tax return will be successfully processed;
- Ability to attach all documents supporting the data on the tax returns; and
- Ability to provide a justification to the taxpayer/trading partner when the IRS rejects the tax return.

Productivity and efficiency gains include:

- Improving Taxpayer Service – IRS customer service representatives will provide responses to taxpayers more quickly by viewing the original Forms 94X and 1041 online and in real-time, eliminating back-end rekeying and data entry.

Without MeF, only a limited subset of these documents would be available and would result in a time-consuming process of source document retrieval.

- Enhancing Compliance and Enforcement Operations – Online capabilities and 100 percent data access to 94X and 1041 forms enhance compliance and enforcement activities by allowing access to taxpayer data in a timely and accurate manner.
- Increasing the Production Volumes – A return submitted through the MeF encounters fewer processing errors than do paper returns.
- Eliminating the need for the legacy 94X e-File system – The IRS will be able to disable the capability for the legacy Electronic Management System to accept this family of returns.

#### Core Infrastructure (\$37.7 million)

The request will continue to support Core Infrastructure in providing mission critical services in designing, engineering, testing and deploying standardized, consolidated, virtual and secure modernized development and production environments for use by BSM projects.

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

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

- ISS provides integrated architectural and engineering services required to deploy and deliver the BSM projects, including infrastructure requirements identification and management, security engineering, systems engineering, performance engineering, capacity planning, transition management support, and configuration management. The continued development and management of this infrastructure incorporates the identification and development of common infrastructure, security, and application integration services for use and reuse by the BSM projects and reduces delivery time, application development, and operations and maintenance costs.

In FY 2012, ISS will place increased emphasis on effectively engineered common IT infrastructure services, security, and infrastructure enhancement initiatives that affect the BSM projects, while continuing to support efforts begun in FY 2010 related to enhanced availability and portal improvements. ISS will continue to

provide capacity planning and performance engineering services for BSM projects to address their effect on the modernized infrastructure environments because of an increase in the number of electronic documents, on-line transactions, and on-line tax filers.

- DITE is comprised of a Virtual Development Environment (VDE) and an Enterprise Integration and Test Environment (EITE). The VDE provides a software development environment for modernization projects such as MeF, CADE, and CADE2 that allows geographically distributed developers access to standardized tools, information, and services. EITE provides a more structured, production-like, comprehensive integration and testing environment necessary to rigorously test end-to-end system capabilities and performance before release into the BSM production environment.

In FY 2012, DITE will continue to support the BSM projects through deployment and acceptance in the production environment; improve the efficiency of server administration; and engineer, install, maintain and support core DITE infrastructure to include web portals and common IT infrastructure services. It also will provide a mechanism for remote access to core DITE data by authorized users; and provide maintenance of a suite of standard software development and testing tools for use on BSM projects.

#### Architecture, Integration and Management (\$27.7 million)

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

#### Management Reserve (\$2.6 million)

The IRS request provides funds for the management reserve to cover unanticipated cost adjustments and fluctuates from year to year to accommodate changes in funding levels.

#### Labor (\$69.3 million / 453 FTE)

The IRS requests a total of \$69.3 million (\$69.2 million for BSM labor and \$0.1 million for inflation costs) to provide the government labor costs associated with the development of projects within the BSM portfolio.

O&M of Deployed Modernization Systems (+\$52.0 million / +5 FTE)

This increase provides funding in the Operations Support appropriation for the operations and maintenance (O&M) costs of deployed modernization systems. BSM systems are developed and deployed incrementally. The IRS will use these funds to pay for the O&M costs of the deployed BSM systems.



## 2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Internal Revenue Service	FY 2010 Enacted Level <sup>1,2</sup>	FY 2011 President's Budget	Congressional Action including Rescission	FY 2011 Annualized CR Level <sup>2</sup>	Proposed Reprogram.	FY 2011 Proposed Operating Level	FY 2012 Request Level <sup>2</sup>	% Change FY 2011 to FY 2012
<b>FTE</b>	<b>94,766</b>	<b>96,419</b>	<b>0</b>	<b>94,766</b>	<b>0</b>	<b>94,766</b>	<b>99,878</b>	<b>5.4%</b>
<b>Object Classification:</b>								
11.1 Full-Time Permanent Positions	\$6,402,855	\$6,394,057	\$0	\$6,402,855	\$0	\$6,402,855	6,893,278	7.7%
11.3 Other than Full-Time Permanent Positions	103,681	423,013	0	103,681	0	103,681	126,721	22.2%
11.5 Other Personnel Compensation	286,434	308,396	0	286,434	0	286,434	316,749	10.6%
11.8 Special Personal Services Payments	18,173	18,445	0	18,173	0	18,173	18,264	0.5%
<b>11.9 Personnel Compensation (Total)</b>	<b>\$6,811,143</b>	<b>\$7,143,911</b>	<b>\$0</b>	<b>\$6,811,143</b>	<b>\$0</b>	<b>\$6,811,143</b>	<b>\$7,355,012</b>	<b>8.0%</b>
12.0 Personnel Benefits	1,814,796	1,937,543	0	1,814,796	0	1,814,796	2,034,508	12.1%
13.0 Benefits to Former Personnel	55,579	57,106	0	55,579	0	55,579	51,392	-7.5%
21.0 Travel	284,016	255,980	0	284,016	0	284,016	259,269	-8.7%
22.0 Transportation of Things	31,517	33,170	0	31,517	0	31,517	33,144	5.2%
23.1 Rental Payments to GSA	646,393	676,738	0	646,393	0	646,393	685,010	6.0%
23.2 Rent Payments to Others	16,039	592	0	16,039	0	16,039	15,569	-2.9%
23.3 Communications, Utilities, & Misc	482,440	434,883	0	482,440	0	482,440	461,617	-4.3%
24.0 Printing & Reproduction	72,030	67,503	0	72,030	0	72,030	64,063	-11.1%
25.1 Advisory & Assistance Services	175,611	126,385	0	175,611	0	175,611	119,869	-31.7%
25.2 Other Services	649,390	718,802	0	649,390	0	649,390	1,028,350	58.4%
25.3 Purchase of Goods & Services from Govt. Accounts	190,552	204,826	0	190,552	0	190,552	174,263	-8.5%
25.4 Operation & Maintenance of Facilities	157,258	217,899	0	157,258	0	157,258	168,478	7.1%
25.5 Research & Development Contracts	8,506	8,478	0	8,506	0	8,506	8,482	-0.3%
25.6 Medical Care	18,716	12,616	0	18,716	0	18,716	13,498	-27.9%
25.7 Operation & Maintenance of Equipment	89,245	129,660	0	89,245	0	89,245	157,566	76.6%
25.8 Subsistence & Support of Persons	6,644	6,500	0	6,644	0	6,644	6,788	2.2%
26.0 Supplies and Materials	96,145	70,555	0	96,145	0	96,145	84,092	-12.5%
31.0 Equipment	456,779	476,244	0	456,779	0	456,779	444,096	-2.8%
32.0 Lands and Structures	47,569	17,857	0	47,569	0	47,569	88,141	85.3%
33.0 Investments & Loans	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	28,100	28,105	0	28,100	0	28,100	22,605	-19.6%
42.0 Insurance Claims & Indemn	2,737	2,712	0	2,737	0	2,737	2,746	0.3%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	4,918	5,205	0	4,918	0	4,918	5,349	8.8%
<b>Total Budget Authority</b>	<b>\$12,146,123</b>	<b>\$12,633,270</b>	<b>\$0</b>	<b>\$12,146,123</b>	<b>\$0</b>	<b>\$12,146,123</b>	<b>\$13,283,907</b>	<b>9.4%</b>
<b>Appropriations:</b>								
Taxpayer Services	\$2,278,830	\$2,321,975	\$0	\$2,278,830	\$0	\$2,278,830	\$2,345,133	2.9%
Enforcement	5,504,000	5,797,400	0	5,504,000	0	5,504,000	5,966,619	8.4%
Operations Support	4,083,884	4,108,000	0	4,083,884	0	4,083,884	4,620,526	13.1%
Business Systems Modernization	263,897	386,908	0	263,897	0	263,897	333,600	26.4%
Health Insurance Tax Credit Administration	15,512	18,987	0	15,512	0	15,512	18,029	16.2%
<b>Total Budget Authority</b>	<b>\$12,146,123</b>	<b>\$12,633,270</b>	<b>\$0</b>	<b>\$12,146,123</b>	<b>\$0</b>	<b>\$12,146,123</b>	<b>\$13,283,907</b>	<b>9.4%</b>

<sup>1</sup> FY 2010 Enacted represents the approved FY 2010 Operating Plan.

<sup>2</sup> Reflects implementation of the IRS Material Group Code project. This project realigned costs to more closely conform to general ledger account and OMB object class definitions.

## 2.3 – Appropriation Detail Table

Dollars in Thousands

Internal Revenue Service										
Resources Available for Obligation	FY 2010 Obligations		FY 2010 Enacted <sup>1</sup>		FY 2011 Annualized CR Level		FY 2012 Request		% Change FY 2011 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>										
Taxpayer Services	31,607	\$2,258,882	31,063	\$2,278,830	31,063	\$2,278,830	31,686	\$2,345,133	2.01%	2.91%
Enforcement	50,400	5,492,985	50,983	5,504,000	50,983	5,504,000	54,582	5,966,619	7.06%	8.41%
Operations Support	12,262	4,008,115	12,372	4,083,884	12,372	4,083,884	13,142	4,620,526	6.22%	13.14%
Business Systems Modernization	337	177,208	333	263,897	333	263,897	453	333,600	36.04%	26.41%
Health Insurance Tax Credit Administration	12	15,478	15	15,512	15	15,512	15	18,029	0.00%	16.23%
<b>Subtotal New Appropriated Resources</b>	<b>94,618</b>	<b>\$11,952,668</b>	<b>94,766</b>	<b>\$12,146,123</b>	<b>94,766</b>	<b>\$12,146,123</b>	<b>99,878</b>	<b>\$13,283,907</b>	<b>5.39%</b>	<b>9.37%</b>
<b>Other Resources:</b>										
Recoveries				6,338						
Offsetting Collections - Reimbursable	659	135,505	659	137,758	659	137,279	659	138,272		0.72%
Available multi-year/no-year funds		164,836		196,181		184,630		41,248		-77.66%
50% Carryover		33,767		35,947						
Transfers In/Out				(12,371)						
Mandatory Appropriations - User Fees	93	175,529	93	175,529		204,428		204,428		
<b>Subtotal Other Resources</b>	<b>752</b>	<b>\$509,637</b>	<b>752</b>	<b>\$539,382</b>	<b>659</b>	<b>\$526,337</b>	<b>659</b>	<b>\$383,948</b>	<b>0.00%</b>	<b>-27.05%</b>
<b>Total Resources Available for Obligation</b>	<b>95,370</b>	<b>\$12,462,305</b>	<b>95,518</b>	<b>\$12,685,505</b>	<b>95,425</b>	<b>\$12,672,460</b>	<b>100,537</b>	<b>\$13,667,855</b>	<b>5.36%</b>	<b>7.85%</b>

<sup>1</sup> The FY 2010 Enacted column represents the approved FY 2010 Operating Plan.

**2B – Appropriation Language and Explanation of Changes**

Appropriations Language	Explanation of Changes
<p style="text-align: center;">DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE</p> <p><b>TAXPAYER SERVICES</b> (including transfer of funds)</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, \$2,345,133,000, of which not less than \$5,100,000 shall be for the Tax Counseling for the Elderly Program, of which not less than \$9,500,000 shall be available for low-income taxpayer clinic grants, of which not less than \$8,000,000, to remain available until September 30, 2013, shall be available for a Community Volunteer Income Tax Assistance matching grants program for tax return preparation assistance, and of which up to \$6,000,000 may be transferred as necessary from this account to “Health Insurance Tax Credit Administration” upon advance notification of the Committees on Appropriations: Provided, That this transfer of authority shall be in addition to any other transfer authority provided in this Act.</i></p> <p><b>ENFORCEMENT</b> (including transfer of funds)</p> <p><i>For necessary expenses for tax enforcement activities of the Internal Revenue Service to determine and collect owed taxes, to provide legal and litigation support, to conduct criminal investigations, to enforce criminal statutes related to violations of internal revenue laws and other financial crimes, to purchase (for police-type use, not to exceed 850) and hire passenger motor vehicles (31 U.S.C. 1343(b)), and to provide other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, \$5,966,619,000, of which not less than \$60,257,000</i></p>	<p>The IRS supports adequate funding for the Taxpayer Advocate Service. Specifying the TAS funding level in law prevents the IRS from proposing an operating plan that allocates resources in the best interest of taxpayers.</p> <p>Several subsequent laws have extended this program, provided additional funding to implement and administer the program, and increased the amount of the subsidy to 80 percent of premium costs, the most recent being the Omnibus Trade Act of 2010 (Public Law 111-344). This change represents a contingency in case the increased workload continues in FY 2012.</p>

*shall be for the Interagency Crime and Drug Enforcement program: Provided, That of the amount provided under this heading, not less than \$936,000,000 shall be for the additional appropriation for Internal Revenue Service tax compliance activities included as an adjustment to the discretionary spending limits pursuant to the Concurrent Resolution on the Budget.*

**OPERATIONS SUPPORT**  
(including transfer of funds)

*For necessary expenses of the Internal Revenue Service to support taxpayer services and enforcement programs, including rent payments; facilities services; printing; postage; physical security; headquarters and other IRS-wide administration activities; research and statistics of income; telecommunications; information technology development, enhancement, operations, maintenance, and security; the hire of passenger motor vehicles (31 U.S.C. 1343(b)); and other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner; \$4,620,526,000, of which up to \$250,000,000 shall remain available until September 30, 2013, for information technology support; of which up to \$65,000,000 shall remain available until expended for acquisition of real property, equipment, construction and renovation of facilities; of which not to exceed \$1,000,000 shall remain available until September 30, 2014, for research; of which not to exceed \$2,000,000 shall be for the Internal Revenue Service Oversight Board; of which not to exceed \$25,000 shall be for official reception and representation: Provided, That of the amounts provided under this heading, such sums as are necessary shall be available to fully support tax enforcement activities, including not less than \$321,000,000 for the additional appropriation for Internal Revenue Service tax compliance activities included as an adjustment to the discretionary spending limits pursuant to the Concurrent Resolution on the Budget.*

**BUSINESS SYSTEMS MODERNIZATION**  
(including transfer of funds)

*For necessary expenses of the Internal Revenue Service's business systems modernization program,*

This FY 2012 two-year authority increase for information technology will ensure IRS's ability to obligate funds for the IT projects needed to implement the Affordable Care Act of 2010.

*\$333,600,000, to remain available until September 30, 2014, 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, with the exception of labor costs, none of these funds may be obligated until the Internal Revenue Service submits to the Committees on Appropriations a plan for expenditure that: (1) meets the capital planning and investment control review requirements established by the Office of Management and Budget, including Circular A-11; (2) complies with the Internal Revenue Service's enterprise architecture, including the modernization blueprint; (3) conforms with the Internal Revenue Service's enterprise life cycle methodology; (4) is approved by the Internal Revenue Service, the Department of the Treasury, and the Office of Management and Budget; (5) has been received by the Government Accountability Office; and (6) complies with the acquisition rules, requirements, guidelines, and systems acquisition management practices of the Federal Government.*

**HEALTH INSURANCE TAX CREDIT  
ADMINISTRATION**

(including transfer of funds)

*For expenses necessary to implement the health insurance tax credit included in the Trade Act of 2002 (Public Law 107-210), \$18,029,000.*

**ADMINISTRATIVE PROVISIONS - INTERNAL  
REVENUE SERVICE**

(including transfer of funds)

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

*Sec. 102. The Internal Revenue Service shall maintain a training program to ensure that Internal Revenue Service employees are trained in taxpayers' rights, in*

*dealing courteously with taxpayers, and in cross-cultural relations.*

*Sec. 103. The Internal Revenue Service shall institute and enforce policies and procedures that will safeguard the confidentiality of taxpayer information.*

*Sec. 104. Funds made available by this or any other Act to the Internal Revenue Service shall be available for improved facilities and increased staffing to provide sufficient and effective 1-800 help line service for taxpayers. The Commissioner shall continue to make the improvement of the Internal Revenue Service 1-800 help line service a priority and allocate resources necessary to increase phone lines and staff to improve the Internal Revenue Service 1-800 help line service.*

*Sec. 105. Of the funds made available by this Act to the Internal Revenue Service, not less than \$8,490,000,000 shall be available only for tax compliance, of which not less than \$1,257,000,000 shall be available for the additional appropriation for Internal Revenue Service tax compliance activities included as an adjustment to the discretionary spending limits in the Concurrent Resolution on the Budget.*

## 2C – Legislative Proposals

The FY 2012 Budget Request includes a number of legislative proposals intended to improve tax compliance with minimum taxpayer burden. These proposals will specifically target the tax gap and generate more than \$10 billion over the next ten years. The implementation cost for the proposals included in the FY 2011 President's Budget is estimated to be \$50.4 million over three years and includes the initial startup, processing and compliance operational costs. Among other proposals, the Administration proposes to expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties.

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

- Require information reporting for private separate accounts of life insurance companies; and
- Require a certified Taxpayer Identification Number (TIN) from contractors and allow certain withholding.

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

- Provide Treasury with the regulatory authority to require that information returns be filed electronically;
- Require corporations and partnerships with assets of \$10 million or more that are required to file Schedule M-3 to file their tax returns electronically;
- Provide Treasury with the regulatory authority to reduce the current threshold of filing 250 or more returns during a calendar year to require electronic filing of certain other large taxpayers not required to file Schedule M-3 (such as exempt organizations);
- Provide Treasury with the regulatory authority to require electronic filing of all Form 5500 Annual Report information (new in FY 2012);
- Implement standards that clarify when employee leasing companies can be held liable for their clients' federal employment taxes;
- Increase certainty about the rules pertaining to classification of employees as independent contractors;
- Repeal special estimated tax payment provision for certain insurance companies (new in FY 2012); and
- Eliminate special rules modifying the amount of estimated tax payments by corporations (new in FY 2012).

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

- Expand IRS access to information in the National Directory of New Hires for tax administration purposes;
- Make repeated willful failure to file a tax return a felony;
- Facilitate tax compliance with local jurisdictions;
- Extend statutes of limitations where state tax adjustments affect federal tax liability;
- Improve the investigative disclosure statute;
- Require taxpayers who prepare their returns electronically but file their returns on paper to print their returns with a 2-D bar code (new in FY 2012);
- Allow the IRS to collect information from the U.S. Bureau of Prisons to reduce fraudulent claims (new in FY 2012);
- Allow the IRS to absorb credit and debit card processing fees for certain tax payments (new in FY 2012); and
- Repeal the requirement of a partial payment with an application for an offer-in-compromise.

*Expand penalties* – Penalties play an important role in discouraging intentional noncompliance. A specific proposal to expand penalties would:

- Impose a penalty on failure to comply with electronic filing requirements; and
- Increase the penalty imposed on paid preparers who fail to comply with EITC due diligence requirements. (new in FY 2012)



## **Section 3 – Budget and Performance Plan**

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### **Taxpayer Services**

#### **Appropriation Description**

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

The Taxpayer Services Budget Request for FY 2012 is \$2,345,133,000 in direct appropriations and 31,686 FTE. This is an increase of \$66,303,000, or 2.91 percent, and 623 FTE more than the FY 2010 enacted level of \$2,278,830,000 and 31,063 FTE.

## 2.1 – Budget Adjustments Table

Dollars in Thousands

<b>Taxpayer Services</b>	<b>FTE</b>	<b>Amount</b>
<b>FY 2010 Enacted Budget<sup>1</sup></b>	<b>31,063</b>	<b>\$2,278,830</b>
<b>FY 2011 Annualized CR Level</b>	<b>31,063</b>	<b>\$2,278,830</b>
<b>Changes to Base:</b>		
Adjustment to Reach FY 2011 President's Policy Level	(395)	\$23,254
Maintaining Current Levels		\$12,908
Other Adjustments	614	
Technical FTE Adjustments	614	
Efficiencies/Savings	(483)	(\$41,333)
Increase e-File Savings	(416)	(21,404)
Reduce Contracts		(4,522)
Reduce Administrative Expenses	(26)	(5,557)
Reduce Training, Travel and Programs	(41)	(9,850)
Reinvestment		\$1,486
Consolidate Submission Processing Site (Atlanta)		1,486
<b>Subtotal Changes to Base</b>	<b>(264)</b>	<b>(\$3,685)</b>
<b>Total FY 2012 Base</b>	<b>30,799</b>	<b>\$2,275,145</b>
<b>Program Changes:</b>		
<b>Program Increases:</b>		
Taxpayer Service Initiatives	518	\$44,078
Improve Taxpayer Service	518	44,078
Enforcement Initiatives	369	\$25,910
Increase Collection Coverage	37	2,201
Implement Merchant Card and Basis Reporting	189	10,475
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	87	7,229
Ensure Accurate Delivery of Tax Credits	49	4,946
Administer New Statutory Reporting Requirements	7	1,059
<b>Subtotal Program Changes</b>	<b>887</b>	<b>\$69,988</b>
<b>Total FY 2012 Request</b>	<b>31,686</b>	<b>\$2,345,133</b>
<b>Adjustments to Request</b>		
User Fees		130,962
<b>Total FY 2012 Request</b>	<b>31,686</b>	<b>\$2,476,095</b>

<sup>1</sup>FY 2010 Enacted represents the approved FY 2010 Operating Plan

## 2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Taxpayer Services	FY 2010 Enacted Level <sup>1,2</sup>	FY 2011 President's Budget	Congressional Action including Rescission	FY 2011 Annualized CR Level <sup>2</sup>	Proposed Reprogram.	FY 2011 Proposed Operating Level	FY 2012 Request Level <sup>2</sup>	% Change FY 2011 to FY 2012
<b>FTE</b>	<b>31,063</b>	<b>30,668</b>		<b>31,063</b>		<b>31,063</b>	<b>31,686</b>	<b>2.0%</b>
<b>Object Classification:</b>								
11.1 Full-Time Permanent Positions	\$1,549,331	\$1,309,132	\$0	\$1,549,331	\$0	\$1,549,331	\$1,574,187	1.6%
11.3 Other than Full-Time Permanent Positions	37,423	304,283	0	37,423	0	37,423	56,752	51.7%
11.5 Other Personnel Compensation	87,129	98,503	0	87,129	0	87,129	110,851	27.2%
11.8 Special Personal Services Payments	0	0	0	0	0	0	0	0.0%
<b>11.9 Personnel Compensation (Total)</b>	<b>\$1,673,883</b>	<b>\$1,711,918</b>	<b>\$0</b>	<b>\$1,673,883</b>	<b>\$0</b>	<b>\$1,673,883</b>	<b>\$1,741,790</b>	<b>4.1%</b>
12.0 Personnel Benefits	372,622	391,504	0	372,622	0	372,622	399,278	7.2%
13.0 Benefits to Former Personnel	7,362	8,199	0	7,362	0	7,362	1,603	-78.2%
21.0 Travel	39,267	31,269	0	39,267	0	39,267	27,452	-30.1%
22.0 Transportation of Things	1,871	5,564	0	1,871	0	1,871	1,988	6.3%
23.1 Rental Payments to GSA	0	0	0	0	0	0	0	0.0%
23.2 Rent Payments to Others	37	46	0	37	0	37	172	364.9%
23.3 Communications, Utilities, & Misc	2,457	3,607	0	2,457	0	2,457	7,526	206.3%
24.0 Printing & Reproduction	9,117	9,091	0	9,117	0	9,117	12,468	36.8%
25.1 Advisory & Assistance Services	20,275	3,923	0	20,275	0	20,275	19,590	-3.4%
25.2 Other Services	27,428	46,993	0	27,428	0	27,428	23,703	-13.6%
25.3 Purchase of Goods & Services from Govt. Accounts	68,337	67,939	0	68,337	0	68,337	67,123	-1.8%
25.4 Operation & Maintenance of Facilities	29	95	0	29	0	29	0	-100.0%
25.5 Research & Development Contracts	0	0	0	0	0	0	0	0.0%
25.6 Medical Care	2	0	0	2	0	2	0	0.0%
25.7 Operation & Maintenance of Equipment	0	673	0	0	0	0	10	0.0%
25.8 Subsistence & Support of Persons	1,628	1,487	0	1,628	0	1,628	1,509	-7.3%
26.0 Supplies and Materials	25,227	10,899	0	25,227	0	25,227	16,605	-34.2%
31.0 Equipment	525	587	0	525	0	525	290	-44.8%
32.0 Lands and Structures	183	0	0	183	0	183	1,341	632.8%
33.0 Investments & Loans	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	28,100	28,100	0	28,100	0	28,100	22,600	-19.6%
42.0 Insurance Claims & Indemn	480	81	0	480	0	480	85	-82.3%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	0	0	0	0	0	0	0	0.0%
<b>Total Budget Authority</b>	<b>\$2,278,830</b>	<b>\$2,321,975</b>	<b>\$0</b>	<b>\$2,278,830</b>	<b>\$0</b>	<b>\$2,278,830</b>	<b>\$2,345,133</b>	<b>2.9%</b>
<b>Budget Activities:</b>								
Pre-filing Taxpayer Assistance & Education	\$679,924	\$693,753	\$0	\$679,924	\$0	\$679,924	\$701,035	3.1%
Filing & Account Services	1,598,906	1,628,222	0	1,598,906	0	1,598,906	1,644,098	2.8%
<b>Total Budget Authority</b>	<b>\$2,278,830</b>	<b>\$2,321,975</b>	<b>\$0</b>	<b>\$2,278,830</b>	<b>\$0</b>	<b>\$2,278,830</b>	<b>\$2,345,133</b>	<b>2.9%</b>

<sup>1</sup> FY 2010 Enacted represents the approved FY 2010 Operating Plan.

<sup>2</sup> Reflects implementation of the IRS Material Group Code project. This project realigned costs to more closely conform to general ledger account and OMB object class definitions.

## 2.3 – Appropriation Detail Table

Dollars in Thousands

Taxpayer Services										
Resources Available for Obligation	FY 2010 Obligations		FY 2010 Enacted <sup>1</sup>		FY 2011 Annualized CR Level		FY 2012 Request		% Change FY 2011 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Pre-Filing Taxpayer Assistance and Education Filing and Account Services	25,592	\$667,840	6,189	\$679,924	6,189	\$679,924	6,375	\$701,035	3.01%	3.10%
	6,015	1,591,042	24,874	1,598,906	24,874	1,598,906	25,311	1,644,098	1.76%	2.83%
<b>Subtotal New Appropriated Resources</b>	<b>31,607</b>	<b>\$2,258,882</b>	<b>31,063</b>	<b>\$2,278,830</b>	<b>31,063</b>	<b>\$2,278,830</b>	<b>31,686</b>	<b>\$2,345,133</b>	<b>2.01%</b>	<b>2.91%</b>
Other Resources:										
Recoveries				781						
Offsetting Collections - Reimbursable	444	22,855	444	22,855	444	22,889	444	22,924	0.00%	0.15%
Available multi-year/no-year funds		8,000		8,011		12,786		8,792		-31.24%
50% Carryover		19,993		20,000						
Transfers In/Out										
Mandatory Appropriations - User Fees	61	121,512	61	121,512		128,966		130,962		1.55%
<b>Subtotal Other Resources</b>	<b>505</b>	<b>\$172,360</b>	<b>505</b>	<b>\$173,159</b>	<b>444</b>	<b>\$164,641</b>	<b>444</b>	<b>\$162,678</b>	<b>0.00%</b>	<b>-1.19%</b>
<b>Total Resources Available for Obligation</b>	<b>32,112</b>	<b>\$2,431,242</b>	<b>31,568</b>	<b>\$2,451,989</b>	<b>31,507</b>	<b>\$2,443,471</b>	<b>32,130</b>	<b>\$2,507,811</b>	<b>1.98%</b>	<b>2.63%</b>

<sup>1</sup> The FY 2010 Enacted column represents the approved FY 2010 Operating Plan.

**3A – Pre-Filing Taxpayer Assistance and Education (\$701,035,000 in direct appropriations and an estimated \$863,000 from reimbursable programs):** This budget activity funds services to assist with tax return preparation, including tax law interpretation, publication production, and advocate services. This includes the following program activities:

- *Pre-Filing Services Management* supports headquarters management associated with Customer Assistance Relationship and Education (CARE). CARE provides pre-filing taxpayer assistance and education.
- *Taxpayer Communication and Education* researches customer needs; prepares tax forms and publications; 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, EEO and diversity, business modernization, and embedded training.

- *National Distribution Center* processes orders for IRS forms and publications received from individual taxpayers, tax practitioners, and IRS tax return preparation partners.

### FY 2012 Program Changes by Budget Activity

Dollars in Thousands

Taxpayer Services		
Pre-filing Taxpayer Assistance and Education	FTE	Amount
<b>Taxpayer Service Initiatives</b>	<b>15</b>	<b>\$10,552</b>
Improve Taxpayer Service	15	10,552
<b>Enforcement Initiatives</b>	<b>87</b>	<b>\$10,607</b>
Increase Collection Coverage	3	270
Implement Merchant Card and Basis Reporting	16	1,437
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	33	4,172
Ensure Accurate Delivery of Tax Credits	28	3,669
Administer New Statutory Reporting Requirements	7	1,059
<b>Total FY 2012 Request</b>	<b>102</b>	<b>\$21,159</b>

### 3.2.1 – Budget and Performance Plan

Dollars in Thousands

Pre-Filing Taxpayer Assistance & Education Budget Activity						
Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Obligated	FY 2010 Enacted <sup>1</sup>	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	\$628,286	\$648,685	\$667,840	\$679,924	\$679,924	\$701,035
Reimbursable Resources	774	876	862	862	862	863
Mandatory Appropriations - User Fees	12,827	18,703	5,514	5,514		
<b>Total Resources</b>	<b>\$641,887</b>	<b>\$668,264</b>	<b>\$674,216</b>	<b>\$686,300</b>	<b>\$680,786</b>	<b>\$701,898</b>
<b>Budget Activity Total</b>	<b>\$641,887</b>	<b>\$668,264</b>	<b>\$674,216</b>	<b>\$686,300</b>	<b>\$680,786</b>	<b>\$701,898</b>

<sup>1</sup>The FY 2010 Enacted represents the approved FY 2010 Operating Plan.

Pre-Filing Taxpayer Assistance & Education Budget Activity Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2010 Target	FY 2011 Target	FY 2012 Target
Timeliness of Critical Filing Season Tax Products to the Public (Ot)	92.4%	96.8%	95.3%	94.0%	94.0%	95.0%
Timeliness of Critical TE/GE & Business Tax Products to the Public (Ot)	89.5%	95.2%	97.7%	90.0%	91.0%	93.0%
Taxpayer Self Assistance Rate (E) (L)	66.8%	69.3%	64.4%	61.3%	68.7%	68.7%
Percent of Eligible Taxpayers Who File for EITC (Oe)	*	*	*	75-80%	75-80%	75-80%

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

\*The methodology for estimating the eligibility rate is being revised. Data not available.

## Description of Performance

The IRS partners with state taxing authorities, volunteer groups, and other organizations to enhance taxpayer outreach and education. The IRS and its partners provide free tax assistance to the elderly, disabled, and limited English proficient individuals and families at Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites. The IRS also provides grants to support low-income taxpayer clinics to help individuals who need assistance on tax-related issues. In FY 2010, the IRS awarded more than \$13.5 million in VITA and TCE Grants to 171 organizations, 17 percent more than the number of organizations in 2009. Consequently, assistors at the more than 12,000 VITA and TCE sites throughout the nation prepared more than 3.1 million returns, including 360,500 returns for individuals with disabilities and/or families with disabled dependents.

The IRS and its partners hosted five Open House events at more than 200 IRS Tax Assistance Centers (TACs) and partner sites nationwide to help taxpayers prepare returns and resolve tax issues. The IRS assisted more than 31,400 taxpayers and prepared more than 7,700 returns. The IRS also:

- Held two special Saturday events assisting more than 9,500 taxpayers and preparing more than 4,000 returns;
- Created a system that allows taxpayers to self-screen and make on-line appointments for return preparation in the TACs;
- Provided a dedicated toll-free telephone line and hosted a Gulf Coast Assistance Day at seven TACs in the Gulf region to provide guidance to taxpayers affected by the oil spill in the Gulf of Mexico; and
- Expanded the state income tax return preparation service for low-income taxpayers from 20 to 27 states, contributing to more than 57,000 returns being prepared.

During the FY 2010 filing season, taxpayers used IRS.gov to get current filing information:

- More than 1.7 billion web pages were viewed;
- More than 66.9 million taxpayers used *Where's My Refund?*, a 23.8 percent increase from 2009;
- More than 213.3 million downloads of various tax products by taxpayers, an increase of almost 12 percent; and
- More than 108.8 million electronic payments totaling over \$1.9 trillion were processed through the Electronic Federal Tax Payment System.

The IRS also expanded outreach and educational services to improve information, news and taxpayer interaction through social media networks (Facebook, Twitter, and YouTube, etc.). The IRS produced and posted 258 YouTube videos on a variety of subjects including the Education Tax Credit, Making Work Pay, Health Care, Return Preparer, and the Homebuyer Credit. These videos attracted more than 963,800 upload views and were available in English, Spanish, and American Sign Language.

The Earned Income Tax Credit (EITC) is one of the federal government's largest benefit programs for working families and individuals. In FY 2010, the IRS conducted its fourth annual EITC Awareness Day to educate the public on the availability and benefits of this important tax credit. As part of a national outreach strategy, the IRS reached out to qualifying taxpayers by communicating the benefits of EITC through:

- Interviews in prominent newspapers with nationwide audience bases;
- More than 50 satellite television media tours in English and Spanish;
- Interviews with radio networks reaching more than 1,000 radio stations; and
- 72 news conferences held around the country.

**3B – Filing and Account Services** (*\$1,644,098,000 in direct appropriations, an estimated \$22,061,000 from reimbursable programs, and an estimated \$130,962,000 from user fees*): This budget activity funds programs that provide filing and account services to taxpayers, processes paper and electronically-submitted tax returns, issues refunds, and maintains taxpayer accounts. This includes the following program activities:

- *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 through telephone, paper, and internet correspondence to resolve account and notice inquiries.
- *Electronic Products and Services Support* provides centralized operations and support capabilities for the IRS suite of electronic products, including e-help desk, technology support, and operations support.
- *Electronic Tax Administration (ETA)* markets and administers electronic tax administration products and services.
- *Pre-Refund* provides coordination support for the pre-refund activities to ensure timely issuance of refunds and credits that are legally due to taxpayers.
- *Joint Operations Center (JOC)* provides service, support, and technology for telephone, correspondence, and electronic media inquiries; real time monitoring

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

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

### **FY 2012 Program Changes by Budget Activity**

Dollars in Thousands

<b>Internal Revenue Service</b>		
<b>Filing and Account Services</b>	<b>FTE</b>	<b>Amount</b>
<b>Taxpayer Service Initiatives</b>	<b>503</b>	<b>\$33,526</b>
Improve Taxpayer Service	503	33,526
<b>Enforcement Initiatives</b>	<b>282</b>	<b>\$15,303</b>
Increase Collection Coverage	34	1,931
Implement Merchant Card and Basis Reporting	173	9,038
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	54	3,057
Ensure Accurate Delivery of Tax Credits	21	1,277
<b>Total FY 2012 Request</b>	<b>785</b>	<b>\$48,829</b>



### 3.2.2 – Budget and Performance Plan

Dollars in Thousands

Filing and Account Services						
Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Obligated	FY 2010 Enacted <sup>1</sup>	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	\$1,545,478	\$1,631,121	\$1,591,042	\$1,598,906	\$1,598,906	\$1,644,098
Reimbursable Resources	36,037	23,578	21,993	21,993	22,027	22,061
Mandatory Appropriations - User Fees	139,109	104,297	115,998	115,998	128,966	130,962
<b>Total Resources</b>	<b>\$1,720,624</b>	<b>\$1,758,996</b>	<b>\$1,729,033</b>	<b>\$1,736,897</b>	<b>\$1,749,899</b>	<b>\$1,797,121</b>

<b>Budget Activity Total</b>	<b>\$1,720,624</b>	<b>\$1,758,996</b>	<b>\$1,729,033</b>	<b>\$1,736,897</b>	<b>\$1,749,899</b>	<b>\$1,797,121</b>
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<sup>1</sup>The FY 2010 Enacted represents the approved FY 2010 Operating Plan.

Filing and Account Services Measures	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2010 Target	FY 2011 Target	FY 2012 Target
Percent Individual Returns Processed Electronically (Oe) (L)	57.6%	65.9%	69.3%	70.2%	74.0%	76.0%
Percent of Business Returns Processed Electronically (Oe) (L)	19.4%	22.8%	25.5%	24.3%	27.0%	28.0%
Customer Accuracy - Tax Law Phones (Ot)	91.2%	92.9%	92.7%	91.2%	92.7%	92.7%
Customer Accuracy - Accounts (Phones) (Ot)	93.7%	94.9%	95.7%	93.7%	95.0%	95.0%
Customer Contacts Resolved per Staff year (E)	12,634	12,918	10,744	9,398	12,074	12,061
Customer Service Representative Level of Service (Oe) (L)	52.8%	70.0%	74.0%	71.0%	71.0%	80.0%
Refund Timeliness - Individual (paper) (Ot)	99.1%	99.2%	96.1%	98.4%	97.0%	97.5%

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

#### Description of Performance

The IRS delivered a successful 2010 filing season, rising to challenges posed by the implementation of provisions in the American Reinvestment and Recovery Act of 2009 (Recovery Act), the Worker, Homeownership, and Business Assistance Act of 2009 (WHBAA), and increased telephone demand for Economic Recovery Payment inquiries. Results of the 2010 filing season include:

- Processed 141.9 million individual returns and issued more than 109.5 million refunds totaling \$366 billion compared to 144.4 million returns resulting in 111.4 million refunds totaling over \$339.6 billion in 2009;
- Achieved a 74.0 percent telephone level of service, an increase from 70.0 percent in 2009, while answering 36.7 million assistor calls;
- Answered 35.1 million automated calls, a 21 percent increase from 2009, reflecting a growing public appetite for quality self-service options;

- Responded correctly to 92.7 percent of tax law questions and 95.7 percent of account questions; and
- Processed more than 2.9 million Free File returns.

Millions of taxpayers continue to file their returns electronically using both paid preparers and home computers. As a result:

- Home computer filing increased to 34.6 million returns, 2.4 million more than in 2009;
- Individual returns filed electronically increased to 69.3 percent, 3.4 percent more than in 2009, with the total number of individual returns filed electronically reaching 98.4 million;
- Business returns filed electronically reached 25.5 percent, 11.9 percent more than in 2009; and
- Tax professionals filed 62.3 million returns electronically.

## **Enforcement**

### **Appropriation Description**

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

The Enforcement Budget Request for FY 2012 is \$5,966,619,000 in direct appropriations and 54,582 FTE. This is an increase of \$462,619,000, or 8.41 percent, and 3,599 FTE more than the FY 2010 enacted level of \$5,504,000,000 and 50,983 FTE.

## 2.1 – Budget Adjustments Table

Dollars in Thousands

<b>Enforcement</b>	<b>FTE</b>	<b>Amount</b>
<b>FY 2010 Enacted Budget<sup>1</sup></b>	<b>50,983</b>	<b>\$5,504,000</b>
<b>FY 2011 Annualized CR Level</b>	<b>50,983</b>	<b>\$5,504,000</b>
<b>Changes to Base:</b>		
Adjustment to Reach FY 2011 President's Policy Level	1,880	\$242,275
Maintaining Current Levels		\$30,691
<b>Other Adjustments</b>	<b>(296)</b>	
Technical FTE Adjustments	(296)	
<b>Efficiencies/Savings</b>	<b>(35)</b>	<b>(\$21,996)</b>
Reduce Contracts		(325)
Reduce Administrative Expenses	(35)	(8,271)
Eliminate Lockbox Fees		(4,000)
Reduce Training, Travel and Programs		(9,400)
<b>Subtotal Changes to Base</b>	<b>1,549</b>	<b>\$250,970</b>
<b>Total FY 2012 Base</b>	<b>52,532</b>	<b>\$5,754,970</b>
<b>Program Changes:</b>		
<b>Program Increases:</b>		
<b>Enforcement Initiatives</b>	<b>2,040</b>	<b>\$209,668</b>
Increase International Service and Enforcement	373	48,363
Increase Collection Coverage	372	30,275
Implement Merchant Card and Basis Reporting	225	17,495
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	266	33,936
Ensure Accurate Delivery of Tax Credits	563	49,083
Administer New Statutory Reporting Requirements	48	5,061
Leverage Return Preparer Program to Reduce Noncompliance	107	14,240
Address Appeals Workload Growth	66	7,450
Implement Uncertain Tax Position Reporting Requirements	20	3,765
<b>Infrastructure Initiatives</b>	<b>10</b>	<b>\$1,981</b>
Enhance Physical Security for Federal Employees	10	1,981
<b>Subtotal Program Changes</b>	<b>2,050</b>	<b>\$211,649</b>
<b>Total FY 2012 Request</b>	<b>54,582</b>	<b>\$5,966,619</b>
<b>Adjustments to Request</b>		
User Fees		
<b>Total FY 2012 Request</b>	<b>54,582</b>	<b>\$5,966,619</b>

<sup>1</sup>FY 2010 Enacted represents the approved FY 2010 Operating Plan

## 2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Enforcement	FY 2010 Enacted Level <sup>1,2</sup>	FY 2011 President's Budget	Congressional Action including Rescission	FY 2011 Annualized CR Level <sup>2</sup>	Proposed Reprogram.	FY 2011 Proposed Operating Level	FY 2012 Request Level <sup>2</sup>	% Change FY 2011 to FY 2012
<b>FTE</b>	<b>50,983</b>	<b>52,863</b>		<b>50,983</b>		<b>50,983</b>	<b>54,582</b>	<b>7.1%</b>
<b>Object Classification:</b>								
11.1 Full-Time Permanent Positions	\$3,744,545	\$3,938,661	\$0	\$3,744,545	\$0	\$3,744,545	\$4,084,707	9.1%
11.3 Other than Full-Time Permanent Positions	52,993	91,365	0	52,993	0	52,993	57,151	7.8%
11.5 Other Personnel Compensation	164,191	173,549	0	164,191	0	164,191	170,898	4.1%
11.8 Special Personal Services Payments	18,173	18,445	0	18,173	0	18,173	18,264	0.5%
<b>11.9 Personnel Compensation (Total)</b>	<b>\$3,979,902</b>	<b>\$4,222,020</b>	<b>\$0</b>	<b>\$3,979,902</b>	<b>\$0</b>	<b>\$3,979,902</b>	<b>\$4,331,020</b>	<b>8.8%</b>
12.0 Personnel Benefits	1,084,382	1,173,634	0	1,084,382	0	1,084,382	1,231,973	13.6%
13.0 Benefits to Former Personnel	0	0	0	0	0	0	0	0.0%
21.0 Travel	197,877	181,570	0	197,877	0	197,877	184,863	-6.6%
22.0 Transportation of Things	5,824	6,607	0	5,824	0	5,824	8,808	51.2%
23.1 Rental Payments to GSA	30	0	0	30	0	30	0	-100.0%
23.2 Rent Payments to Others	1,003	502	0	1,003	0	1,003	496	-50.5%
23.3 Communications, Utilities, & Misc	5,818	4,131	0	5,818	0	5,818	4,402	-24.3%
24.0 Printing & Reproduction	6,530	6,546	0	6,530	0	6,530	6,848	4.9%
25.1 Advisory & Assistance Services	56,970	25,464	0	56,970	0	56,970	21,238	-62.7%
25.2 Other Services	62,489	72,609	0	62,489	0	62,489	72,197	15.5%
25.3 Purchase of Goods & Services from Govt. Accounts	49,243	49,902	0	49,243	0	49,243	42,792	-13.1%
25.4 Operation & Maintenance of Facilities	193	196	0	193	0	193	195	1.0%
25.5 Research & Development Contracts	3,124	3,007	0	3,124	0	3,124	3,049	-2.4%
25.6 Medical Care	123	78	0	123	0	123	79	-35.8%
25.7 Operation & Maintenance of Equipment	1,421	2,110	0	1,421	0	1,421	2,185	53.8%
25.8 Subsistence & Support of Persons	4,716	4,692	0	4,716	0	4,716	4,966	5.3%
26.0 Supplies and Materials	32,862	29,733	0	32,862	0	32,862	34,963	6.4%
31.0 Equipment	4,414	7,301	0	4,414	0	4,414	8,134	84.3%
32.0 Lands and Structures	425	0	0	425	0	425	934	119.8%
33.0 Investments & Loans	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	0	5	0	0	0	0	5	100.0%
42.0 Insurance Claims & Indemn	1,736	2,088	0	1,736	0	1,736	2,123	22.3%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	4,918	5,205	0	4,918	0	4,918	5,349	8.8%
<b>Total Budget Authority</b>	<b>\$5,504,000</b>	<b>\$5,797,400</b>	<b>\$0</b>	<b>\$5,504,000</b>	<b>\$0</b>	<b>\$5,504,000</b>	<b>\$5,966,619</b>	<b>8.4%</b>
<b>Budget Activities:</b>								
Investigations	\$639,363	\$651,966	0	\$639,363	\$0	\$639,363	\$678,849	6.2%
Exam & Collections	4,700,345	4,974,618	0	4,700,345	0	4,700,345	5,103,420	8.6%
Regulatory	164,292	170,816	0	164,292	0	164,292	184,350	12.2%
<b>Total Budget Authority</b>	<b>\$5,504,000</b>	<b>\$5,797,400</b>	<b>\$0</b>	<b>\$5,504,000</b>	<b>\$0</b>	<b>\$5,504,000</b>	<b>\$5,966,619</b>	<b>8.4%</b>

<sup>1</sup> FY 2010 Enacted represents the approved FY 2010 Operating Plan.

<sup>2</sup> Reflects implementation of the IRS Material Group Code project. This project realigned costs to more closely conform to general ledger account and OMB object class definitions.

## 2.3 – Appropriation Detail Table

Dollars in Thousands

Enforcement										
Resources Available for Obligation	FY 2010 Obligations		FY 2010 Enacted <sup>1</sup>		FY 2011 Annualized CR Level		FY 2012 Request		% Change FY 2011 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>										
Investigations	4,364	\$644,061	4,170	\$639,363	4,170	\$639,363	4,442	\$678,849	6.52%	6.18%
Exam and Collections	44,802	4,683,200	45,424	4,700,345	45,424	4,700,345	48,772	5,103,420	7.37%	8.58%
Regulatory	1,234	165,724	1,389	164,292	1,389	164,292	1,368	184,350	-1.51%	12.21%
<b>Subtotal New Appropriated Resources</b>	<b>50,400</b>	<b>\$5,492,985</b>	<b>50,983</b>	<b>\$5,504,000</b>	<b>50,983</b>	<b>\$5,504,000</b>	<b>54,582</b>	<b>\$5,966,619</b>	<b>7.06%</b>	<b>8.41%</b>
<b>Other Resources:</b>										
Recoveries				537						
Offsetting Collections - Reimbursable	124	74,599	124	76,852	124	75,247	124	75,902		0.87%
Available multi-year/no-year funds		944		3,462		3,196		3,054		-4.44%
50% Carryover		3,498		5,600						
Transfers In/Out				172						
Mandatory Appropriations - User Fees		49		49						
<b>Subtotal Other Resources</b>	<b>124</b>	<b>\$79,090</b>	<b>124</b>	<b>\$86,672</b>	<b>124</b>	<b>\$78,443</b>	<b>124</b>	<b>\$78,956</b>		<b>0.65%</b>
<b>Total Resources Available for Obligation</b>	<b>50,524</b>	<b>\$5,572,075</b>	<b>51,107</b>	<b>\$5,590,672</b>	<b>51,107</b>	<b>\$5,582,443</b>	<b>54,706</b>	<b>\$6,045,575</b>	<b>7.04%</b>	<b>8.30%</b>

<sup>1</sup> The FY 2010 Enacted column represents the approved FY 2010 Operating Plan.

**3C – Investigations** (\$678,849,000 in direct appropriations and an estimated \$66,567,000 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 and campus support of the Questionable Refund program. This includes the following program activities:

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

## FY 2012 Program Changes by Budget Activity

Dollars in Thousands

Internal Revenue Service		
Investigations	FTE	Amount
Enforcement Initiatives	66	\$13,423
Increase International Service and Enforcement	43	8,999
Leverage Return Preparer Program to Reduce Noncompliance	23	4,424
Infrastructure Initiatives	10	\$1,981
Enhance Physical Security for Federal Employees	10	1,981
<b>Total FY 2012 Request</b>	<b>76</b>	<b>\$15,404</b>

### 3.2.3 – Budget and Performance Plan

Dollars in Thousands

Investigations Budget Activity						FY 2011	FY 2012
Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Obligated	FY 2010 Enacted <sup>1</sup>	Annualized CR Level	Request	
Appropriated Resources	\$601,436	\$615,544	\$644,061	\$639,363	\$639,363	\$678,849	
Reimbursable Resources	49,404	39,639	65,296	67,549	65,928	66,567	
Mandatory Appropriations - User Fees							
<b>Total Resources</b>	<b>\$650,840</b>	<b>\$655,183</b>	<b>\$709,357</b>	<b>\$706,912</b>	<b>\$705,291</b>	<b>\$745,416</b>	

<sup>1</sup>The FY 2010 Enacted represents the approved FY 2010 Operating Plan.

Investigations Budget Activity Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2010 Target	FY 2011 Target	FY 2012 Target
Criminal Investigations Completed (Ot) (L)	4,044	3,848	4,325	3,900	3,900	3,880
Number of Convictions (Oe) (L)	2,144	2,105	2,184	2,135	2,135	2,135
Conviction Rate (Oe) (L)	92.3%	87.2%	90.2%	92.0%	92.0%	92.0%
Conviction Efficiency Rate (\$) (E) (L)	\$315,751	\$327,328	\$324,776	\$331,000	\$350,000	\$360,000

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

### Description of Performance

The IRS continues to investigate tax, money laundering, and other financial crimes that adversely affect tax administration. Improved case development and selection methods, coupled with heightened fraud awareness resulted in the successful prosecution of taxpayers involved in significant abusive tax schemes, high-income non-filers, employment tax evasion cases, and other flagrant forms of tax evasion. Using its unique statutory jurisdiction and financial expertise, the IRS made significant contributions to important national law enforcement priorities. Performance levels for the CI program remained high in FY 2010:

- Completed more than 4,300 criminal investigations, 12 percent more than in 2009;

- Maintained a Department of Justice acceptance rate of 93.9 percent, with a U.S. Attorney acceptance rate of 91.8 percent, which compares favorably with other Federal law enforcement agencies;
- Achieved a conviction rate of more than 90 percent; and
- Obtained 2,184 convictions.

In an effort to deter financial crime and enhance voluntary tax compliance, the IRS uses media and other outreach opportunities to maximize publicity of investigations. Publicity focuses on informing the American public about enforcement efforts and educating the public about fraud schemes and scams that they should avoid.

In FY 2010, IRS representatives participated in more than 500 outreach events. Audiences included tax and accounting professionals, representatives from financial institutions, business and industry managers, government representatives, educational institutions, and the public. Topics included general fraud awareness, tax and accounting fraud, money laundering, Bank Secrecy Act, and other financial fraud. These outreach events were attended by more than 27,800 individuals and businesses.

**3D – Exam and Collections** (*\$5,103,420,000 in direct appropriations and an estimated \$8,761,000 from reimbursable programs*): This budget activity funds programs that enforce tax laws through examination and collection programs that ensure proper payment and tax reporting. This budget activity also supports appeals and litigation activities associated with exam and collection. This includes the following program activities:

- *Compliance Services Management* supports management associated with compliance 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* provides support to the centralized Automated Collection System (ACS) by initiating contact and collecting delinquent taxpayer liabilities through automated means.
- *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 (FinCEN). 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, 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).
- *Unit General Management and Administration* provides staffing, training, and direct support for headquarters management activities of strategic planning, communication and liaison, finance, human resources, EEO and diversity, business system planning, and embedded training.
- *EITC Management and Administration* supports headquarters management associated with administering the EITC program service-wide.
- *Whistleblower* provides staffing, training, and direct support to process, assess, and analyze tips from individuals who identify tax problems in the course of their daily personal business, regardless of where encountered (including the workplace).
- *Communications and Liaison* coordinates local government and liaison relationships; manages congressional, state, and national stakeholder relationships and issues; coordinates crosscutting issues, including audit management and legislative implementation; manages national media contacts and local media relationships; and ensures IRS compliance with disclosure and privacy laws.

## FY 2012 Program Changes by Budget Activity

Dollars in Thousands

Internal Revenue Service		
Exam and Collections	FTE	Amount
Enforcement Initiatives	1,878	\$182,682
Increase International Service and Enforcement	322	37,980
Increase Collection Coverage	372	30,275
Implement Merchant Card and Basis Reporting	225	17,495
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	213	27,809
Ensure Accurate Delivery of Tax Credits	553	47,566
Administer New Statutory Reporting Requirements	43	4,291
Leverage Return Preparer Program to Reduce Noncompliance	84	9,816
Address Appeals Workload Growth	66	7,450
<b>Total FY 2012 Request</b>	<b>1,878</b>	<b>\$182,682</b>

### 3.2.4 – Budget and Performance Plan

Dollars in Thousands

Exam and Collections		FY 2008	FY 2009	FY 2010	FY 2010	FY 2011	FY 2012
Resource Level		Obligated	Obligated	Obligated	Enacted <sup>1</sup>	Annualized CR Level	Request
Appropriated Resources		\$4,030,648	\$4,342,021	\$4,683,200	\$4,700,345	\$4,700,345	\$5,103,420
Reimbursable Resources		8,302	8,970	8,729	8,729	8,745	8,761
Mandatory Appropriations - User Fees		12,679	3,103	49	49		
<b>Total Resources</b>		<b>\$4,051,629</b>	<b>\$4,354,094</b>	<b>\$4,691,978</b>	<b>\$4,709,123</b>	<b>\$4,709,090</b>	<b>\$5,112,181</b>

<sup>1</sup>The FY 2010 Enacted represents the approved FY 2010 Operating Plan.

Exam and Collections Budget Activity Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2010 Target	FY 2011 Target	FY 2012 Target
Examination Coverage - Individual (Oe) (L)	1.01%	1.0%	1.1%	1.1%	1.1%	1.1%
Field Exam National Quality Review Score (Oe) (L)	86.0%	85.1%	84.9%	86.3%	83.7%	84.9%
Office Exam National Quality Review Score (Oe) (L)	90.0%	92.1%	91.6%	90.9%	90.4%	90.9%
Examination Quality - Industry (Oe) (L)	88.0%	88.0%	87.0%	89.0%	89.0%	89.0%
Examination Quality - Coordinated Industry (Oe) (L)	97.0%	95.0%	95.0%	96.0%	96.0%	96.0%
Examination Coverage - Business (Oe) (L)	6.1%	5.6%	5.7%	5.1%	5.3%	5.2%
AUR Efficiency (E) (L)	1,982	1,905	1,924	1,868	1,980	2,017
AUR Coverage (E) (L)	2.55%	2.6%	3.0%	3.0%	3.3%	4.0%
Examination Efficiency - Individual (E) (L)	138	138	140	132	134	126
Collection Coverage - Units (Ot) (L)	55.2%	54.2%	50.1%	50.5%	49.1%	47.9%
Collection Efficiency - Units (E) (L)	1,926	1,845	1,822	1,898	1,824	1,752
Field Collection National Quality Review Score (Ot) (L)	79.0%	80.5%	80.6%	81.0%	81.0%	81.0%
Automated Collection System (ACS) Accuracy (Oe)	95.3%	94.3%	95.9%	92.5%	94.0%	94.0%

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

## Description of Performance

Enforcement of the tax laws is an integral component of the IRS effort to enhance voluntary compliance. IRS enforcement activities, such as examination and collection, target elements of the tax gap and will always remain a high priority. In FY 2010, the IRS placed extraordinary focus on detecting and bringing to justice those who hide assets overseas to avoid paying tax. The IRS also continued its pursuit of high-wealth noncompliant taxpayers and initiated actions to implement the return preparer strategy.

The IRS collected \$57.6 billion in revenue in FY 2010, \$8.7 billion, or 18 percent, more than in FY 2009. The IRS showed steady progress, building on its FY 2009 successes in key enforcement programs:

- Total individual audits increased 11 percent to 1.58 million;
- Automated underreporter contact closures increased 19.8 percent to 4.3 million;
- Collection case closures increased 6 percent to 3 million;
- High income audits increased to more than 5 percent to 153,000; and
- Large corporate audits increased 8.1 percent to almost 15,000, a significant achievement given the size (more than \$10 million) and complexity of these corporate entities.

As part of an overall strategy to improve offshore compliance, the IRS continued to take aggressive steps to track tax evaders who hide their wealth by engaging in tax evasion schemes using offshore accounts.

The IRS voluntary disclosure program (VDP), offered in 2009, combined with powerful whistle-blower initiatives, yielded information on banks and professionals, including foreign professionals, who facilitate tax evasion. Thousands of taxpayers with offshore accounts voluntarily came forward during the VDP partial amnesty period to disclose information as the result of the initiative.

The pressure on offshore financial institutions known to facilitate concealment of income by U.S. citizens resulted in:

- A large Swiss bank entering into a deferred prosecution agreement on charges of conspiring to defraud the United States. Investigations resulted in indictments or guilty pleas of clients and bankers on federal income tax related charges, including filing false income tax returns, failing to report foreign bank accounts, and concealing millions in income subject to taxation.
- A bank in Scotland agreeing to forfeit \$500 million as part of a deferred prosecution agreement. The bank violated the Bank Secrecy Act (BSA) and conspired to defraud the U.S. Certain offices, branches, affiliates, and subsidiaries altered or removed names and references from payment messages to

sanctioned countries thereby allowing these entities to move hundreds of millions of dollars through the U.S. financial system without identification.

- A Swiss corporation agreeing to forfeit \$536 million to the United States. The violations relate to transactions illegally conducted on behalf of customers and other countries sanctioned in programs administered by the Department of the Treasury. The corporation deliberately removed material information from payment messages so that wire transfers would pass undetected through filters at U.S. financial institutions.

Through the offshore voluntary disclosure program, the IRS identified previously unreported foreign bank accounts from every continent except Antarctica.

Additionally, the Accounts Management Taxpayer Assurance Program (AMTAP) and Questionable Refund Program (QRP) identify fraudulent returns and stop payment of fraudulent refunds. In FY 2010, the IRS:

- Identified 807,898 potentially fraudulent returns claiming more than \$5.2 billion in fraudulent refunds through the AMTAP; and
- Identified 1,576 schemes in potentially fraudulent refund claims through the QRP.
  - Initiated 504 investigations, achieved a 92.4 percent conviction rate, an 83.8 percent incarceration rate, and an 84.6 percent publicity rate on adjudicated cases.

Setting higher standards for the tax return preparer community will significantly enhance protections and services for taxpayers, increase confidence in the tax system and result in greater compliance with tax laws. In FY 2010, as part of a Tax Return Preparer Strategy developed in FY 2009, the IRS began implementing a number of the recommendations to ensure that more than one million tax return preparers are competent. Key elements of the strategy include:

- Requiring registration for all paid tax return preparers (through December 31, 2010, more than 523,000 return preparers received PTINs utilizing the new application system);
- Establishing mandatory testing and continuing education;
- Developing a public database for tax return preparer registration with the IRS;
- Making all tax return preparers subject to ethical standards; and
- Increasing the IRS enforcement presence in the tax return preparer community. In FY 2010, the IRS made a number of due diligence visits to tax return preparers and conducted more than 5,000 field visits to ensure compliance with the tax laws. The IRS also conducted 265 undercover visits to tax return preparers. During these visits, IRS agents posed as taxpayers to seek out and stop unscrupulous preparers from filing inaccurate returns.

**3E – Regulatory** (\$184,350,000 in direct appropriations and an estimated \$574,000 from reimbursable programs): This budget activity funds the development and printing of published IRS guidance materials; interpretation of tax laws; advice on general legal servicing, ruling and agreements; 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. This includes the following program activities:

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

**FY 2012 Program Changes by Budget Activity**

Dollars in Thousands

Internal Revenue Service		
Regulatory	FTE	Amount
Enforcement Initiatives	96	\$13,563
Increase International Service and Enforcement	8	1,384
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	53	6,127
Ensure Accurate Delivery of Tax Credits	10	1,517
Administer New Statutory Reporting Requirements	5	770
Implement Uncertain Tax Position Reporting Requirements	20	3,765
<b>Total FY 2012 Request</b>	<b>96</b>	<b>\$13,563</b>

### 3.2.5 – Budget and Performance Plan

Dollars in Thousands

Regulatory Resource Level	FY 2008	FY 2009	FY 2010	FY 2010	FY 2011	FY 2012
	Obligated	Obligated	Obligated	Enacted <sup>1</sup>	Annualized CR Level	Request
Appropriated Resources	\$145,036	\$152,115	\$165,724	\$164,292	\$164,292	\$184,350
Reimbursable Resources	435	469	574	574	574	574
Mandatory Appropriations - User Fees	168					
<b>Total Resources</b>	<b>\$145,639</b>	<b>\$152,584</b>	<b>\$166,298</b>	<b>\$164,866</b>	<b>\$164,866</b>	<b>\$184,924</b>

<sup>1</sup>The FY 2010 Enacted represents the approved FY 2010 Operating Plan.

Regulatory Budget Activity Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2010 Target	FY 2011 Target	FY 2012 Target
TE/GE Determination Case Closures (O)	100,050	96,246	105,247	140,465	97,151	85,471

Key: O - Output/Workload Measure

### Description of Performance

In 2010, the IRS continued to help pension plans, exempt organizations, and government entities comply with the tax law by:

- Developing an Indian Tribal consultation policy with the Department of the Treasury, pursuant to a November 2009 Presidential Memorandum. The IRS held consultation meetings with stakeholder groups to allow tribes an opportunity to discuss the consultation policy and a new section on Tribal Policy was developed and added to the Treasury website. In addition, the IRS piloted a specialty course designed to ensure that IRS employees will have the necessary skills to interact effectively with Tribal governments on a government-to-government basis.
- Releasing an interim report on compliance of college and universities for unrelated business taxable income and compensation. Based on responses from the surveys received from the colleges/universities, IRS opened examinations focusing on unrelated business income and executive compensation.
- Implementing Section 301 of the Small Business and Infrastructure Jobs Tax Act of 2010 that expanded the Build America Bond (BAB) direct payment regime to include four types of specified tax credit bonds. This initiative included:
  - Expedient issuance of formal guidance and educational materials related to the new bond provisions;
  - Issuance of a new return, Form 8038-TC, *Information Return for Tax Credit Bonds and Specified Tax Credit Bonds*, and instructions, and revision and reissuance of the Form 8038-CP, *Return for Credit Payments to Issuers of Qualified Bonds*, and instructions;
  - Implementation of new programming to ensure direct payments are made contemporaneously with the bonds' interest payment dates; and
  - Conducting several HIRE Act related outreach presentations.

In FY 2010, IRS closed more than 41,400 tax-exempt compliance contacts, 19 percent more than in 2009.

General Legal Services (GLS) worked on promulgation of guidance in connection with the administration of the whistleblower program and was responsible for litigating cases before the Tax Court filed by whistleblowers challenging the IRS award determination.

In FY 2010, GLS handled 20 cases before the Tax Court and expects this number will increase substantially as the IRS completes the investigation of whistleblower claims and the Whistleblower Office begins to make award determinations. GLS has litigated and provided advice with respect to protection of taxpayers regarding tax practitioners, tax preparers and various novel personnel issues implicating both individuals and groups of employees. GLS provided advice on the implementation of the Affordable Care Act (ACA) legislation regarding such matters as funding and authority; and advice on numerous matters arising from the Austin tragedy and the IRS efforts to provide the best relief appropriate for affected IRS employees and taxpayers.



## **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, Equal Employment Opportunity (EEO) and diversity; research and statistics of income; and necessary expenses for information systems and telecommunication support, including development, security, and maintenance of IRS's information systems.

The Operations Support Budget Request for FY 2012 is \$4,620,526,000 in direct appropriations and 13,142 FTE. This is an increase of \$536,642,000, or 13.14 percent, and 770 FTE more than the FY 2010 enacted level of \$4,083,884,000 and 12,372 FTE.

## 2.1 – Budget Adjustments Table

Dollars in Thousands

<b>Operations Support</b>	<b>FTE</b>	<b>Amount</b>
<b>FY 2010 Enacted Budget<sup>1</sup></b>	<b>12,372</b>	<b>\$4,083,884</b>
<b>FY 2011 Annualized CR Level</b>	<b>12,372</b>	<b>\$4,083,884</b>
<b>Changes to Base:</b>		
Adjustment to Reach FY 2011 President's Policy Level	12	\$10,128
Maintaining Current Levels		\$41,755
<b>Other Adjustments</b>	<b>154</b>	
Technical FTE Adjustments	154	
<b>Efficiencies/Savings</b>	<b>(5)</b>	<b>(\$124,440)</b>
Non-Recur Savings		(22,090)
Increase e-File Savings		(1,040)
Reduce IT Infrastructure		(75,000)
Reduce Contracts		(15,907)
Reduce Administrative Expenses	(5)	(503)
Reduce Certain Mailings		(4,000)
Reduce Training, Travel and Programs		(5,900)
<b>Subtotal Changes to Base</b>	<b>161</b>	<b>(\$72,557)</b>
<b>Total FY 2012 Base</b>	<b>12,533</b>	<b>\$4,011,327</b>
<b>Program Changes:</b>		
<b>Program Increases:</b>		
<b>Taxpayer Service Initiatives</b>	<b>16</b>	<b>\$70,229</b>
Improve Taxpayer Service	1	37,229
Expand Online Options through IRS.gov Improvements	15	33,000
<b>Enforcement Initiatives</b>	<b>508</b>	<b>\$370,093</b>
Increase International Service and Enforcement	4	24,233
Increase Collection Coverage	4	19,524
Implement Merchant Card and Basis Reporting	1	7,760
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	144	55,553
Ensure Accurate Delivery of Tax Credits	222	206,264
Administer New Statutory Reporting Requirements	132	52,385
Leverage Return Preparer Program to Reduce Noncompliance	1	2,360
Address Appeals Workload Growth		1,650
Implement Uncertain Tax Position Reporting Requirements		364
<b>Infrastructure Initiatives</b>	<b>80</b>	<b>\$116,877</b>
Enhance Security and Disaster Recovery Systems Capability	5	12,000
Update Integrated Financial System (IFS)	5	27,500
Leveraging Data to Improve Compliance	5	1,400
Enhance Physical Security for Federal Employees		13,500
Implement Individual Coverage Requirement and Employer Responsibility Payments	65	62,477
<b>Business Systems Modernization (BSM) Initiative</b>	<b>5</b>	<b>\$52,000</b>
Continue Migration from Aging Tax Administration System	5	52,000
<b>Subtotal Program Changes</b>	<b>609</b>	<b>\$609,199</b>
<b>Total FY 2012 Request</b>	<b>13,142</b>	<b>\$4,620,526</b>
<b>Adjustments to Request</b>		
User Fees		73,466
<b>Total FY 2012 Request</b>	<b>13,142</b>	<b>\$4,693,992</b>

<sup>1</sup>FY 2010 Enacted represents the approved FY 2010 Operating Plan

## 2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Operations Support	FY 2010 Enacted Level <sup>1,2</sup>	FY 2011 President's Budget	Congressional Action including Rescission	FY 2011 Annualized CR Level <sup>2</sup>	Proposed Reprogram.	FY 2011 Proposed Operating Level	FY 2012 Request Level <sup>2</sup>	% Change FY 2011 to FY 2012
<b>FTE</b>	<b>12,372</b>	<b>12,384</b>		<b>12,372</b>		<b>12,372</b>	<b>13,142</b>	<b>6.2%</b>
<b>Object Classification:</b>								
11.1 Full-Time Permanent Positions	\$1,072,547	\$1,089,960	\$0	\$1,072,547	\$0	\$1,072,547	\$1,182,167	10.2%
11.3 Other than Full-Time Permanent Positions	12,480	26,496	0	12,480	0	12,480	11,693	-6.3%
11.5 Other Personnel Compensation	34,437	35,147	0	34,437	0	34,437	33,586	-2.5%
11.8 Special Personal Services Payments	0	0	0	0	0	0	0	0.0%
<b>11.9 Personnel Compensation (Total)</b>	<b>\$1,119,464</b>	<b>\$1,151,603</b>	<b>\$0</b>	<b>\$1,119,464</b>	<b>\$0</b>	<b>\$1,119,464</b>	<b>\$1,227,446</b>	<b>9.6%</b>
12.0 Personnel Benefits	346,939	357,973	0	346,939	0	346,939	387,046	11.6%
13.0 Benefits to Former Personnel	48,217	48,907	0	48,217	0	48,217	49,789	3.3%
21.0 Travel	46,639	42,852	0	46,639	0	46,639	46,282	-0.8%
22.0 Transportation of Things	23,822	20,999	0	23,822	0	23,822	22,348	-6.2%
23.1 Rental Payments to GSA	646,363	676,738	0	646,363	0	646,363	685,010	6.0%
23.2 Rent Payments to Others	14,999	44	0	14,999	0	14,999	14,901	-0.7%
23.3 Communications, Utilities, & Misc	474,165	426,745	0	474,165	0	474,165	449,668	-5.2%
24.0 Printing & Reproduction	56,383	51,666	0	56,383	0	56,383	44,544	-21.0%
25.1 Advisory & Assistance Services	98,366	96,998	0	98,366	0	98,366	79,041	-19.6%
25.2 Other Services	411,244	390,480	0	411,244	0	411,244	740,967	80.2%
25.3 Purchase of Goods & Services from Govt. Accounts	72,972	86,985	0	72,972	0	72,972	64,348	-11.8%
25.4 Operation & Maintenance of Facilities	157,036	217,608	0	157,036	0	157,036	168,283	7.2%
25.5 Research & Development Contracts	5,382	5,471	0	5,382	0	5,382	5,433	0.9%
25.6 Medical Care	18,591	12,538	0	18,591	0	18,591	13,419	-27.8%
25.7 Operation & Maintenance of Equipment	77,246	110,905	0	77,246	0	77,246	94,389	22.2%
25.8 Subsistence & Support of Persons	300	321	0	300	0	300	313	4.3%
26.0 Supplies and Materials	38,048	29,916	0	38,048	0	38,048	32,453	-14.7%
31.0 Equipment	380,226	360,851	0	380,226	0	380,226	408,472	7.4%
32.0 Lands and Structures	46,961	17,857	0	46,961	0	46,961	85,836	82.8%
33.0 Investments & Loans	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	0	0	0	0	0	0	0	0.0%
42.0 Insurance Claims & Indemn	521	543	0	521	0	521	538	3.3%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	0	0	0	0	0	0	0	0.0%
<b>Total Budget Authority</b>	<b>\$4,083,884</b>	<b>\$4,108,000</b>	<b>\$0</b>	<b>\$4,083,884</b>	<b>\$0</b>	<b>\$4,083,884</b>	<b>\$4,620,526</b>	<b>13.1%</b>
<b>Budget Activities:</b>								
Infrastructure	\$895,202	\$889,929	0	\$895,202	\$0	\$895,202	\$986,045	10.1%
Shared Services & Support	1,311,127	1,337,776	0	1,311,127	0	1,311,127	1,313,050	0.1%
Information Services	1,877,555	1,880,295	0	1,877,555	0	1,877,555	2,321,431	23.6%
<b>Total Budget Authority</b>	<b>\$4,083,884</b>	<b>\$4,108,000</b>	<b>\$0</b>	<b>\$4,083,884</b>	<b>\$0</b>	<b>\$4,083,884</b>	<b>\$4,620,526</b>	<b>13.1%</b>

<sup>1</sup> FY 2010 Enacted represents the approved FY 2010 Operating Plan.

<sup>2</sup> Reflects implementation of the IRS Material Group Code project. This project realigned costs to more closely conform to general ledger account and OMB object class definitions.

## 2.3 – Appropriation Detail Table

Dollars in Thousands

Operations Support										
Resources Available for Obligation	FY 2010 Obligations		FY 2010 Enacted <sup>1</sup>		FY 2011 Annualized CR Level		FY 2012 Request		% Change FY 2011 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>										
Infrastructure		\$894,288		\$895,202		\$895,202		\$986,045		10.15%
Shared Services and Support	5,830	\$1,299,008	5,992	1,311,127	5,992	1,311,127	6,082	1,313,050	1.50%	0.15%
Information Services	6,432	\$1,814,819	6,380	1,877,555	6,380	1,877,555	7,060	2,321,431	10.66%	23.64%
<b>Subtotal New Appropriated Resources</b>	<b>12,262</b>	<b>\$4,008,115</b>	<b>12,372</b>	<b>\$4,083,884</b>	<b>12,372</b>	<b>\$4,083,884</b>	<b>13,142</b>	<b>\$4,620,526</b>	<b>6.22%</b>	<b>13.14%</b>
<b>Other Resources:</b>										
Recoveries				863						
Offsetting Collections - Reimbursable	91	38,051	91	38,051	91	39,143	91	39,446		0.77%
Available multi-year/no-year funds		48,697		68,454		70,629		7,738		-89.04%
50% Carryover		10,276		10,347						
Transfers In/Out				(12,543)						
Mandatory Appropriations - User Fees	32	53,968	32	53,968		75,462		73,466		-2.65%
<b>Subtotal Other Resources</b>	<b>123</b>	<b>\$150,992</b>	<b>123</b>	<b>\$159,140</b>	<b>91</b>	<b>\$185,234</b>	<b>91</b>	<b>\$120,650</b>		<b>-34.87%</b>
<b>Total Resources Available for Obligation</b>	<b>12,385</b>	<b>\$4,159,107</b>	<b>12,495</b>	<b>\$4,243,024</b>	<b>12,463</b>	<b>\$4,269,118</b>	<b>13,233</b>	<b>\$4,741,176</b>	<b>6.18%</b>	<b>11.06%</b>

<sup>1</sup> The FY 2010 Enacted column represents the approved FY 2010 Operating Plan.

**3F – Infrastructure** (\$986,045,000 in direct appropriations, an estimated \$516,000 from reimbursable programs and an estimated \$22,095,000 from user fees): This budget activity funds administrative services related to space and housing, rent and space alterations, building services, maintenance, guard services, and non-IT equipment. This includes the following program activities:

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

## FY 2012 Program Changes by Budget Activity

Dollars in Thousands

Internal Revenue Service		FTE	Amount
Infrastructure			
<b>Taxpayer Service Initiatives</b>			<b>\$11,775</b>
	Improve Taxpayer Service		11,682
	Expand Online Options through IRS.gov Improvements		93
<b>Enforcement Initiatives</b>			<b>\$23,062</b>
	Increase International Service and Enforcement		2,337
	Increase Collection Coverage		2,560
	Implement Merchant Card and Basis Reporting		2,241
	Increase Coverage to Address Tax Law Changes and Other Compliance Issues		1,855
	Ensure Accurate Delivery of Tax Credits		12,404
	Administer New Statutory Reporting Requirements		618
	Leverage Return Preparer Program to Reduce Noncompliance		583
	Address Appeals Workload Growth		356
	Implement Uncertain Tax Position Reporting Requirements		108
<b>Infrastructure Initiatives</b>			<b>\$10,426</b>
	Enhance Security and Disaster Recovery Systems Capability		31
	Update Integrated Financial System (IFS)		31
	Leveraging Data to Improve Compliance		27
	Enhance Physical Security for Federal Employees		10,070
	Implement Individual Coverage Requirement and Employer Responsibility Payments		267
<b>Business Systems Modernization (BSM) Initiative</b>			<b>\$56</b>
	Continue Migration from Aging Tax Administration System		56
<b>Total FY 2012 Request</b>			<b>\$45,319</b>

### 3.2.6 – Budget and Performance Plan

Dollars in Thousands

Infrastructure	Resource Level	FY 2008	FY 2009	FY 2010	FY 2010	FY 2011	FY 2012
		Obligated	Obligated	Obligated	Enacted <sup>1</sup>	Annualized CR Level	Request
	Appropriated Resources	\$809,039	\$859,093	\$894,288	\$895,202	\$895,202	\$986,045
	Reimbursable Resources	149	14,120	505	505	511	516
	Mandatory Appropriations - User Fees	13,049				24,277	22,095
<b>Total Resources</b>		<b>\$822,237</b>	<b>\$873,213</b>	<b>\$894,793</b>	<b>\$895,707</b>	<b>\$919,990</b>	<b>\$1,008,656</b>

<sup>1</sup>The FY 2010 Enacted represents the approved FY 2010 Operating Plan.

### Description of Performance

The IRS achieved cost savings in FY 2010 by completing nine space reduction projects, releasing a total of 22,370 square feet with an annualized savings of \$429,910.

The FY 2010 savings, coupled with those from previous years, have helped to offset the increased costs associated with GSA rate increases, as well as infrastructure improvement initiatives such as the consolidation of the Philadelphia campus operations. Workstation utilization continued to increase in 2010 as the IRS placed most new employees into existing space.

For FY 2011, 26 space reduction projects are planned with a projected release of an additional 111,338 square feet. The IRS plans to place any new hires in existing space and renew leases at existing sites rather than moving to new locations. These and other actions will help IRS absorb projected FY 2011 rent increases.

**3G – Shared Services and Support** (*\$1,313,050,000 in direct appropriations and an estimated \$20,577,000 from reimbursable programs*): This budget activity funds policy and management, IRS-wide support for research, strategic planning, communications and liaison, finance, human resources, and equal employment opportunity and diversity services and programs. It also funds printing and postage, business systems planning, security, corporate training, legal services, procurement, and employee benefits programs. This includes the following program activities:

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

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

## FY 2012 Program Changes by Budget Activity

Dollars in Thousands

Internal Revenue Service		
Shared Services and Support	FTE	Amount
<b>Taxpayer Service Initiatives</b>	1	\$3,339
Improve Taxpayer Service	1	3,252
Expand Online Options through IRS.gov Improvements		87
<b>Enforcement Initiatives</b>	29	\$40,652
Increase International Service and Enforcement	4	6,824
Increase Collection Coverage		4,185
Implement Merchant Card and Basis Reporting	1	3,664
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	6	5,297
Ensure Accurate Delivery of Tax Credits	3	13,910
Administer New Statutory Reporting Requirements	14	4,318
Leverage Return Preparer Program to Reduce Noncompliance	1	1,400
Address Appeals Workload Growth		878
Implement Uncertain Tax Position Reporting Requirements		176
<b>Infrastructure Initiatives</b>	8	\$4,136
Enhance Security and Disaster Recovery Systems Capability		29
Update Integrated Financial System (IFS)		29
Leveraging Data to Improve Compliance	5	1,359
Enhance Physical Security for Federal Employees		1,695
Implement Individual Coverage Requirement and Employer Responsibility Payments	3	1,024
<b>Business Systems Modernization (BSM) Initiative</b>		\$50
Continue Migration from Aging Tax Administration System		50
<b>Total FY 2012 Request</b>	<b>38</b>	<b>\$48,177</b>

### 3.2.7 – Budget and Performance Plan

Dollars in Thousands

Resource Level	FY 2008	FY 2009	FY 2010	FY 2010	FY 2011	FY 2012
	Obligated	Obligated	Obligated	Enacted <sup>1</sup>	Annualized CR Level	Request
Appropriated Resources	\$1,279,800	\$1,257,040	\$1,299,008	\$1,311,127	\$1,311,127	\$1,313,050
Reimbursable Resources	30,796	20,763	20,315	20,315	20,445	20,577
Mandatory Appropriations - User Fees	19,114	2	17,887	17,887		
<b>Total Resources</b>	<b>\$1,329,710</b>	<b>\$1,277,805</b>	<b>\$1,337,210</b>	<b>\$1,349,329</b>	<b>\$1,331,572</b>	<b>\$1,333,627</b>

<sup>1</sup>The FY 2010 Enacted represents the approved FY 2010 Operating Plan.

#### Description of Performance

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

##### *Human Capital*

In FY 2010, the IRS continued its focus on attracting, retaining, and developing a quality workforce to support workforce management activities that contribute to making the IRS one of the best places to work in government. To attract the best and increase the number of qualified and diverse applicants, the IRS enhanced its recruitment programs and introduced a new recruitment brand, “Count on Me!” on print materials, USAjobs.gov, IRS Careers website, Internet advertisements, and social media.

One of the key initiatives that contribute to making the IRS the best place to work was the establishment of the Workforce of Tomorrow (WOT) group. In FY 2010, the IRS completed 41 of 58 recommendations outlined in the 2009 WOT report. The recommendations address the most significant challenges facing current employees and managers. Implementation included the recognition of employee successes through the web, issuing anniversary congratulations messages, enhancing the Career Management Resource Center website, and developing a comprehensive on-boarding strategy for new IRS employees, which includes providing forms and benefit information, as well as orientation information.

Results of the annual IRS employee engagement survey are used to improve the workplace. The level of employee engagement affects the overall ability of the organization to meet goals, minimize attrition, and increase productivity. In FY 2010, a record 79 percent of employees participated in the annual survey, with overall employee satisfaction increasing from 73.7 percent in FY 2009 to 74.4 percent in FY 2010. In addition, the IRS also improved its Federal Employee Viewpoint scores ranking from 79 out of 224 government agencies compared to 127 out of 216 agencies in 2008.

Leadership competencies are the foundation for hiring, promoting, developing, and evaluating IRS leaders. The IRS uses leadership competencies to assess employee skills, abilities, and knowledge to determine their readiness for leadership in the IRS. For 2010,



the IRS phased in a new and improved leadership competency model that comprises four leadership competencies, each of which has three or more supporting behaviors. The new model replaces the old model that had 21 competencies, reducing managerial burden associated with employee assessment, and making the overall process easier to use.

### *Security*

The IRS collects a tremendous amount of sensitive information, and protecting this information is vital to maintaining the public trust. The IRS takes the issue of identity theft very seriously. In FY 2010, to preserve and enhance public confidence, the IRS advocated the protection and proper use of identity information by:

- Placing markers on more than 284,000 taxpayer accounts to alert employees that the account belongs to a substantiated identity theft victim; and
- Ensuring identity theft indicators and business rules isolate returns for additional screening to validate whether the true taxpayer filed the return. More than 82,000 returns were selected for additional screening and closed, and \$245 million was protected from being refunded to perpetrators on more than 48,000 fraudulent returns.

The IRS also protects its systems and taxpayers from increasing and evolving online threats. By monitoring, identifying, and mitigating fraudulent sites and phishing scams, the IRS helps to reduce the number of taxpayers who fall victim to online fraud schemes. During FY 2010, the IRS shut down 4,109 phishing sites (899 domestic and 3,210 international) compared to 3,444 sites shut down through all of 2009.

### *Research*

The IRS remains committed to finding ways to increase compliance and reduce the tax gap. In FY 2010, the IRS began developing new methodologies for estimating the corporate income tax gap, updating the estate and gift tax nonfiling and underreporting tax gap estimates, and developing a new basis for estimating the individual income tax non-filer gap. Updated tax gap estimates will be released in 2011 based on new National Research Program (NRP) data, including reporting compliance estimates using tax year (TY) 2006 and TY 2007 NRP data. Tax gap estimates will also incorporate updated filing and payment estimates. Updated methodologies to detect non-compliance will be used.

The IRS NRP allows the IRS to target specific areas of noncompliance to improve voluntary compliance and allocate resources more effectively to reduce the tax gap. In FY 2010, NRP efforts included a study to assess the reporting compliance of employment taxes. The study will span three tax years, from 2008 through 2010, examining approximately 2,200 randomly selected taxpayers each year. This new study complements the ongoing study of individual reporting compliance.

The IRS continues to study the effects of services it offers to taxpayers on the internet, at walk-in sites, and on its toll-free telephone lines as well as exploring the relationships between taxpayer errors and unclear correspondence. As part of this effort, the IRS is testing the effect of on-line assistance and instruction and service quality to aid in the development of new approaches to service.

**3H – Information Services** (\$2,321,431,000 in direct appropriations, an estimated \$18,353,000 from reimbursable programs and an estimated \$51,371,000 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 tax administration programs. This includes the design and operation of security controls and disaster recovery planning. This budget activity funds the development and maintenance of the millions of lines of programming code that support all aspects and phases of tax processing and the operation and administration of the mainframes, servers, personal computers, networks, and a variety of management information systems.

Modernization and Information Technology Services (MITS) is responsible for information systems and technology, ranging from cyber security and networks to applications development and end user equipment and services. This includes the following program activities:

- *Security Services* ensures effective security policies and programs to safeguard taxpayer records, IRS employees, facilities, business processes, systems and other resources. The program is responsible for corrective action efforts to establish adequate service-wide security, including Security Policy Support and Oversight, Mission Assurance, and Modernization Security. Policies are set using a governance process including executive steering committees. Compliance review teams perform vulnerability assessments. Mission assurance activities include operation of the Computer Systems Incident Response and Situation Awareness and Management Centers, as well as coordination of service-wide disaster recovery and business continuity planning. Operational programs include security training and awareness, sensitive system certification and accreditation with Treasury on the federal Critical Infrastructure Protection Program.
- *Tier B* provides support to single-owner, small to medium investment projects using core data to support specialized functions.
- *Management Services* provides for the design, development, delivery, and evaluation of a wide range of human resource programs for the MITS organization. These programs include workforce planning, recruitment and retention, career management, performance management, labor/employee relations, position management, workplace improvement, succession management and service-wide IT training and education.
- *National Headquarters (NHQ) IT Management* provides for the management and oversight of investments in IT for the Chief of Staff and Research, Analysis and Statistics (RAS). The program allows NHQ to manage and leverage IT solutions that are responsive to IRS-wide management, tax compliance, enforcement, and strategic and tactical research projects.

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

management tools. It performs asset management activities, and maintenance of the voice and data infrastructure at the territory offices.

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

## FY 2012 Program Changes by Budget Activity

Dollars in Thousands

Internal Revenue Service		
Information Services	FTE	Amount
<b>Taxpayer Service Initiatives</b>	15	\$55,115
Improve Taxpayer Service		22,295
Expand Online Options through IRS.gov Improvements	15	32,820
<b>Enforcement Initiatives</b>	479	\$306,379
Increase International Service and Enforcement		15,072
Increase Collection Coverage	4	12,779
Implement Merchant Card and Basis Reporting		1,855
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	138	48,401
Ensure Accurate Delivery of Tax Credits	219	179,950
Administer New Statutory Reporting Requirements	118	47,449
Leverage Return Preparer Program to Reduce Noncompliance		377
Address Appeals Workload Growth		416
Implement Uncertain Tax Position Reporting Requirements		80
<b>Infrastructure Initiatives</b>	72	\$102,315
Enhance Security and Disaster Recovery Systems Capability	5	11,940
Update Integrated Financial System (IFS)	5	27,440
Leveraging Data to Improve Compliance		14
Enhance Physical Security for Federal Employees		1,735
Implement Individual Coverage Requirement and Employer Responsibility Payments	62	61,186
<b>Business Systems Modernization (BSM) Initiative</b>	5	\$51,894
Continue Migration from Aging Tax Administration System	5	51,894
<b>Total FY 2012 Request</b>	<b>571</b>	<b>\$515,703</b>

### 3.2.8 – Budget and Performance Plan

Dollars in Thousands

Information Services	Resource Level	FY 2008	FY 2009	FY 2010	FY 2010	FY 2011	FY 2012
		Obligated	Obligated	Obligated	Enacted <sup>1</sup>	Annualized CR Level	Request
Appropriated Resources		\$1,678,744	\$1,680,279	\$1,814,819	\$1,877,555	\$1,877,555	\$2,321,431
Reimbursable Resources		14,310	5,481	17,231	17,231	18,187	18,353
Mandatory Appropriations - User Fees		50,000	9,543	36,081	36,081	51,185	51,371
<b>Total Resources</b>		<b>\$1,743,054</b>	<b>\$1,695,303</b>	<b>\$1,868,131</b>	<b>\$1,930,867</b>	<b>\$1,946,927</b>	<b>\$2,391,155</b>

<sup>1</sup>The FY 2010 Enacted represents the approved FY 2010 Operating Plan.

### Description of Performance

The IRS continues to replace its IT infrastructure using an ongoing review process that prioritizes funding of business unit needs using a risk assessment framework. In FY 2010, IRS reduced the quantity of aged IT hardware assets by 17 percent, from 42 percent on October 1, 2009 to 25 percent on September 30, 2010. During FY 2010, the IRS spent more than \$117 million to replace 38,346 of these aged assets, which include network equipment, end-user equipment, and servers and storage equipment.

Future funding will be used to replace aging IT and telecommunication equipment in line with current business standards. Without investment in an ongoing replacement program

for the backlog of aged and outdated IT and telecommunication equipment, the IRS runs the risk of increased maintenance costs, an inability to meet increased demand for interaction and information exchange with taxpayers and tax preparers, and failure to comply with government-wide standards and industry best practices.

## **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 2012 is \$333,600,000 in direct appropriations and 453 FTE. This is an increase of \$69,703,000, or 26.4 percent, and 120 FTE more than the FY 2010 enacted level of \$263,897,000 and 333 FTE.

## 2.1 – Budget Adjustments Table

Dollars in Thousands

<b>Business Systems Modernization</b>	<b>FTE</b>	<b>Amount</b>
FY 2010 Enacted Budget <sup>1</sup>	333	\$263,897
FY 2011 Annualized CR Level	333	\$263,897
Changes to Base:		
Adjustment to Reach FY 2011 President's Policy Level	156	\$122,561
Maintaining Current Levels		\$168
Other Adjustments	29	
Technical FTE Adjustments	29	
Efficiencies/Savings		(\$1,026)
Reduce Training, Travel and Programs		(1,026)
Subtotal Changes to Base	185	\$121,703
<b>Total FY 2012 Base</b>	<b>518</b>	<b>\$385,600</b>
Program Changes:		
Program Increases:		
Business Systems Modernization (BSM) Initiative	(65)	(\$52,000)
Continue Migration from Aging Tax Administration System	(65)	(52,000)
Subtotal Program Changes	(65)	(\$52,000)
<b>Total FY 2012 Request</b>	<b>453</b>	<b>\$333,600</b>
Adjustments to Request		
User Fees		
<b>Total FY 2012 Request</b>	<b>453</b>	<b>\$333,600</b>

<sup>1</sup>FY 2010 Enacted represents the approved FY 2010 Operating Plan



## 2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Business Systems Modernization	FY 2010 Enacted Level <sup>1,2</sup>	FY 2011 President's Budget	Congressional Action including Rescission	FY 2011 Annualized CR Level <sup>2</sup>	Proposed Reprogram.	FY 2011 Proposed Operating Level	FY 2012 Request Level <sup>2</sup>	% Change FY 2011 to FY 2012
<b>FTE</b>	<b>333</b>	<b>489</b>		<b>333</b>		<b>333</b>	<b>453</b>	<b>36.0%</b>
<b>Object Classification:</b>								
11.1 Full-Time Permanent Positions	\$34,079	\$53,905	\$0	\$34,079	\$0	\$34,079	\$49,843	46.3%
11.3 Other than Full-Time Permanent Positions	785	869	0	785	0	785	1,125	43.3%
11.5 Other Personnel Compensation	643	1,173	0	643	0	643	1,390	116.2%
11.8 Special Personal Services Payments	0	0	0	0	0	0	0	0.0%
<b>11.9 Personnel Compensation (Total)</b>	<b>\$35,507</b>	<b>\$55,947</b>	<b>\$0</b>	<b>\$35,507</b>	<b>\$0</b>	<b>\$35,507</b>	<b>\$52,358</b>	<b>47.5%</b>
12.0 Personnel Benefits	10,493	14,058	0	10,493	0	10,493	15,835	50.9%
13.0 Benefits to Former Personnel	0	0	0	0	0	0	0	0.0%
21.0 Travel	100	78	0	100	0	100	469	369.0%
22.0 Transportation of Things	0	0	0	0	0	0	0	0.0%
23.1 Rental Payments to GSA	0	0	0	0	0	0	0	0.0%
23.2 Rent Payments to Others	0	0	0	0	0	0	0	0.0%
23.3 Communications, Utilities, & Misc	0	0	0	0	0	0	0	0.0%
24.0 Printing & Reproduction	0	0	0	0	0	0	0	0.0%
25.1 Advisory & Assistance Services	0	0	0	0	0	0	0	0.0%
25.2 Other Services	135,605	193,348	0	135,605	0	135,605	176,700	30.3%
25.3 Purchase of Goods & Services from Govt. Accounts	0	0	0	0	0	0	0	0.0%
25.4 Operation & Maintenance of Facilities	0	0	0	0	0	0	0	0.0%
25.5 Research & Development Contracts	0	0	0	0	0	0	0	0.0%
25.6 Medical Care	0	0	0	0	0	0	0	0.0%
25.7 Operation & Maintenance of Equipment	10,578	15,972	0	10,578	0	10,578	60,982	476.5%
25.8 Subsistence & Support of Persons	0	0	0	0	0	0	0	0.0%
26.0 Supplies and Materials	0	0	0	0	0	0	56	0.0%
31.0 Equipment	71,614	107,505	0	71,614	0	71,614	27,200	-62.0%
32.0 Lands and Structures	0	0	0	0	0	0	0	0.0%
33.0 Investments & Loans	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	0	0	0	0	0	0	0	0.0%
42.0 Insurance Claims & Indemn	0	0	0	0	0	0	0	0.0%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	0	0	0	0	0	0	0	0.0%
<b>Total Budget Authority</b>	<b>\$263,897</b>	<b>\$386,908</b>	<b>\$0</b>	<b>\$263,897</b>	<b>\$0</b>	<b>\$263,897</b>	<b>\$333,600</b>	<b>26.4%</b>
<b>Budget Activities:</b>								
IT Investments	\$263,897	\$386,908	\$0	\$263,897	\$0	\$263,897	\$333,600	26.4%
<b>Total Budget Authority</b>	<b>\$263,897</b>	<b>\$386,908</b>	<b>\$0</b>	<b>\$263,897</b>	<b>\$0</b>	<b>\$263,897</b>	<b>\$333,600</b>	<b>26.4%</b>

<sup>1</sup> FY 2010 Enacted represents the approved FY 2010 Operating Plan.

<sup>2</sup> Reflects implementation of the IRS Material Group Code project. This project realigned costs to more closely conform to general ledger account and OMB object class definitions.

## 2.3 – Appropriation Detail Table

Dollars in Thousands

Business Systems Modernization										
Resources Available for Obligation	FY 2010 Obligations		FY 2010 Enacted <sup>1</sup>		FY 2011 Annualized CR Level		FY 2012 Request		% Change FY 2011 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
New Appropriated Resources:										
Business Systems Modernization	337	\$177,208	333	\$263,897	333	\$263,897	453	\$333,600	36.04%	26.41%
<b>Subtotal New Appropriated Resources</b>	<b>337</b>	<b>\$177,208</b>	<b>333</b>	<b>\$263,897</b>	<b>333</b>	<b>\$263,897</b>	<b>453</b>	<b>\$333,600</b>	<b>36.04%</b>	<b>26.41%</b>
Other Resources:										
Recoveries				2,980						
Offsetting Collections - Reimbursable										
Available multi-year/no-year funds		107,195		116,254		98,019		21,664		-77.90%
50% Carryover										
Transfers In/Out										
Mandatory Appropriations - User Fees										
<b>Subtotal Other Resources</b>		<b>\$107,195</b>		<b>\$119,234</b>		<b>\$98,019</b>		<b>\$21,664</b>		<b>-77.90%</b>
<b>Total Resources Available for Obligation</b>	<b>337</b>	<b>\$284,403</b>	<b>333</b>	<b>\$383,131</b>	<b>333</b>	<b>\$361,916</b>	<b>453</b>	<b>\$355,264</b>	<b>36.04%</b>	<b>-1.84%</b>

<sup>1</sup> The FY 2010 Enacted column represents the approved FY 2010 Operating Plan.

**3I – Business Systems Modernization** (\$333,600,000 in direct appropriations): This budget activity funds the planning and capital asset acquisition of IT to modernize IRS business systems, including labor and related contractual costs. The IRS is required to submit an annual BSM expenditure plan that justifies the projects for which resources are requested.

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

The FY 2012 BSM request of \$333.6 million funds the projects listed in the table below:

Project	FY 2012 Budget Request
Customer Account Data Engine 2	\$156.8
Current Customer Account Data Engine	19.0
Modernized e-File	20.5
Core Infrastructure	37.7
Architecture, Integration and Management	27.6
Management Reserve	2.6
Labor	69.3
<b>Total</b>	<b>\$333.6</b>

*Customer Account Data Engine 2 (CADE 2) (Taxpayer Account Database):* The CADE 2 Program will implement an authoritative database for all individual taxpayers and provides the foundation for more efficient and effective tax administration. An analytical data store will provide business users with tools to use taxpayer data more effectively for enhanced compliance and taxpayer service.

The primary purpose of the CADE 2 Program is to implement a data-centric solution that provides daily processing of taxpayer accounts. The CADE 2 Program will move from the current-state solution to the target-state solution through multiple major transition states. The transition states allow the IRS to make marked progress towards the target state in an incremental manner.

The target state of CADE 2 will focus on completing the transition of all applications and eliminating transitional components that were required during the transition states and achieving the business benefits allowed by the target solution. This final step will enhance the long-term viability of the CADE 2 platform.

*Current Customer Account Data Engine(CADE):* Current CADE allows for the replacement of the IRS's current master files and serves as the repository of all taxpayer information.

*Modernized e-File (MeF):* MeF provides a standard filing structure for all IRS return types, a robust platform that can meet performance and capacity needs, enhanced and up-to-date technologies, and customer service benefits that are of great appeal to external customers and stakeholders. With MeF, the IRS stores all tax return data in XML format in a Modernized Tax Return Database (MTRDB) allowing all authorized viewers of the data to see an entire tax return online over the internet. Once fully implemented, all tax returns and transmission files will adhere to IRS rules/schemas.

The first release of MeF went into production in February 2004, when Form 1120, *U.S. Corporation Income Tax Return*, Form 1120-S, *U.S. Income Tax Return for an S corporation*, and Form 990, *Return of Organization Exempt from Income Tax* were accepted on the modernized platform. Subsequent releases added Form 1065, *U.S. Return of Partnership Income*, Form 1120-F, *U.S. Income Tax Return of a Foreign Corporation*, and *Federal Form 990 N, Electronic Notice (e-Postcard) for Tax-Exempt Organizations Not Required to File Form 990 or 990-EZ*.

The first phase of the implementation of Form 1040, *U.S. Individual Income Tax Return*, onto the MeF platform took place in January 2010. In FY 2011, the IRS will implement the second phase by providing enhanced Disaster Recovery capabilities to ensure appropriate management of operational risk and the optimization code necessary to support the anticipated volume of returns in 2012. The third and final phase will take place in FY 2012 by migrating the 125 remaining 1040 family forms and schedules, including Forms 1040A, *Making Work Pay and Government Retiree Credits*, and 1040EZ, *Income Tax Return for Single and Joint Filers With No Dependents*. This phase

will expand the reach of MeF to all of the e-File population, or approximately 98.3 million filers by January 2012.

*Core Infrastructure:* The Core Infrastructure will provide mission-critical services to BSM projects and consists of two primary program elements – Infrastructure Shared Services (ISS), and the Development, Integration and Testing Environment (DITE).

- ISS provides mission-critical services in designing, engineering, developing, and deploying a standardized, consolidated, virtual, and secure modernized production environment for use by BSM projects. The continued development and management of this infrastructure incorporates (1) the identification and development of common architecture, infrastructure, and security; (2) virtualization; and (3) application integration services for use and reuse by BSM projects—thus reducing delivery time as well as application development and operations and maintenance costs.
- DITE is a standardized environment composed of all modernized infrastructure components and applications needed by projects that plan to use and integrate into the modernized production environment. DITE uses streamlined processes and standard tools that allow thorough development and testing in a controlled environment, ensuring projects work effectively and seamlessly within the modernized production environment. DITE provides ongoing infrastructure support to all BSM projects on Level of Effort (LOE) basis and supports the development, test, integration, and deployment of each project on a release-by-release basis.

DITE is an integral part of the approved IRS Enterprise Architecture (EA). Use of this modernized, enterprise-level component allows modernized systems to comply with IRS standards.

*Architecture, Integration and Management (AI&M):* AI&M activities ensure that systems solutions meet IRS business needs and effectively integrate modernization projects/programs (current CADE, Customer Account Data Engine (CADE 2), and MeF). To ensure the success of the planned business change, AI&M provides a single authoritative source of guidance for integrating each project as it moves from the development environment to the business environment. Major AI&M components are:

- Architecture and Integration (A&I) – The A&I activities ensure systems solutions meet business needs and provide a single authoritative source of guidance for effectively integrating each project as it moves from the development to the business environment. This program produces the principles, strategies, and standards to guide the construction and delivery of coherent and integrated enterprise systems.
- Enterprise Architecture (EA) – EA ensures that the IRS follows mandated requirements in developing its EA. This includes business and technical architecture, enterprise data management/architecture, enterprise transition strategy, release architecture and security architecture.

- Systems Architecture and Engineering (SAE) – SAE supports the BSM projects in the conceptual design of the architectures to ensure that they comply with EA-mandated Guidelines. SAE also is responsible for providing systems architecture and engineering support, which includes outlining the design and ensuring performance metrics are established.
- Enterprise Data Management (EDM) – The EDM manages the XML vocabulary along with the naming and design rules used on all BSM projects. This is accomplished through the development of Enterprise Data Models and the Enterprise Data Architecture. In addition, the EDM defines the data strategy and supports the data components and activities that in part define the IRS Enterprise Architecture. EDM documents this process through the publication and enforcement of data management policies, standards (including XML standards) and procedures at both the enterprise and project levels.
- Integrated Process Management (IPM) – IPM supports the continued implementation of an end-to-end process management framework, through refinement of the Process Asset Library (PAL) and Integrated Process Framework (IPF) to support implementation of the Capability Maturity Model Integration (CMMI) and Information Technology Information Library (ITIL) disciplines. The IRS plans to implement a three-phased migration (process centralization, process integration, and process analysis) to an IPM framework. It is responsible for leveraging the research and development expertise of industry experts to implement the plan to transition from the current fragmented state to the integrated framework.
- Change and Configuration Management (CCM) – CCM provides program support and oversight to key information technology projects and is responsible for developing and implementing IT Service Management in accordance with MITS direction and ITIL best practices. In addition, CCM develops and conducts configuration management (CM) training for program management, project managers, and CM representatives MITS-wide; conducts CM compliance assessments and oversight on all CM practitioners; assists PRIME modernization projects in planning, developing and integrating reasonable, manageable, and attainable release schedules and release packages; and tracks and facilitates resolution of risks, issues, schedule, and resource conflicts.
- Portfolio Governance and Control (PG&C) – PG&C processes and standards allow the IRS to define, manage, and deliver its IT portfolio successfully. Activities include IT portfolio investment management, cost estimation, transition management and risk management. The IRS will develop an IT risk management strategy to establish a consistent enterprise approach for identification and mitigation of risks for BSM projects and releases. PG&C also will provide an integrated IT portfolio assessment of organizational capacity for delivering BSM capabilities. This IT portfolio assessment is critical to ensure the technical impact of BSM program decisions on the current production environment are understood and considered fully. Engineering analyses and resource estimates are integral to ensuring organizational capacity needs are incorporated into both plans and budgets to deliver an integrated portfolio, including maintaining current

operations, delivering filing season readiness, addressing significant legislative proposals, and supporting BSM initiatives.

- Requirements Management (RM) – RM improves the conduct of business analysis, process redesign, business rules harvesting and management, and business requirements elicitation, definition and management. RM standards and expertise allow the IRS to incorporate requirements engineering industry best practices into the Enterprise Life Cycle for consistent systems development processes; apply business rules methods, tools and processes to BSM projects; and develop enterprise policy and standards for requirements and business rules management.

RM provides requirements planning and management support, business process redesign, rules and requirements development, business modeling, requirements training and outreach, requirements baseline management, and solution development support. In addition, RM allows for integrating the technical requirements engineering process into requirements management methodology.

- Management Processes (MP) – MP provides management disciplines leading to consistent quality, managed risk, increased stakeholder satisfaction, and delivery of modernized business systems within established cost and schedule parameters. The IRS is continually working to strengthen its management processes through the development and deployment of processes and procedures such as Earned Value Management (EVM) and Enterprise Life Cycle (ELC). The dynamic nature of modernization drives BSM to continually assess its operation and implement continuous improvements.
- Program Management (PM) – PM provides centralized services for the PRIME task orders to ensure consistency and quality of the products delivered to the IRS and to assist PRIME staff in providing timely and efficient services to the IRS. The PRIME contractor will continue to provide overall executive and contractual support for the task orders, with the IRS integrating the task orders' results and measuring program-critical success factors. The PRIME task order provides the management data and IT infrastructure that supports risk management activities, high-level project cost and schedule estimates, contracts and procurement management, and security services for the PRIME contract and associated task orders. This funding will provide the IRS with the high quality, timely data necessary to evaluate and report overall contract performance from a perspective that balances cost, schedule, technical requirements, and customer satisfaction.
- Federally Funded Research and Development (FFRDC) – The IRS has undertaken a complete redesign and modernization of its computer-based information processing system through its modernization program. The IRS must improve its procedures and practices through the injection of public and private sector expertise. The FFRDC provides national experts in systems engineering, architectural design and development, information technology, security, and other technical disciplines that are critical to the modernization success. The FFRDC also provides support services to promote consistency with enterprise goals and objectives to ensure efficient operations. Areas of support include Security

Architecture; Data Strategy; System Architecture and Engineering; IRS Enterprise Architecture, consisting of the Enterprise Architecture, Enterprise Requirements, and Enterprise Transition components.

*Management Reserve:* The management reserve funds are not designated for specific projects or programs and allow the IRS flexibility to cover unanticipated cost adjustments.

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

### FY 2012 Program Changes by Budget Activity

Dollars in Thousands

Internal Revenue Service		
Information Technology Investments	FTE	Amount
Business Systems Modernization (BSM) Initiative	(65)	(\$52,000)
Continue Migration from Aging Tax Administration System	(65)	(52,000)
<b>Total FY 2012 Request</b>	<b>(65)</b>	<b>(\$52,000)</b>

### 3.2.9 – Budget and Performance Plan

Dollars in Thousands

Business Systems Modernization						
Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Obligated	FY 2010 Enacted <sup>1</sup>	FY 2011 Annualized CR Level	FY 2012 Request
Appropriated Resources	\$170,576	\$131,138	\$177,208	\$263,897	\$263,897	\$333,600
Reimbursable Resources						
Mandatory Appropriations - User Fees						
<b>Total Resources</b>	<b>\$170,576</b>	<b>\$131,138</b>	<b>\$177,208</b>	<b>\$263,897</b>	<b>\$263,897</b>	<b>\$333,600</b>
<b>Budget Activity Total</b>	<b>\$170,576</b>	<b>\$131,138</b>	<b>\$177,208</b>	<b>\$263,897</b>	<b>\$263,897</b>	<b>\$333,600</b>

<sup>1</sup>The FY 2010 Enacted represents the approved FY 2010 Operating Plan.

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

Key: E - Efficiency Measure

### Description of Performance

IRS modernization efforts continue to focus on core tax administration systems designed to provide more sophisticated tools to taxpayers and IRS employees. The following highlights IRS accomplishments in FY 2010:

- Customer Account Data Engine (CADE) – CADE posted more than 41.2 million tax returns and processed more than 35.8 million refunds. For the first time,

CADE posted more than 7.2 million payments submitted with taxpayer returns and, at the taxpayers' request, issued 8,128 U.S. Savings Bonds using their federal tax refund.

- Modernized e-File (MeF) – The IRS deployed an additional release that allowed for filing of individual Forms 1040 (federal and state returns), Form 4868, *Application for Automatic Extensions of Time to File U.S. Individual Income Tax Return*, extensions, and 21 other supporting 1040 forms and schedules. In FY 2010, MeF accepted more than 6.9 million returns.
- Accounts Management Services (AMS) – The final AMS Release provided all users with the ability to view correspondence images online in real-time, eliminating reliance on the manual processes to obtain copies. Direct access to images reduced the case cycle time from 10 to 14 days to zero. In 2010, over 1.3 million images were viewed.

## **CADE to CADE2**

The IRS launched the Customer Account Data Engine (CADE) in 2000 as one of the cornerstones of the Business Systems Modernization (BSM) programs. Since its inception, CADE has made significant progress towards replacing the IRS aged master file processing system. It has delivered increased value to taxpayers as well as operational efficiencies for the IRS.

An assessment conducted by IRS senior technologists and respected external advisors resulted in a revised path forward for CADE, leveraging existing systems as well as new development and focusing on the end state – “getting to done.”

As a result, CADE 2 was commissioned to execute a revised plan to modernize IRS's core taxpayer account processing systems that would build on the substantial progress that the current CADE processing platform had created. The CADE 2 solution will provide daily processing capability, timely access to authoritative individual taxpayer account information, an enhanced ability to address technology security and IRS financial material weaknesses, and long-term architecture planning and viability.

Completion of a taxpayer account database under CADE 2 is the prerequisite for other major initiatives, including significant expansion of online services and transactions and the next generation of enforcement technologies.



## **Health Insurance Tax Credit Administration**

### **Appropriation Description**

The Health Insurance Tax Credit Administration (HITCA) appropriation provides funding for contractor support to develop and administer the advance payment option for the Health Coverage Tax Credit (HCTC) included in the Trade Adjustment Assistance Act (Trade Act of 2002) (Public Law 107-210).

The IRS administers the enrollment, payment, and compliance components of this credit. The Department of Labor, state workforce agencies, and the Pension Benefit Guaranty Corporation determine who might be eligible for HCTC. This credit was expanded by the Recovery Act and is proposed for extension in the FY 2012 Budget.

The HITCA Budget Request for FY 2012 is \$18,029,000 in direct appropriations and 15 FTE. This is an increase of \$2,517,000, or 16.23 percent, more than the FY 2010 enacted level of \$15,512,000 and 15 FTE.

## 2.1 – Budget Adjustments Table

Dollars in Thousands

<b>Health Insurance Tax Credit Administration</b>	<b>FTE</b>	<b>Amount</b>
FY 2010 Enacted Budget <sup>1</sup>	15	\$15,512
FY 2011 Annualized CR Level	15	\$15,512
Changes to Base:		
Adjustment to Reach FY 2011 President's Policy Level		\$3,447
Maintaining Current Levels		\$232
Other Adjustments		
Technical FTE Adjustments		
Efficiencies/Savings		(\$1,162)
Reduce Training, Travel and Programs		(1,162)
Subtotal Changes to Base		\$2,517
<b>Total FY 2012 Base</b>	<b>15</b>	<b>\$18,029</b>
Program Changes:		
Subtotal Program Changes		
<b>Total FY 2012 Request</b>	<b>15</b>	<b>\$18,029</b>
Adjustments to Request		
User Fees		
<b>Total FY 2012 Request</b>	<b>15</b>	<b>\$18,029</b>

<sup>1</sup>FY 2010 Enacted represents the approved FY 2010 Operating Plan

## 2.2 – Operating Levels Table

Dollars in Thousands

Appropriation Title: Health Insurance Tax Credit Administration	FY 2010 Enacted Level <sup>1,2</sup>	FY 2011 President's Budget	Congressional Action including Rescission	FY 2011 Annualized CR Level <sup>2</sup>	Proposed Reprogram.	FY 2011 Proposed Operating Level	FY 2012 Request Level <sup>2</sup>	% Change FY 2011 to FY 2012
<b>FTE</b>	15	15		15		15	15	0.0%
<b>Object Classification:</b>								
11.1 Full-Time Permanent Positions	\$2,353	\$2,399	\$0	\$2,353	\$0	\$2,353	\$2,374	0.9%
11.3 Other than Full-Time Permanent Positions	0	0	0	0	0	0	0	0.0%
11.5 Other Personnel Compensation	34	24	0	34	0	34	24	-29.4%
11.8 Special Personal Services Payments	0	0	0	0	0	0	0	0.0%
<b>11.9 Personnel Compensation (Total)</b>	<b>\$2,387</b>	<b>\$2,423</b>	<b>\$0</b>	<b>\$2,387</b>	<b>\$0</b>	<b>\$2,387</b>	<b>\$2,398</b>	<b>0.5%</b>
12.0 Personnel Benefits	360	374	0	360	0	360	376	4.4%
13.0 Benefits to Former Personnel	0	0	0	0	0	0	0	0.0%
21.0 Travel	133	211	0	133	0	133	203	52.6%
22.0 Transportation of Things	0	0	0	0	0	0	0	0.0%
23.1 Rental Payments to GSA	0	0	0	0	0	0	0	0.0%
23.2 Rent Payments to Others	0	0	0	0	0	0	0	0.0%
23.3 Communications, Utilities, & Misc	0	400	0	0	0	0	21	100.0%
24.0 Printing & Reproduction	0	200	0	0	0	0	203	100.0%
25.1 Advisory & Assistance Services	0	0	0	0	0	0	0	0.0%
25.2 Other Services	12,624	15,372	0	12,624	0	12,624	14,783	17.1%
25.3 Purchase of Goods & Services from Govt. Accounts	0	0	0	0	0	0	0	0.0%
25.4 Operation & Maintenance of Facilities	0	0	0	0	0	0	0	0.0%
25.5 Research & Development Contracts	0	0	0	0	0	0	0	0.0%
25.6 Medical Care	0	0	0	0	0	0	0	0.0%
25.7 Operation & Maintenance of Equipment	0	0	0	0	0	0	0	0.0%
25.8 Subsistence & Support of Persons	0	0	0	0	0	0	0	0.0%
26.0 Supplies and Materials	8	7	0	8	0	8	15	87.5%
31.0 Equipment	0	0	0	0	0	0	0	0.0%
32.0 Lands and Structures	0	0	0	0	0	0	30	100.0%
33.0 Investments & Loans	0	0	0	0	0	0	0	0.0%
41.0 Grants, Subsidies	0	0	0	0	0	0	0	0.0%
42.0 Insurance Claims & Indemn	0	0	0	0	0	0	0	0.0%
43.0 Interest and Dividends	0	0	0	0	0	0	0	0.0%
44.0 Refunds	0	0	0	0	0	0	0	0.0%
91.0 Unvouchered	0	0	0	0	0	0	0	0.0%
<b>Total Budget Authority</b>	<b>\$15,512</b>	<b>\$18,987</b>	<b>\$0</b>	<b>\$15,512</b>	<b>\$0</b>	<b>\$15,512</b>	<b>\$18,029</b>	<b>16.2%</b>
<b>Budget Activities:</b>								
Health Insurance Tax Credit Administration	\$15,512	\$18,987	\$0	\$15,512	\$0	\$15,512	\$18,029	16.2%
<b>Total Budget Authority</b>	<b>\$15,512</b>	<b>\$18,987</b>	<b>\$0</b>	<b>\$15,512</b>	<b>\$0</b>	<b>\$15,512</b>	<b>\$18,029</b>	<b>16.2%</b>

<sup>1</sup> FY 2010 Enacted represents the approved FY 2010 Operating Plan.

<sup>2</sup> Reflects implementation of the IRS Material Group Code project. This project realigned costs to more closely conform to general ledger account and OMB object class definitions.

## 2.3 – Appropriation Detail Table

Dollars in Thousands

Health Insurance Tax Credit Administration										
Resources Available for Obligation	FY 2010 Obligations		FY 2010 Enacted <sup>1</sup>		FY 2011 Annualized CR Level		FY 2012 Request		% Change FY 2011 to FY 2012	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>New Appropriated Resources:</b>										
Health Insurance Tax Credit Administration	12	\$15,478	15	\$15,512	15	\$15,512	15	\$18,029		16.23%
<b>Subtotal New Appropriated Resources</b>	<b>12</b>	<b>\$15,478</b>	<b>15</b>	<b>\$15,512</b>	<b>15</b>	<b>\$15,512</b>	<b>15</b>	<b>\$18,029</b>		<b>16.23%</b>
<b>Other Resources:</b>										
Recoveries				1,177						
Offsetting Collections - Reimbursable										
Available multi-year/no-year funds										
50% Carryover										
Transfers In/Out										
Mandatory Appropriations - User Fees										
<b>Subtotal Other Resources</b>				<b>\$1,177</b>						
<b>Total Resources Available for Obligation</b>	<b>12</b>	<b>\$15,478</b>	<b>15</b>	<b>\$16,689</b>	<b>15</b>	<b>\$15,512</b>	<b>15</b>	<b>\$18,029</b>		<b>16.23%</b>

<sup>1</sup> The FY 2010 Enacted column represents the approved FY 2010 Operating Plan.

**3J – Health Insurance Tax Credit Administration (\$18,029,000 in direct appropriations):** The HITCA budget activity funds costs to administer a refundable tax credit created by the Trade Act of 2002 to purchase health insurance for eligible taxpayers. This activity maintains the administrative and direct support for the HITCA program office and the staff charged with managing the program for the IRS.

### 3.2.10 – Budget and Performance Plan

Dollars in Thousands

Health Insurance Tax Credit Administration							
Resource Level	FY 2008 Obligated	FY 2009 Obligated	FY 2010 Obligated	FY 2010 Enacted <sup>1</sup>	FY 2011 Annualized CR Level	FY 2012 Request	
Appropriated Resources	\$15,223	\$15,374	\$15,478	\$15,512	\$15,512	\$18,029	
Reimbursable Resources							
Mandatory Appropriations - User Fees							
<b>Total Resources</b>	<b>\$15,223</b>	<b>\$15,374</b>	<b>\$15,478</b>	<b>\$15,512</b>	<b>\$15,512</b>	<b>\$18,029</b>	

<sup>1</sup>The FY 2010 Enacted represents the approved FY 2010 Operating Plan.

Health Insurance Tax Credit Administration Budget Activity Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2010 Target	FY 2011 Target	FY 2012 Target
Cost per Taxpayer Served (\$) (E)	\$16.94	\$13.79	\$9.52	Baseline <sup>1</sup>	\$10.00	\$11.00
Sign-up Time (days) - Customer Engagement (O)	94.0	91.3	124.0	Baseline <sup>1</sup>	124.0	137.0

Key: E - Efficiency Measure, O - Output/Workload Measure

<sup>1</sup>An increase in participation occurred due to the Recovery Act. IRS established a new baseline in FY 2010.

### Description of Performance

The IRS administers the HCTC by working with health plan administrators to arrange for direct payment of health plan premiums on behalf of taxpayers and is dependent upon the Department of Labor, state workforce agencies, and the Pension Benefit Guaranty Corporation who determine HCTC candidates.

Over the past two years, the HCTC program has undergone several changes. The economic downturn led to an increased number of candidates and increased operational volumes while the ARRA provisions improved the accessibility and affordability of the HCTC program.

In FY 2010, the IRS promoted communication of program changes, expanding outreach with special mailings and targeted presentations to educate participants and to encourage them to enroll. The IRS also worked closely with other agencies to ensure eligible candidates receive the HCTC.

In FY 2010, the IRS processed almost 11 million HCTC eligibility records, made more than 279,000 HCTC payments (60 percent more than in 2009) on behalf of taxpayers, handled approximately 233,000 (77 percent more than in 2009) HCTC telephone calls, and mailed more than 1.1 million (72 percent more than in 2009) pieces of correspondence. While volumes were significantly higher than in FY 2009, the IRS maintained a customer satisfaction level of 90 percent.

In addition, the Cost per Taxpayer Served (CPTS) decreased from \$13.79 in 2009 to \$9.52 in 2010 because of the significant increase in the number of new candidates, enrollees and people contacting the program. While the CPTS decreased, sign-up time (the median number of days between the first program kit mailing and the first payment received from the participant) increased 36 percent from 91 days to 124 days as a result of the additional time needed to process more registrations because of the increased numbers of eligible taxpayers.

## **Section 4 – Supporting Materials**

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### **4A – Human Capital Strategy**

In FY 2010 the IRS completed the IRS Human Capital Business Plan (HCBP) for 2010-2014. This plan expands upon the IRS Strategic Plan and outlines IRS’s dedication to make effective investments in the IRS workforce. The HCBP highlights the strategic vision and direction to achieve IRS’s FY 2012 goals and objectives with collaboration, leadership, connectivity, and delivery of a cutting-edge workforce with measured results to showcase IRS as the “best place to work in government.”

To achieve the strategic goals and objectives, the IRS is faced with the following business challenges:

- Increasing complexity of tax administration that requires new and enhanced employee competencies;
- Growing numbers of employees eligible for retirement; and
- Managing an increasingly diverse and mobile workforce.

To address the challenges, the IRS must:

- **Recruit, Hire, and Onboard** – Supports the IRS priority to achieve both the optimum mix of employee skill sets and diversity by continuing efforts to improve recruiting, hiring transition, and other processes to ensure the right person is in the right job.
- **Engage, Develop, and Retain** – Supports the IRS commitment to improve employee skills, address retention efforts, and increase employee engagement. It also reflects a commitment to support top quality managers with effective resources, recognition, and tools to lead an engaged workforce.
- **Develop and Promote Leaders** – Addresses the crucial support needed to provide leadership with effective resources, recognition, and tools to lead the IRS workforce. Without a stable, knowledgeable managerial infrastructure, IRS’s ability to carry out its mission is compromised.
- **Facilitate Collaborative Environment** – Fosters an open exchange of innovative ideas and leveraging relationships to ensure that human capital plans and implementation efforts are fully integrated with the IRS mission, strategies and program goals.

The FY 2012 IRS key objectives are:

- Enhance productivity through expanded use of technology;
- Continue process improvements to simplify hiring;
- Close skill and competency gaps in critical occupations;
- Implement recommendations from annual workforce summits;

- Focus recruitment on the most critical hiring needs by using a more targeted approach to college recruiting and leveraging partnerships with external organizations and internal affinity groups; and
- Create new ways for candidates to learn about and apply for IRS jobs through the use of an employee referral program and electronic media.

### Mission Critical Occupations Facing Critical Deficiencies

Leadership continuity continues to be one of the IRS key areas of focus because of the growing numbers of employees in leadership positions who are eligible to retire. Retirement eligibility among experienced employees who would otherwise be candidates for leadership positions also is growing.

#### Retirement Eligibility<sup>1</sup>

Management Level	Number of Employees	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	
Executive	297	19	109	130	149	170	57.2%
Senior	1,677	94	522	626	748	857	51.1%
Department	363	13	54	74	88	113	31.1%
Front Line	6,639	241	1,542	1,863	2,185	2,558	38.5%
Non-Management	99,200	2,577	15,982	19,286	22,803	26,634	26.8%
<b>Total</b>	<b>108,176</b>	<b>2,944</b>	<b>18,209</b>	<b>21,979</b>	<b>25,973</b>	<b>30,332</b>	<b>28.0%</b>

<sup>1</sup>Based on retirement eligibility statistics as of November 30, 2010

To address this challenge, the IRS identifies potential leaders through competency assessments, leadership succession review, and leadership development programs such as Frontline, Senior, and Executive Readiness Programs.

The IRS has no major hiring gaps with non-management positions. To ensure this trend continues, the Recruitment Office will:

- Continue to ensure that mission critical occupation, geography, and diversity needs are met;
- Maintain candidate relationships from the beginning to the end of the recruiting process using a data tracking system;
- Continue to standardize materials and messages, tailored to candidate segments;
- Use diverse hiring sources to increase employment of disabled, veteran, and student applicants; and
- Develop a strong online presence at relevant social media sites.

## **Closing Competency Gaps in Mission Critical Positions**

The IRS completed its pilot of a skills assessment process called *Assess 4 Success* (A4S). A draft report was completed and will be presented to leadership for review.

## **Human Capital Occupations/Functions Contracted**

The IRS uses contractor employees to fill short-term needs and obtain technical and expert information technology skills that are not available within the current workforce. To support surges in hiring workload, the IRS plans to continue to leverage temporary contractor support and re-employed annuitants.

## **Organizational Changes**

The Large and Mid-Size Business Division completed an organizational change initiative to consolidate international expertise and staffing into one organization to enhance efficiencies and effectiveness by creating direct line authority, and facilitating consistency of treatment of issues and employee training. The organizational changes were accomplished within available resources and resulted in the new Large Business and International (LB&I) Division.

The End User Equipment & Services organization is reorganizing to meet Federal Information Technology Infrastructure Line-of-Business target levels. Full transition is expected to continue through September 30, 2012. The new organization structure will:

- Reduce cost and increase service delivery performance by changing the support model to a leaner model focused on a centralized service desk;
- Consolidate onsite support in high-density customer locations; and
- Allow for contracted support for low-density customer locations.

## **Best Place to Work in Government**

Several key initiatives helped IRS make significant progress toward becoming the “best place to work in government.” For example, a strategic business relationship was developed with the Partnership for Public Service to advise the IRS on strategies to increase its stature as the “best place to work in government.” In addition, an Action Planning Team (HCO, Business Unit, and NTEU representatives) was formed to focus on three key areas for organizational improvement:

- Effective Leadership;
- Family-Friendly Culture and Benefits; and
- Employee Skills/Mission Match.



The results from the Federal Employee Viewpoint Survey, used to rank agencies across the federal government and encourage “the best and brightest” to work in government, ranked the Department of the Treasury, with the IRS as the key driver, as one of the top 10 most improved agencies in government in all four of the survey indices. The IRS was ranked 79<sup>th</sup> among the 224 federal agencies.

## **Employee Engagement**

Based on key initiatives recommended by the *Workforce of Tomorrow*, the IRS annual employee satisfaction survey (ESS) results, and the Federal Human Capital Survey (FHCS) results, IRS is taking the following steps to increase employee satisfaction:

- **Reduction of Managerial Burden** – IRS has taken the following steps to allow managers to spend more time developing their employees:
  - Established a **Managers Resource Center** to answer manager questions and provide information. IRS is piloting an iManage website with over 2,800 managers that provides information, advice, and interactive features. Implementation of the iManage website is scheduled for early 2011. IRS also is pursuing technology such as instant messaging and online help to reduce wait times for issue resolution. An online Hotline service, “Direct Connect” will be a pilot project in FY 2011.
  - Completed a **Recognition Toolkit** in April 2010 to provide the options and instructions for monetary and non-monetary recognition and recognition ceremonies.
  - Developing **Managerial Training Enhancements**, including the following improvements in training for readiness program participants, new managers, existing managers, and administrative professionals:
    - Redesigned the Front Line Readiness Program;
    - Developed the New Managers Orientation course;
    - Developed Fundamental Management Skills course; and
    - Redesigned Front Line Managers course.

The next phase will focus on training for managers after they have been in their positions with completion planned in FY 2011.

- Established a **Service-wide Managerial Burden Council** in April 2010, which is currently working on developing solutions to managerial burdens.
- Designed and conducted a **Managerial Burden Survey** (July 2010) to identify ways to reduce burden to ensure measurable progress in reducing burden so managers can instruct and coach employees on job performance and career goals. Reducing burden also will affect how employees view the prospect of becoming a manager. Approximately 20 percent of managers completed the survey and an analysis of the results is underway.

- **Increase Communications to Employees** – IRS is taking steps to better inform employees of IRS and division level initiatives. Senior leaders use town halls, blogs, streaming videos and all-employee messages to reach staff. Leaders also share best practices and success stories on their internal websites and recognize those who are achieving IRS goals and objectives.
- **Improve Employee Recognition** – The IRS is revising the awards and recognition program to reach more employees and to create a standard protocol for employee recognition. Recognition activities such as using the web to recognize employee successes were implemented throughout FY 2010.
- **Improve Training for New Employees** – The IRS is improving its new employee training. The IRS is updating its on-boarding program for new employees from a one-day orientation to a 12-month corporate on-boarding strategy. In addition, IRS is initiating an ambassador program to help familiarize new employees with their job. Many of these programs were created with input from the National Treasury Employees Union (NTEU). In May 2010, the IRS completed a redesign of the Career Management Resource Center to support and enhance employees' career development process.
- **Address Results of the IRS Annual Employee Survey** – The IRS received its 2010 survey results with a record 79 percent employee participation and overall employee satisfaction increased from 73.7 percent in FY 2009 to 74.4 percent in FY 2010. Each division within the agency conducted meetings with their workgroups to discuss results and devise specific plans for addressing any issues. The IRS also is working with the Partnership for Public Service to further enhance its service-wide action planning process.

## **Wellness Program**

The IRS wellness initiative links to and supports the goals of the President's Federal Employee Worksite Wellness Initiative and Office of Personnel Management (OPM) and Office of Management and Budget directives requiring agencies to inventory current wellness activities, initiate plans to enhance wellness programs, and establish health and wellness performance targets.

The wellness initiative supports employee health and wellness through education and awareness programs, encourages healthy lifestyle choices, and raises awareness and commitment to health and wellness as part of work-life balance. Benefits to employees include fewer work-related injuries, improved attendance, reduced turnover, and increased morale.

To meet the FY 2011 performance target, the IRS completed an inventory of current wellness and health services/activities; researched external health resources and tools to supplement internal wellness activities; and developed a detailed communication strategy and wellness website that highlights the availability and benefits of wellness services.

In FY 2012, the IRS will continue to build upon its education and awareness efforts. New wellness activities include:

- Continuing and expanding efforts to increase employee awareness of internal and external services and resources;
- Maximizing use of services and resources available under the Federal Occupational Health and Employee Assistance Program contracts;
- Participating in OPM-sponsored government-wide wellness activities (e.g., FedsGetFit challenges and events);
- Developing a more robust and interactive wellness website for use by managers and employees upon implementation of IConnect, the new IRS employee portal;
- Partnering with specific demographic groups and employee organizations to promote wellness programs and services; and
- Promoting extended (4 to 6 weeks) physical activity campaigns (link to events such as President's Physical Challenge and National Employee Health and Fitness Day) and campaigns that focus on healthy eating and weight management (link to events such as Healthy Weight Week and National Nutrition Month).

To evaluate the progress of the IRS Wellness Initiative, the IRS will measure and track use of Federal Occupational Health and Employee Assistance Program services. The OPM Employee Viewpoint Survey results, Best Place to Work in Government and, if feasible, the IRS Employee Engagement Survey also will be used to collect data and assess the effectiveness of the IRS Wellness.

## **Hiring Reform**

The IRS Hiring Reform initiative is directly linked to and fully supports the goals of the Presidential Budget and Performance Plans (June 2009) and Presidential Improving the Federal Recruitment and Hiring Process (May 2010) directives. This initiative will include:

- **Development/enhancement of assessment tools**

Key activities for developing and enhancing assessment tools include:

- Development of automated ranking templates for 75 percent of the hiring volume in FY 2011.
- Implementation of more than 200 CareerConnector templates to improve the hiring process using the Treasury CareerConnector recruitment system.
- Implementation of the Presidential Improving the Federal Recruitment and Hiring Process directives by November 1, 2010, as mandated.
  - Deployment of CareerConnector templates to eliminate KSA/Essay questions and revision of instructions so applicants can apply using resumes and cover letters.

- Expanding use of category ratings on CareerConnector announcements. Category ratings increases the number of qualified applicants while preserving veterans’ preference rights.
  - Development of a process to convert manual external announcements to category ratings.
  - Implementation of an experience calculator to assist applicants in determining basic and specialized experience qualifications.
  - Continued use of the OPM hiring survey for internal and external announcements to measure the quality of the recruitment actions.

- **Education/Training of HR Specialists and Hiring Managers**

The IRS began training human resources specialists and assistants on hiring reform and key aspects of the hiring process to improve technical knowledge and skills. The IRS completed the development of manager training on the hiring process in October 2010. The “just in time” online training can be taken at the time managers begin the recruitment process. Early involvement ensures accountability and participation in every facet of the hiring process.

- **Outreach/Communications to Applicants**

IRS is developing a Hiring Reform Alert document share within and outside of the IRS Human Capital Office and a communications plan that includes web notices and alerts to educate and communicate with employees.

- **Workforce Planning**

IRS also is analyzing its collective workforce needs by developing a corporate approach with appropriate measures to integrate the planning function with other core workforce management functions, including recruitment, hiring, retention, development, and succession planning. The IRS is developing common guidelines and processes for collecting and analyzing workforce data, identifying and prioritizing workforce gaps and developing strategies to address gaps and prepare for future workforce needs.

## **Veterans’ Employment**

The IRS Veterans Employment and Recruitment Operational Plan supports key aspects of the Veterans Employment Initiative. Current and planned initiatives in support of promoting employment opportunities for veterans include:

- **Recruitment and increased hiring of veterans**
  - Continue outreach efforts by organizing and coordinating recruitment opportunities throughout the U.S. for wounded service members, veterans, and their spouses;

- Provide one-on-one resume writing assistance, interviewing skills and other career search services through corporate immersion workshops and various information sessions;
  - Design a professional development/career-building intern program for veterans to meet mission critical needs;
  - Contribute to the development of an interactive program to translate military skills to civilian occupations;
  - Develop a transitioning service member and veteran resume database/skills inventory with appropriate business partners;
  - Develop an IRS marketing campaign highlighting veteran and transitioning service member skills, leadership, dedication and how these attributes support the IRS in meeting mission objectives; and
  - Integrate IRS marketing efforts with transition assistance program offices on military installations and other targeted marketing efforts underway at Treasury and Veterans Affairs.
- **Retention to include veteran training, mentoring and job counseling**
    - Maximize career counseling opportunities and career search activities for veterans and transitioning service members through social network platforms;
    - Train and educate veterans and transitioning service members to meet the staffing needs of IRS's high-demand occupations;
    - Validate programs and policies that ensure veterans and transitioning service members are trained, educated and informed on hiring authorities, veterans preferences and employment opportunities;
    - Design an IRS Veterans website to better provide information on employment opportunities, veterans' preference, Q&As, hiring authorities as well as a calendar of recruitment events for veterans, transitioning service members and hiring managers; and
    - Provide interaction via email to transitioning service members/veterans for job search assistance.
- **Fulfillment of mandatory annual training of hiring managers and human resource specialists**
    - Conduct training incorporating Treasury training module (under development) for HR professionals and hiring officials on veterans' employment, including the strategic use of special hiring authorities, employment of military spouses, and reasonable accommodations for disabled veterans.

## **Hiring Individuals with Disabilities**

The IRS uses specific recruitment efforts to reach individuals with disabilities, including targeted disabilities through partnerships with the National Federation for the Blind, American Council for the Blind; National Federation for the Blind; Association for Higher Education and Disabilities; Jobs Accommodations Network and Employee Assistance Resource Network. IRS Affinity Groups also are a way to increase opportunities to recruit and hire a diverse applicant pool. Some specific activities include:

- Job counseling to facilitate successful matching of applicants to jobs in the IRS;
- Working with the Workforce Recruitment Program that connects federal and private sector employers nationwide with postsecondary students and recent graduates with disabilities;
- Partnering with a university to develop a new “feeder program” for hiring employees with disabilities, emulating some of the aspects of the Lions World Services for the Blind Model; and
- Incorporating a mentoring program component for employees with disabilities and establishing a cadre of formally trained mentors. The mentors will help develop employee skills and experience levels to promote career growth and improve networking and communications for employees with disabilities.

The IRS continues to take steps to educate managers and employees on the hiring and retention of individuals with disabilities. The IRS is using different communications channels such as town halls, the internal website, streaming videos, and all employee emails to reach the IRS workforce.

## **Labor-Management Forums**

IRS and NTEU senior leadership continue discussions regarding formulation of a collaborative forum with senior leadership participation. Associated with the development of this forum is identifying a more progressive approach to obtain pre-decisional input from IRS employees through their elected representatives on all workplace issues. Once these determinations have been made, the IRS will provide appropriate training to managers and other participants in the processes. Evaluative metrics will be developed to allow for review of processes and modifications as appropriate.

Long-standing labor relations management committees continue to operate within the provisions of the IRS National Agreement II, Article 46. These forums provide a venue for addressing matters of concern or interest regarding personnel policies, practices and working conditions as well as building and strengthening relationships between the union and the IRS. Issues identified at the local level that may have IRS-wide impact are reviewed at the national level.

Finally, the IRS and NTEU have sponsored two on-going national collaborative initiatives for the purpose of program review and have identified opportunities for process improvement.

## **4B – Information Technology (IT) Strategy**

The IRS information systems support all aspects of tax administration and are essential tools for taxpayer communications and transactions within the IRS. Major IT activities address both internal and external priorities, through a balanced investment portfolio that is fully aligned with the IRS Strategic Plan 2009-2013. IRS strategic priorities are determined by the IRS Senior Executive Team (SET) and are expected to provide the foundation for making sound decisions to meet both IRS and business IT needs.

### **Information Technology Process Improvement**

The IRS plans to direct resources to the enrichment of specific business processes. This will enable the standardization of program management and service delivery methods according to industry best practices and move the IRS closer to its goal of managing its IT processes and infrastructure more efficiently.

A few of these processes include:

- Capability Maturity Model Integration (CMMI) – An approach that provides organizations with the essential elements of effective software engineering processes. CMMI is being used to guide process improvement across projects to:
  - Produce quality products or services;
  - Create value for the business stakeholders;
  - Enhance customer satisfaction; and
  - Gain an industry-wide recognition for excellence.
- Information Technology Infrastructure Library (ITIL) – A proven method based on industry standards for planning common processes, roles and activities with appropriate references to each other defining how communication lines should exist between processes. Benefits include:
  - Improved quality service provisioning;
  - Cost-justified service quality;
  - Integrated centralized processes; and
  - Demonstrated performance indicators.
- Project Management Institute (PMI) – PMI sets the project management standard for how projects are planned and executed. The PMI organization certifies individuals who understand and practice these standards. The benefits of PMI-certified project management include:
  - Common method to manage risk across projects;
  - Better decision making by evaluating a project's triple constraints – cost, time, and scope; and
  - Enhanced and more comprehensive project planning.



## **CyberSecurity**

The IRS, through the CyberSecurity organization, offers a robust organizational structure with associated tools and processes to ensure annual compliance with FISMA requirements. Specific tracking of required deliverables and year-to-date progress is communicated to management decision-makers on a monthly basis via the FISMA Dashboard product. This dashboard tracks FISMA progress in the following program areas:

- Security Assessment & Authorization
- Information Technology Contingency Plans (ITCP) Testing
- Security Controls Testing (Continuous Monitoring/SCAs)
- Plan of Action and Milestones (POA&M) Mitigation
- Privacy Impact Assessments (PIA)
- System of Record Notices (SORN)
- FISMA Contractor System Reviews
- Employee Awareness Training
- Contractor Awareness Training
- Specialized IT Security Training
- Security Configuration Management

Executive review of the dashboard and management of follow-up actions ensures that sufficient year-to-date progress is made and to implement mitigation strategies to address documented areas of shortcoming.

## **IT Infrastructure**

The IRS Data Center Consolidation Plan was prepared in response to the Office of OMB's Federal Data Center Consolidation Initiative (FDCCI). Additionally, the FDCCI is a key component to achieve Goal 9 - Electronic Stewardship - of the IRS Sustainability plan. The IRS is committed to ensuring policies and practices reduce the environmental impact of IRS operations and are critical for long-term economic fiscal responsibility to reduce operating costs. Adopting Green IT and migrating to more efficient infrastructure operations are key focus areas for the IRS in the coming years.

The IRS Data Center Consolidation Initiative (DCCI) approach is to centralize, virtualize, and decommission server resources to meet the following goals:

- Consolidate the governance of all servers;
- Reduce the IRS Data Center footprint;
- Enhance the IRS Disaster Recovery capabilities; and
- Streamline IRS processes to reach a more mature level of ITIL.

The IRS will perform a business case study to determine the most cost effective approach to meet the goal of doubling the effective use of the available Data Center raised floor over the next five years. Essentially, the IRS will reduce the Data Center square footage by 50 percent over a five-year period and make that capacity available for other uses. As a long-term approach, after reviewing the business case, the IRS will be able to better identify the 10 year goals for efficient use of available raised floor resources.

The IRS will, through a business case study, determine a cost effective approach to reducing Data Center square footage and allow Treasury to consolidate its Bureaus Data Center needs inside of IRS Data Centers. The business study will focus on two major approaches – a reduction in the number of data centers and/or a reduction in the current data center footprints. Both methods will allow the IRS to reach its goal of operating more efficiently through better utilization of resources.

The FDCCI serves as a foundation for expanding the use of shared services. The IRS is building a foundation to Centralize Information, Improve Platform Portability, and Improve User Mobility. The IRS goal to have “All applications run on all systems and all systems see all the data with integrity” will be achieved by implementing a scalable Service-Oriented Infrastructure with information portability and manual workload distribution across services. The IRS is evaluating Cloud Computing technology, including Infrastructure as a Service, Platform as a Service, and Software as a Service. IRS is continuously evaluating utilization of this technology for various tax administration and employee productivity tools.

Another initiative is the Enterprise Storage Strategy with a goal to move from a project based allocation to a "storage-as-a-service" model. The Enterprise Storage Strategy is a utility-on-premise storage model where storage will be procured based on a usage model meeting IRS performance and operational service level agreements. The goal is to save 20 to 30 percent of the annual IT budget for storage acquisition and maintenance, reduce reliance on vendors and manage data as a valued asset. The objective is to consolidate a majority of storage to the three IRS data centers, Martinsburg/Memphis/Detroit, and reduce the necessary footprint through consolidation and virtualization of IRS storage pools. In FY 2011, the contract will be awarded and implementation will begin with completion scheduled in FY 2012.

### **IT Project Management**

The IRS MITS Strategy and Capital Planning Office is responsible for prioritizing the IT investment portfolio according to the Senior Executive Team strategic priorities. This is accomplished by utilizing a Pre-Select/Select process that considers available resources. This process provides a level playing field when evaluating investment proposals by using a business case approach and driving IT investment decisions from the top down to ensure that investments deliver strategic benefits for the organization.

- The Pre-Select/Select process requires that each IT investment proposal:
  - Maintain executive sponsorship;
  - Include an executive synopsis (business case) that states the business problem to be solved, identifies alternative solutions to solving the problem, reflects a cost analysis with a documented basis of estimate for the lifecycle, identifies known risks, applicable benefits and return on investment; and
  - Align to the SET investment priorities.

- Governance Process

The IRS uses an integrated governance model that reflects industry best practices. IT projects are assigned to an appropriate governance body for oversight. The enterprise governance model:

- Considers IT projects or systems, from selection through retirement, regardless of dollar value or life cycle phase;
- Empowers governance bodies to make project cost, schedule, and scope decisions for “at risk” projects that require escalation within the tiered governance model to boards with greater authority to intervene for corrective actions; and
- Promotes accountability and decision-making at the enterprise and project level, specifying the appropriate thresholds and governance bodies for elevating issues.

- Health Assessments

The IRS has implemented a standardized health assessment process as a key component of the governance framework. The health assessment process uses:

- Common criteria or Enterprise Key Performance Indicators (KPIs) to rate project performance and identify potential risks;
- A color-coded rating for EKPIs to rate projects in the areas of cost, schedule, risk, scope, technical, organizational readiness, and overall performance; and
- Control and governance organizations to review the EKPI rating and take corrective actions as appropriate.

Potential issues are identified for remediation through the analysis of project specific data. IRS governance and control organizations guide project managers in remediation activities to assess the issues at hand and determine the appropriate actions to be taken. Project assistance teams are formed, as needed, to identify and remediate those project

issues. Metrics regarding cost and schedule variances are reported both internally and externally to oversight organizations. As of the October 2010 Oversight Reporting cycle, 100 percent of the non-BSM IT Portfolio had risk and contingency management plans; and, approximately 98 percent of non-BSM projects are within established thresholds for cost variance and schedule slippage. For those projects exceeding established thresholds, mitigation strategies are underway as appropriate. In addition, IRS IT organizations conduct quality assurance reviews of project data to monitor compliance with methodologies and assist project managers in implementing components of the IRS Enterprise Lifecycle methodology.

## **4C – Government Wide Initiatives**

### **Improper Payments Reductions**

The IRS has made a number of improvements to the Earned Income Tax Credit (EITC) program. The IRS strategy with respect to EITC improper payments is to intervene early to ensure compliance with the rules. Thus, the IRS has expanded outreach and education to taxpayers and preparers so that they are aware of the legal requirements for EITC eligibility. Efforts also include improved examination selection processes and data matching using third-party data, reducing taxpayer burden while increasing revenue protected. Most recently, the IRS has begun to concentrate more on regulating the preparer community.

In January 2010, the IRS announced a plan that will register, license and create enforcement tools that affect the paid return preparer community more broadly. The IRS believes new regulation of tax return preparers will drive increased EITC compliance, decrease fraud and affect the improper payment rate. Currently, tax preparers complete 66 percent of EITC returns and by focusing on this area, compliance and payment accuracy is expected to improve. As part of the EITC focused paid return preparer effort, the IRS developed a risk-based scoring and selection system to identify preparers for several types of enforcement treatment based on a preparer's level of egregiousness such as Due Diligence Visits, Knock and Talk Visits, Streamline Injunctions, Notices, Undercover Shopping, and Expanded Contact Approach. These activities will continue and expand in FY 2012.

In addition, the Department of the Treasury is conducting a pilot project using funds from the Partnership Fund for Program Integrity Innovation to test how fraud and error in EITC might be significantly improved by sharing information with state-based programs to better determine eligibility up front. This pilot, which will conclude in the second quarter of FY 2012, simulates the benefits of data sharing in order to inform whether additional authority to implement such data sharing may be warranted.

### **Efficient Use of Energy**

The IRS is promoting the sustainable use of energy resources by increasing the efficiency of facilities to reduce greenhouse gas emissions. The IRS is conducting energy and water audits of delegated facilities, as directed by the Energy Independence and Security Act of 2007 (Public Law 110-140). These audits identify energy efficiency improvements called actionable Energy Conservation Measures (ECMs). At multiple IRS campuses, IRS implemented ECM improvements such as data center support equipment upgrades. These energy program improvements reduced energy use by 12.3 percent from the 2003 baseline.

The IRS also improved building water efficiency by implementing water management best practices to reduce potable water consumption that decreased water consumption by 17 percent from FY 2007 to FY 2009. The IRS continues to meet renewable energy utilization goals by purchasing Renewable Energy Credits on an annual basis. Furthermore, the IRS is working to reduce emissions through fleet initiatives. In FY 2009, the IRS decreased the general fleet by 6 percent.

IRS strives to improve agency facilities and foster high-performing buildings. To meet the Guiding Principles for Federal Leadership in High Performance and Sustainable Buildings as required by Executive Order 13514 (“Federal Leadership in Environmental, Energy, and Economic Performance”), the IRS is developing a sustainable buildings implementation strategy and has achieved Leadership in Energy and Environmental Design (LEED) certification at three facilities. IRS is exploring pursuing the LEED certification at additional facilities. To use space more efficiently and realize associated gains, the IRS is developing a Data Center Consolidation Plan and examining opportunities in underused space.

Through acquisition policies, IRS also is improving the sustainability of procured goods and services. IRS is using the Green Procurement Plan and Buying Green Program and environmental workshops and training to ensure that 95 percent of new contracts for products and services are energy and water efficient, environmentally preferable, and generally more sustainable. Finally, three IRS facilities comply with Environmental Management Systems (EMS), which meet or exceed the International Organization for Standardization’s “ISO 14001” requirements for environmental management. IRS is pursuing the EMS or Compliance Management Program designation at facilities nationwide to promote environmentally favorable, sustainable buildings and practices.

#### **4D – Summary of FY 2010 Savings Realized**

In FY 2010 the IRS President's Budget identified \$118.1 million and 1,504 FTE in reductions to the IRS base budget as a result of increased electronic filing (e-File) and non-recurring and one-time costs associated with the FY 2009 enforcement initiatives and the Economic Stimulus Act of 2008 (Public Law 110-185). In addition, the IRS identified in the FY 2011 President's Budget \$58.3 million in savings to be realized in FY 2010 (generated from the Reduce Procurement/Contracting and a portion of Information Technology (IT) Infrastructure and Process Improvements savings initiatives).

During the preparation of the budget request, the IRS reduced the requested level by the amount of the presented savings, and if the enacted budget level includes those reductions, the IRS operates at the reduced level. Thus, projected savings become actual savings upon enactment.

#### **FY 2010 Savings**

##### **Increase e-File Savings -\$8,360,000 / -182 FTE**

The IRS projected to generate this savings by receiving 4.6 million fewer returns filed on paper (2.9 million individual and 1.7 million business) in FY 2010. For FY 2010, the IRS received 6.3 million (4.9 million individual and 1.4 million business) fewer returns in FY 2010 compared to FY 2009. The actual savings was \$10,078,050 and 223 FTE.

##### **Non-Recur Savings -\$27,074,000 / 0 FTE**

The IRS base budget was reduced by the \$27 million in non-recurring, one-time (e.g., ADP equipment and training) costs associated with the hiring of over 3,000 enforcement employees funded by the FY 2009 enforcement initiatives.

##### **Non-Recur Stimulus Savings -\$67,900,000 / -1,322 FTE**

The non-recur Stimulus funds received in FY 2009 were removed from the FY 2010 budget. The dedicated toll free line added to handle Stimulus-related calls is now being used for the new Recovery Act legislation issues. The line added to the 2008 tax year tax return to facilitate reconciliation of the payment was removed from the 2009 tax year return.

##### **Non-Recur FY 2009 Reduction Adjustment/Correspondence Inventory -13,439,000 / 0 FTE**

The non-recur funds received in FY 2009 to handle the increased adjustment/correspondence workload that resulted from diverting staff from paper correspondence to telephone service to meet the requirements of the Stimulus Act was removed from the FY 2010 budget. The IRS correspondence inventory, comparing August 2009 to

August 2010 dropped 1,254,796 to 775,960, a decrease of 478,836. Note: these adjustment/ correspondence inventory levels do not include First Time Homebuyer Credit, Worker Homeownership and Business Assistance Act, and Recovery Act inventory.

**Non-Recur Pension Plan -\$1,352,000 / 0 FTE**

The non-recur funds received in FY 2009 to fund one-time, non-recurring costs associated with testing the IRS ERISA (Employee Retirement Income Security Act of 1974) Residual Solution (IERS) system were removed from the FY 2010 budget. The IRS ERISA Residual Solution (IERS) allows the IRS to receive and audit pension benefit data (Form 5500 series) for compliance purposes. Testing was successful, and the system became operational to receive and process returns on December 30, 2009.

**Reduce Procurement/Contracting (Reduction was taken in the FY 2011 President's Budget)**

**Information Technology (IT) Infrastructure and Process Improvements**

**FY 2010 Projected Savings -\$58,300,000 / 0 FTE**

In accordance with Presidential guidance on controlling contract costs, the IRS planned to generate \$58.3 million in savings in FY 2010. In FY 2010, the IRS realized savings of \$61.6 million by renegotiating contracts for more favorable pricing and changing contract vehicles to firm fixed price type contracts. Most of this savings was generated from IT hardware, software licensing and maintenance, and telecommunication contracts.



## 4.1 – Summary of IT Resources Table

Dollars in Millions

Major IT Investments / Funding Source	Budget Activity	FY 2009 Actuals	FY 2010 Actuals	% Change from FY09 to FY10	FY 2011 CR Rate (FY 2010 Enacted)	% Change from FY10 to FY11	FY 2012 Request	FY 2012 Innovation Investments	% Change from FY11 to FY12
<b>Account Management Services (AMS)</b>	IT Investments	\$22,807	\$27,988	22.7%	\$17,037	-39.1%	\$15,107	\$15,107	-11.3%
IRS BSM 20-0921-0-1-803	IT Investments	10,650	6,688	-37.2%	000	-100.0%	000	000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	12,157	21,300	75.2%	17,037	-20.0%	15,107	15,107	-11.3%
<b>Automated Collection System (ACS) - Major</b>	Information Services	\$6,892	\$7,872	14.2%	\$10,145	28.9%	\$7,885	\$7,885	-22.3%
<b>Business Master File (BMF)</b>	Information Services	\$12,259	\$7,287	-40.6%	\$8,410	15.4%	\$8,267	\$8,267	-1.7%
IRS Operations Support 20-0919-0-1-803	Information Services	12,259	7,189	-41.4%	8,410	17.0%	8,267	8,267	-1.7%
External Funding (incl. Reimbursable Agreements) *	Information Services	000	097	100.0%	000	-100.0%	000	000	0.0%
<b>Counsel Automated Systems Environment (CASE)</b>	Information Services	\$26,513	\$22,742	-14.2%	\$27,951	22.9%	\$27,951	\$27,951	0.0%
<b>Criminal Investigation Management Information System (CIMIS) - Major</b>	Information Services	\$3,776	\$1,159	-69.3%	\$4,273	268.8%	\$1,169	\$1,169	-72.7%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfeiture	Information Services	1,009	1,000	-0.9%	1,626	62.6%	1,000	1,000	-38.5%
IRS Operations Support 20-0919-0-1-803	Information Services	2,767	159	-94.3%	2,647	1569.6%	169	169	-93.6%
<b>Current CADE (previously known as Customer Account Data Engine (CADE))</b>	IT Investments	\$61,430	\$68,569	11.6%	\$46,356	-32.4%	\$24,223	\$24,223	-47.7%
IRS BSM 20-0921-0-1-803	IT Investments	58,100	67,810	16.7%	45,937	-32.3%	23,460	23,460	-48.9%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfeiture	Information Services	000	000	0.0%	000	0.0%	000	000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	3,330	758	-77.2%	419	-44.7%	763	763	82.1%
<b>Customer Account Data Engine (MTA) / CADE 2</b>	IT Investments	\$33,150	\$77,687	134.3%	\$85,733	10.4%	\$198,832	\$198,832	131.9%
IRS BSM 20-0921-0-1-803	IT Investments	33,150	77,524	133.9%	85,733	10.6%	198,451	198,451	131.5%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfeiture	Information Services	000	000	0.0%	000	0.0%	000	000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	000	163	0.0%	000	-100.0%	381	381	0.0%
<b>e-Services</b>	Information Services	\$14,648	\$16,518	12.8%	\$14,007	-15.2%	\$8,666	\$8,666	-38.1%
IRS BSM 20-0921-0-1-803	IT Investments	000	005	100.0%	000	-100.0%	000	000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	14,648	16,513	12.7%	14,007	-15.2%	8,666	8,666	-38.1%
<b>Electronic Fraud Detection System (EFDS)</b>	Information Services	\$12,392	\$13,737	10.9%	\$12,251	-10.8%	\$14,341	\$14,341	17.1%
IRS Operations Support 20-0919-0-1-803	Information Services	8,754	10,021	14.5%	8,594	-14.2%	10,632	10,632	23.7%
IRS Operations Support (EITC) 20-09E9	Information Services	3,639	3,657	0.5%	3,657	0.0%	3,709	3,709	1.4%
IRS BSM 20-0921-0-1-803	IT Investments	000	010	100.0%	000	-100.0%	000	000	0.0%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfeiture	Information Services	000	050	100.0%	000	-100.0%	000	000	0.0%
<b>Electronic Management System (EMS)</b>	Information Services	\$4,742	\$4,282	-9.7%	\$5,761	34.5%	\$4,318	\$4,318	-25.0%
<b>Enterprise Data Access Strategy (EDAS) (Formerly:Enterprise Data Warehouse)</b>	Information Services	\$8,369	\$8,086	-3.4%	\$6,995	-13.5%	\$7,367	\$7,367	5.3%
IRS BSM 20-0921-0-1-803	IT Investments	000	014	100.0%	000	-100.0%	000	000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	8,369	8,072	-3.5%	6,995	-13.3%	7,367	7,367	5.3%
<b>Excise Files Information Retrieval System (ExFIRS) - Major / Externally Funded</b>	Information Services	\$13,022	\$1,145	-91.2%	\$6,632	479.0%	\$097	\$097	-98.5%
External Funding (incl. Reimbursable Agreements) *	Information Services	13,018	000	-100.0%	6,139	100.0%	000	000	-100.0%
IRS Operations Support 20-0919-0-1-803	Information Services	004	1,145	28075.7%	493	-57.0%	097	097	-80.3%
<b>Financial Management Information System (FMS)</b>	Information Services	\$6,801	\$5,825	-14.3%	\$5,186	-11.0%	\$6,069	\$6,069	17.0%
<b>Implement RRP (incorporates EFDS replacement)</b>	Information Services	\$0,000	\$18,383	100.0%	\$17,947	-2.4%	\$20,905	\$20,905	16.5%
<b>Individual Master File (IMF)</b>	Information Services	\$13,357	\$8,995	-32.7%	\$10,982	22.1%	\$11,393	\$11,393	3.7%
IRS Operations Support (EITC) 20-09E9	Information Services	142	000	-100.0%	000	0.0%	000	000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	13,215	8,923	-32.5%	10,982	23.1%	11,393	11,393	3.7%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfeiture	Information Services	000	072	100.0%	000	-100.0%	000	000	0.0%
<b>Information Reporting and Document Matching (IRDM)</b>	Information Services	\$5,119	\$18,824	267.7%	\$23,000	22.2%	\$23,255	\$23,255	1.1%
IRS Operations Support 20-0919-0-1-803	Information Services	5,119	15,905	210.7%	23,000	44.6%	23,255	23,255	1.1%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfeiture	Information Services	000	2,920	100.0%	000	-100.0%	000	000	0.0%
<b>Information Returns Processing (IRP)</b>	Information Services	\$7,654	\$6,402	-16.4%	\$6,775	5.8%	\$5,976	\$5,976	-11.8%
IRS Operations Support 20-0919-0-1-803	Information Services	7,654	6,388	-16.5%	6,775	6.1%	5,976	5,976	-11.8%
External Funding (incl. Reimbursable Agreements) *	Information Services	000	014	100.0%	000	-100.0%	000	000	0.0%

Major IT Investments / Funding Source	Budget Activity	FY 2009 Actuals	FY 2010 Actuals	% Change from FY09 to FY10	FY 2011 CR	% Change from FY10 to FY11	FY 2012 Request	FY 2012 Innovation Investments	% Change from FY11 to FY12
					Rate (FY 2010 Enacted)				
<b>Integrated Collection System (ICS)</b>	Information Services	\$7,484	\$9,823	31.3%	\$9,854	0.3%	\$10,173	\$10,173	3.2%
IRS Operations Support 20-0919-0-1-803	Information Services	7,484	9,823	31.3%	9,104	-7.3%	10,173	10,173	11.7%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfeiture	Information Services	000	000	0.0%	750	100.0%	000	000	-100.0%
<b>Integrated Customer Communications Environment (ICCE)</b>	Information Services	\$12,082	\$16,752	38.6%	\$16,618	-0.8%	\$14,892	\$14,892	-10.4%
IRS Operations Support 20-0919-0-1-803	Information Services	12,082	16,680	38.1%	16,618	-0.4%	14,892	14,892	-10.4%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfeiture	Information Services	000	072	100.0%	000	-100.0%	000	000	0.0%
<b>Integrated Data Retrieval Systems (IDRS)</b>	Information Services	\$20,231	\$20,351	0.6%	\$19,550	-3.9%	\$20,795	\$20,795	6.4%
<b>Integrated Financial System/CORE Financial System (IFS)</b>	IRS Business Systems Modernization	\$18,167	\$18,357	1.0%	\$17,449	-4.9%	\$44,798	\$44,798	156.7%
IRS BSM 20-0921-0-1-803	IT Investments	000	000	0.0%	000	-100.0%	000	000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	18,167	18,051	-0.6%	17,449	-3.3%	44,798	44,798	156.7%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfeiture	Information Services	000	306	100.0%	000	-100.0%	000	000	0.0%
<b>Integrated Submission and Remittance Processing System (ISRP)</b>	Information Services	\$18,981	\$17,311	-8.8%	\$17,939	3.6%	\$17,098	\$17,098	-4.7%
<b>Internal Revenue Service.gov (IRS.gov)</b>	Information Services	\$56,479	\$51,825	-8.2%	\$55,380	6.9%	\$113,380	\$113,380	104.7%
IRS Operations Support 20-0919-0-1-803	Information Services	56,479	39,779	-29.6%	55,380	39.2%	113,380	113,380	104.7%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfeiture	Information Services	000	12,046	100.0%	000	-100.0%	000	000	0.0%
<b>Redesign Revenue Accounting Control System (RRACS) - formerly Interim Revenue Accounting Cost System (IRACS) (Includes "Redesign IRACS" Tier B initiative)</b>	Information Services	\$5,137	\$4,198	-18.3%	\$1,495	-64.4%	\$2,618	\$2,618	75.1%
<b>Modernized e-File (MeF)</b>	IT Investments	\$47,117	\$89,127	89.2%	\$61,143	-31.4%	\$33,851	\$33,851	-44.6%
IRS BSM 20-0921-0-1-803	IT Investments	29,500	70,585	139.3%	46,489	-34.1%	27,939	27,939	-39.9%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfeiture	Information Services	000	364	100.0%	000	-100.0%	000	000	0.0%
IRS Operations Support 20-0919-0-1-803	Information Services	17,617	18,178	3.2%	14,654	-19.4%	5,912	5,912	-59.7%
<b>Report Generation Software (RGS)</b>	Information Services	\$7,961	\$8,260	3.8%	\$7,709	-6.7%	\$7,780	\$7,780	0.9%
IRS Operations Support (EITC) 20-09E9	Information Services	3,384	2,798	-17.3%	2,785	-0.5%	2,825	2,825	1.5%
IRS Operations Support 20-0919-0-1-803	Information Services	4,578	5,462	19.3%	4,924	-9.9%	4,955	4,955	0.6%
<b>Reporting Compliance Case Management System (RCCMS) (Formerly TE/GE Reporting and Electronic Examination System (TREES))</b>	Information Services	\$2,140	\$4,175	95.1%	\$4,030	-3.5%	\$4,340	\$4,340	7.7%
<b>Service Center Recognition/Image Processing System (SCRIPS)</b>	Information Services	\$16,632	\$19,693	18.4%	\$16,818	-14.6%	\$15,385	\$15,385	-8.5%
<b>Tax Return Database (TRDB) - BAC 99</b>	Information Services	\$4,250	\$4,759	12.0%	\$5,212	9.5%	\$2,565	\$2,565	-50.8%
IRS Operations Support 20-0919-0-1-803	Information Services	4,250	4,383	3.1%	5,212	18.9%	2,565	2,565	-50.8%
External Funding (incl. Reimbursable Agreements) *	Information Services	000	376	100.0%	000	-100.0%	000	000	0.0%
<b>Travel Reimbursement and Accounting System (TRAS) - BAC 99</b>	Information Services	\$000	\$000	0.0%	\$000	0.0%	\$000	\$000	0.0%
<b>Web Currency and Banking Retrieval System (WebCBRS)</b>	Information Services	\$7,550	\$6,372	-15.6%	\$7,756	21.7%	\$6,853	\$6,853	-11.7%
IRS Operations Support 20-0919-0-1-803	Information Services	1,029	1,365	32.6%	2,009	47.2%	1,685	1,685	-16.1%
IRS Txpyr. Scvs., Enfor.(0912, 0913) Multi-yr, Health Care/ACA(09A9), Rcvry., Asset Forfeiture	Information Services	6,521	5,007	-23.2%	5,747	14.8%	5,167	5,167	-10.1%
<b>Web Requisition Tracking System /Integrated Procurement System (WebRTS/IPPS)</b>	Information Services	\$5,246	\$6,074	15.8%	\$5,770	-5.0%	\$1,895	\$1,895	-67.2%
<b>Subtotal, Major IT Investments</b>		<b>\$482,390</b>	<b>\$592,578</b>	<b>22.8%</b>	<b>\$556,165</b>	<b>-6.1%</b>	<b>\$682,245</b>	<b>\$682,245</b>	<b>22.7%</b>
<b>Non-Major IT Investments</b>		<b>\$500,340</b>	<b>\$580,145</b>	<b>16.0%</b>	<b>\$569,598</b>	<b>-1.8%</b>	<b>\$994,198</b>	<b>\$994,198</b>	<b>74.5%</b>
<b>- Total (FY 10 includes \$3.553 of external funding)</b>		<b>\$986,392</b>	<b>\$1,079,565</b>	<b>9.4%</b>	<b>\$1,053,699</b>	<b>-2.4%</b>	<b>\$997,187</b>	<b>\$997,187</b>	<b>-5.4%</b>
<b>Enterprise Architecture</b>		<b>\$2,443</b>	<b>\$000</b>	<b>-100.0%</b>	<b>\$2,491</b>	<b>100.0%</b>	<b>\$000</b>	<b>\$000</b>	<b>-100.0%</b>
Sub-Total IT Investments		\$1,971,564	\$2,252,288	14.2%	\$2,181,954	-3.1%	\$2,673,629	\$2,673,629	22.5%
* MINUS Externally Funded Major Investments		\$13,018	\$4,041	-69.0%	\$6,139	51.9%	\$000	\$000	0.0%
<b>TOTAL IT Investments</b>		<b>\$1,958,546</b>	<b>\$2,248,247</b>	<b>14.8%</b>	<b>\$2,175,815</b>	<b>-3.2%</b>	<b>\$2,673,629</b>	<b>\$2,673,629</b>	<b>22.9%</b>

### 4.3 – IRS Performance Measure Table

The following table shows IRS performance measures achieved and projected from FY 2010 through FY 2012.

Performance Measures	Type of Measure	FY 2010 Target	FY 2010 Actual	FY 2011 Planned	FY 2012 Planned
Customer Service Representative Level of Service	Oe, L	71.0%	74.0%	71.0%	80.0%
Customer Contacts Resolved per Staff Year	E	9,398	10,744	12,074	12,061
Percent of Eligible Taxpayers Who File for EITC	Oe	75% - 80%	NA	75% - 80%	75% - 80%
Customer Accuracy - Tax Law (Phones)	Ot	91.2%	92.7%	92.7%	92.7%
Customer Accuracy - Accounts (Phones)	Ot	93.7%	95.7%	95.0%	95.0%
Timeliness of Critical Filing Season Tax Products to the Public	Ot	94.0%	95.3%	94.0%	95.0%
Timeliness of Critical TE/GE & Business Tax Products to the Public	Ot	90.0%	97.7%	91.0%	93.0%
Percent Individual Returns Processed Electronically	Oe, L	70.2%	69.3%	74.0%	76.0%
Cost per Taxpayer Served (\$) (HCTC)	E	Baseline <sup>1</sup>	\$9.52	\$10.00	\$11.00
Sign-Up Time (Days) - Customer Engagement (HCTC)	Ot	Baseline <sup>1</sup>	124.0	124.0	137.0
Percent of Business Returns Processed Electronically	Oe, L	24.3%	25.5%	27.0%	28.0%
Refund Timeliness - Individual (Paper)	Ot	98.4%	96.1%	97.0%	97.5%
Taxpayer Self-Assistance Rate	E, L	61.3%	64.4%	68.7%	68.7%
Examination Coverage - Individual	Oe, L	1.1%	1.1%	1.1%	1.1%
Field Exam Nat'l Quality Review Score	Oe, L	86.3%	84.9%	83.7%	84.9%
Office Exam Nat'l Quality Review Score	Oe, L	90.9%	91.6%	90.4%	90.9%
Examination Quality - Industry	Oe, L	89.0%	87.0%	89.0%	89.0%
Examination Quality - Coordinated Industry	Oe, L	96.0%	95.0%	96.0%	96.0%
Examination Coverage - Business	Oe, L	5.1%	5.7%	5.3%	5.2%
Examination Efficiency - Individual	E, L	132	140	134	126
Automated Underreporter Efficiency	E, L	1,868	1,924	1,980	2,017
Automated Underreporter Coverage	E, L	3.0%	3.0%	3.3%	4.0%
Collection Coverage (Units)	Ot, L	50.5%	50.1%	49.1%	47.9%
Collection Efficiency (Units)	E, L	1,898	1,822	1,824	1,752
Field Collection Nat'l Quality Review Score	Ot, L	81.0%	80.6%	81.0%	81.0%
Automated Collection System Accuracy	Oe	92.5%	95.9%	94.0%	94.0%
Criminal Investigations Completed	Ot, L	3,900	4,325	3,900	3,880
Number of Convictions	Oe, L	2,135	2,184	2,135	2,135
Conviction Rate	Oe, L	92.0%	90.2%	92.0%	92.0%
Conviction Efficiency Rate (\$)	E, L	\$331,000	\$324,776	\$350,000	\$360,000
TE/GE Determination Case Closures	Ot	140,465	105,247	97,151	85,471
Percent of BSM Projects within +/- 10% Cost Variance	E	90.0%	40.0%	90.0%	90.0%
Percent of BSM Projects within +/- 10% Schedule Variance	E	90.0%	100.0%	90.0%	90.0%
Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, L - Long-Term Goal					
<sup>1</sup> An increase in participation occurred due to the Recovery Act. IRS established a new baseline in FY 2010.					

### Budget Level Performance Measurement Descriptions

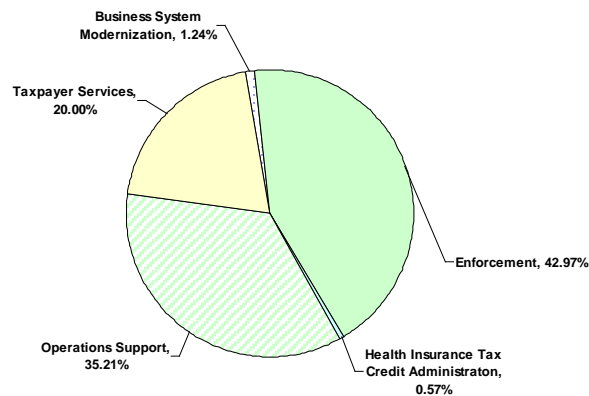
Customer Service Representative (CSR) Level of Service	The number of toll free callers that either speak to a Customer Service Representative or receive informational messages divided by the total number of attempted calls.
Customer Contacts Resolved per Staff Year	The number of Customer Contacts resolved in relation to staff years expended.
Percent of Eligible Taxpayers Who File for EITC	The number of taxpayers who claim the Earned Income Tax Credit (EITC) compared to the number of taxpayers who appear to be eligible for the EITC.
Customer Accuracy – Tax Law Phones	The percentage of correct answers given by a live assistant on Toll-free tax law inquiries.
Customer Accuracy – Customer Accounts (Phones)	The percentage of correct answers given by a live assistant on Toll-free account inquiries.
Timeliness of Critical Individual Filing Season Tax Products to the Public	The percentage of critical individual filing season tax products (tax forms, schedules, instructions, publications, tax packages, and certain notices required by a large number of filers to prepare a complete and accurate tax return) available to the public in a timely fashion.
Timeliness of Critical TE/GE & Business Tax Products to the Public	Percentage of critical other tax products, paper and electronic, available to the public in a timely fashion.
Percent Individual Returns Processed Electronically	The percentage of electronically filed individual tax returns divided by the total individual returns filed.
Cost per Taxpayer Served (\$) (HCTC)	The costs associated with serving the taxpayers including program kit correspondence, registration and program participation.
Sign-Up Time (Days) – Customer Engagement (HCTC)	The length of time between the first Program Kit mailing and first payment received.
Percent Business Returns Processed Electronically	The percentage of electronically filed business tax returns divided by the total business returns filed.
Refund Timeliness – Individual (Paper)	The percentage of refunds resulting from processing Individual Master File paper returns issued within 40 days or less.
Taxpayer Self Assistance Rate	The percentage of taxpayer assistance requests resolved using self-assisted automated services.
Examination Coverage – Individual (1040)	The sum of all individual 1040 returns closed by Small Business/Self Employed (SB/SE), Wage & Investment (W&I), and Large and Mid-Sized Business (LMSB) (Field Exam and Correspondence Exam programs) divided by the total individual return filings for the prior calendar year.
Field Exam Nat'l Quality Review Score	The score awarded to a reviewed field examination case by a Quality Reviewer using the National Quality Review System (NQRS) quality attributes.
Office Exam Nat'l Quality Review Score	The score awarded to a reviewed office examination case by a Quality Reviewer using the NQRS quality attributes.
Examination Quality – Industry	Average of the scores of Industry Cases reviewed. Case scores are based on the percentage of elements passed within each auditing standard.
Examination Quality – Coordinated Industry	Average of the scores of Coordinated Industry Cases reviewed. Case scores are based on the percentage of elements passed within each auditing standard.
Examination Coverage – Business (Corps. >\$10M)	The number of LMSB "customer base" returns (C and S Corporations with assets over \$10 million and all partnerships) examined and closed by LMSB 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, and LMSB (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 no contact was made) 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 sum of all modules disposed by Automated Collection System (ACS) (SB/SE & W&I) and by SB/SE Field Collection divided by the total collection FTE.
Field Collection Nat'l Quality Review Score	The score awarded to a reviewed collection cases by a Quality Reviewer using the NQRS quality attributes.
Automated Collection System (ACS) Accuracy	The percent of taxpayers who receive the correct answer to their ACS question.
Criminal Investigations Completed	The total number of subject criminal investigations completed during the fiscal year, including those that resulted in prosecution recommendations to the Department of Justice as well as those discontinued due to a lack of prosecution potential.
Number of Convictions	The number of criminal convictions.
Conviction Rate	The percent of adjudicated criminal cases that result in convictions.
Conviction Efficiency Rate (\$)	The cost of Criminal Investigation's (CI's) program divided by the number of convictions. The number of convictions is the total number of cases with the following statuses: guilty plea, nolo contendere, judge guilty or jury guilty. The CI financial plan includes direct and reimbursable costs, including employees' salaries, benefits, and investigative expenses, as well as facility costs (office space, heating, cleaning, computers, security, etc.), and other overhead costs.
TE/GE Determination Case Closures	The number of cases closed in the Employee Plans or Exempt Organizations Determination programs, regardless of type of case or type of closing.
Percent of BSM Projects within +/- 10% Cost Variance	The percentage of BSM projects that are within the +/-10% threshold for cost. The cost variance is measured from the initial cost estimate versus current cost estimate.
Percent of BSM Projects within +/- 10% Schedule Variance	The percentage of BSM projects that are within the +/-10% threshold for schedule. The schedule variance is measured from the initial schedule estimate to the current schedule estimate.

## 4.4 – Cost of IRS Operating Activities

### FY 2010 Cost of IRS Operating Activities

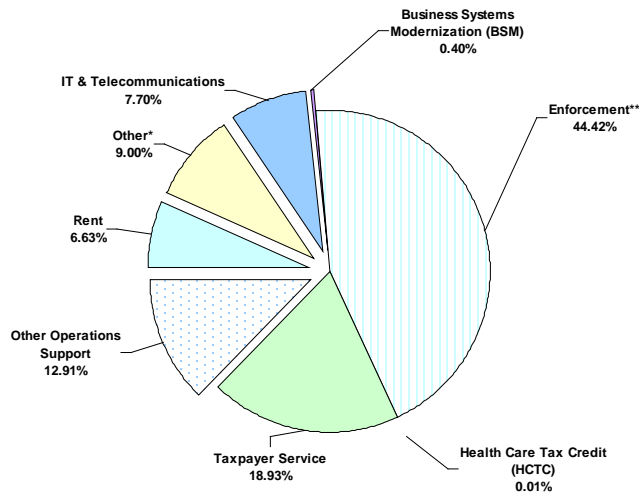
The following charts provide the FY 2010 cost of IRS operating activities by appropriation and by major expense category. The charts include all expenditures, regardless of the fiscal year the funds were appropriated, that occurred in FY 2010 except for imputed costs (i.e., costs associated with services obtained by other agencies such as the Department of the Treasury and the Office of Personnel Management that are provided to the IRS, but are not reimbursed).

**FY 2010 Expenses by Appropriation**  
(Excluding Imputed Costs)



The second chart shows the FY 2010 actual costs by major expense category.

**FY 2010 Expenses by Category**  
(Excluding Imputed Costs)



Notes:

<sup>1</sup>Other includes Contractual Services, Supplies, Printing, Postage, Travel, and Training

<sup>2</sup>Enforcement includes Non-Labor Enforcement Expense of \$306M (2.5%)

<sup>3</sup>Labor Costs represent 74.13 % of total expenses and include Taxpayer Service, Operations Support, Enforcement, BSM, and HCTC

## 4.5 – Summary of IRS FY 2012 Budget Request

	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT		BSM		HITCA		TOTAL	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
<b>Bureau Internal Revenue Service</b>												
Summary of Proposed FY 2012 Budget Request												
FY 2010 Enacted <sup>1</sup>	\$2,718,830	31,063	\$5,504,000	50,983	\$4,083,884	12,272	\$263,897	333	\$15,512	15	\$12,146,123	94,766
Total FY 2011 Annualized CR Level	\$2,718,830	31,063	\$5,504,000	50,983	\$4,083,884	12,272	\$263,897	333	\$15,512	15	\$12,146,123	94,766
Changes to Base												
Adjustment to Reach FY 2011 President's Policy Level	\$23,254	(395)	\$242,275	1,880	\$10,128	12	\$122,561	156	\$3,447		\$401,665	1,653
Maintaining Current Levels (MCL)	\$12,908		\$30,691		\$41,755		\$168		\$222		\$85,754	
Workers Compensation/Health Benefits/FERS	10,242		25,067		5,482		168		5		40,964	
Non-Pay Inflation Adjustment (1.4%)	2,666		5,624		36,275				227		44,790	
Other Adjustments		614		(296)		154		29				501
Technical FTE Adjustments <sup>2</sup>		614		(296)		154		29				501
Non-Retir Savings	(\$41,333)	(463)	(\$21,996)	(35)	(\$124,440)	(5)	(\$1,026)		(\$1,162)		(\$189,957)	(523)
Increase in File Savings	(21,404)	(416)			(1,040)						(22,444)	(416)
Reduce IT Infrastructure					(75,000)						(75,000)	
Reduce Contracts	(4,522)		(325)		(15,907)						(20,754)	
Reduce Administrative Expenses	(5,557)	(26)	(8,271)	(35)	(503)	(5)					(14,331)	(66)
Eliminate Lockbox Fees			(4,000)								(4,000)	
Reduce Certain Mailings					(4,000)						(4,000)	
Reduce Training, Travel and Programs	(9,850)	(41)	(9,400)		(5,900)				(1,162)		(27,338)	(41)
Reinvestment	1,486										\$1,486	
Consolidate Submission Processing Site (Atlanta)	1,486										1,486	
<b>Subtotal FY 2012 Changes to the Base</b>	<b>(\$3,685)</b>	<b>(264)</b>	<b>\$250,970</b>	<b>1,549</b>	<b>(\$72,557)</b>	<b>161</b>	<b>\$121,703</b>	<b>185</b>	<b>\$2,517</b>		<b>\$298,948</b>	<b>1,631</b>
<b>FY 2012 Current Services (Base)</b>	<b>\$2,275,145</b>	<b>30,799</b>	<b>\$5,754,970</b>	<b>52,532</b>	<b>\$4,011,327</b>	<b>12,533</b>	<b>\$385,600</b>	<b>518</b>	<b>\$18,029</b>	<b>15</b>	<b>\$12,445,071</b>	<b>96,397</b>
<b>Program Changes</b>												
<b>Program Increases</b>												
<b>Taxpayer Service Initiatives</b>												
Improve Taxpayer Service	44,078	518			37,229	1					81,307	519
Expand Online Options through IRS.gov Improvements					33,000	15					33,000	15
<b>Subtotal Taxpayer Service Initiatives</b>	<b>\$44,078</b>	<b>518</b>			<b>\$70,229</b>	<b>16</b>					<b>\$114,307</b>	<b>534</b>
<b>Enforcement Initiatives</b>												
Increase International Service and Enforcement			48,363	373	24,233	4					72,596	377
Increase Collection Coverage	2,201	37	30,275	372	19,524	4					52,000	413
Implement Merchant Card and Basis Reporting	10,475	189	17,495	225	7,760	1					35,730	415
Increase Coverage to Address Tax Law Changes and Other Compliance Issues	7,229	87	33,936	266	55,553	144					96,718	497
Ensure Accurate Delivery of Tax Credits	4,946	49	49,083	563	206,264	222					240,293	834
Administer New Statutory Reporting Requirements	1,059	7	5,061	48	52,385	132					58,506	187
Leverage Return Preparer Program to Reduce Noncompliance			14,240	107	2,360	1					16,600	108
Address Appeals Workload Growth			7,450	66	1,650	1					9,100	66
Implement Uncertain Tax Position Reporting Requirements			3,765	20	364						4,129	20
<b>Subtotal Enforcement Initiatives</b>	<b>\$25,910</b>	<b>369</b>	<b>\$209,668</b>	<b>2,040</b>	<b>\$370,093</b>	<b>508</b>					<b>\$605,671</b>	<b>2,917</b>
<b>Infrastructure Initiatives</b>												
Enhance Security and Disaster Recovery Systems Capability					12,000	5					12,000	5
Update Integrated Financial System (IFS)					27,500	5					27,500	5
Leveraging Data to Improve Compliance					1,400	5					1,400	5
Enhance Physical Security for Federal Employees			1,981	10	13,500						15,481	10
Implement Individual Coverage Requirement and Employer Responsibility Payments					62,477	65					62,477	65
<b>Subtotal Infrastructure Initiatives</b>			<b>\$1,981</b>	<b>10</b>	<b>\$116,877</b>	<b>80</b>					<b>\$118,858</b>	<b>90</b>
<b>Business Systems Modernization (BSM) Initiative</b>												
Continue Migration from Aging Tax Administration System					52,000	5					52,000	5
<b>Subtotal BSM</b>					<b>\$52,000</b>	<b>5</b>					<b>\$52,000</b>	<b>5</b>
<b>Subtotal FY 2012 Program Changes</b>	<b>\$49,988</b>	<b>887</b>	<b>\$211,649</b>	<b>2,050</b>	<b>\$609,199</b>	<b>609</b>	<b>(\$52,000)</b>	<b>(65)</b>			<b>\$88,636</b>	<b>3,481</b>
<b>Total FY 2012 Budget Request</b>	<b>\$2,245,133</b>	<b>31,686</b>	<b>\$5,966,619</b>	<b>54,582</b>	<b>\$4,620,526</b>	<b>13,142</b>	<b>\$333,600</b>	<b>453</b>	<b>\$18,029</b>	<b>15</b>	<b>\$13,283,907</b>	<b>99,878</b>
FY 2010 Enacted represents the approved FY 2010 Operating Plan.												
<sup>1</sup> Technical FTE adjustments to ensure FTE levels are fully funded in the base budget.												
<sup>2</sup> Dollar/FTE Change Percent Change												
	\$66,303	623	\$462,619	3,599	\$536,642	770	\$69,703	120	\$2,517		\$1,137,784	5,112
	2.91%	2.0%	8.41%	7.1%	13.14%	6.2%	26.41%	36.0%	16.23%		9.37%	5.39%