

Internal Revenue Service

Program Summary by Appropriations Account and Budget Activity

Dollars in Thousands

| Budget Activity | FY 2014 | FY 2015 | FY 2016 | FY 2015 TO FY 2016 | |
|--|---------------------|---------------------|---------------------|--------------------|---------------|
| | Actuals | Enacted | Request | \$ Change | % Change |
| Taxpayer Services | \$2,145,195 | \$2,156,554 | \$2,408,803 | \$252,249 | 11.70% |
| Pre-filing Taxpayer Assistance and Education | 595,168 | 626,510 | 682,753 | 56,243 | 8.98% |
| Filing and Account Services | 1,550,027 | 1,530,044 | 1,726,050 | 196,006 | 12.81% |
| Enforcement | \$4,914,497 | \$4,860,000 | \$5,399,832 | \$539,832 | 11.11% |
| Investigations | 601,740 | 602,298 | 713,282 | 110,984 | 18.43% |
| Exam and Collections | 4,154,342 | 4,104,453 | 4,513,376 | 408,923 | 9.96% |
| Regulatory | 158,415 | 153,249 | 173,174 | 19,925 | 13.00% |
| Operations Support | \$3,722,599 | \$3,638,446 | \$4,743,258 | \$1,104,812 | 30.36% |
| Infrastructure | 845,558 | 829,389 | 973,521 | 144,132 | 17.38% |
| Shared Services and Support | 1,127,931 | 1,143,864 | 1,274,194 | 130,330 | 11.39% |
| Information Services | 1,749,110 | 1,665,193 | 2,495,543 | 830,350 | 49.87% |
| Business Systems Modernization | \$145,235 | \$290,000 | \$379,178 | \$89,178 | 30.75% |
| Subtotal Internal Revenue Service | \$10,927,526 | \$10,945,000 | \$12,931,071 | \$1,986,071 | 18.15% |
| Reimbursables | 97,840 | 119,000 | 127,000 | 8,000 | 6.72% |
| Offsetting Collections - Non Reimbursables | 31,073 | 33,100 | 33,075 | (25) | -0.08% |
| User Fees | 419,145 | 462,360 | 450,360 | (12,000) | -2.60% |
| Recovery from Prior Years | 3,297 | | | | |
| Unobligated Balances from Prior Years | 241,022 | 408,926 | 385,763 | (23,163) | -5.66% |
| Transfers In/Out | 17 | 7,561 | (5,000) | (12,561) | -166.13% |
| Total Program Operating Level | \$11,719,920 | \$11,975,947 | \$13,922,269 | \$1,946,322 | 16.25% |
| Direct FTE | 82,643 | 81,279 | 90,524 | 9,245 | 11.37% |
| Resources from Other Accounts | 9 | 3 | 3 | | |
| User Fee FTE ¹ | 1,151 | 191 | 191 | | |
| Reimbursable FTE | 619 | 730 | 768 | 38 | 5.21% |
| Unobligated Balances from Prior Years ¹ | 339 | | | | |
| Total FTE | 84,761 | 82,203 | 91,486 | 9,283 | 11.29% |

¹FTE funded by User Fees and Unobligated Balances from Prior Years are included in the direct civilian full-time equivalent employment line of the President's Appendix.

² Resources from Transfers In/Out include FY 2014 transfers between IRS and the Office of National Drug Control Policy (ONDCP) High Intensity Drug Trafficking Area (HIDTA) Program (net transfer \$17K), FY 2015 transfers between IRS and Spectrum (net transfer \$7.6M), and an FY 2016 transfer out to the Alcohol and Tobacco Tax and Trade Bureau (TTB) (\$5M).

Summary

The Internal Revenue Service (IRS) collects the revenue to fund the government and administer the nation's tax laws. In FY 2014, the IRS processed more than 199 million tax returns and collected \$3.1 trillion in taxes (gross receipts before tax refunds), 93 percent of federal government

receipts. The IRS continues to focus on strengthening the public's confidence in its effective administration of the Nation's tax system.

Through taxpayer service and enforcement programs that protect the flow of revenue to the government, the IRS remains committed to

making the tax law easier to access and understand, to improve voluntary compliance in order to reduce the tax gap, the difference between taxes owed and taxes paid on time, and to pursue those who evade or misrepresent their tax responsibility.

While the IRS continues to respond to new requirements and rapid changes, many of its innovative and far-reaching programs risk delay or cancellation without adequate funding. Over the last several years, the IRS has experienced significant budget reductions that are creating serious obstacles to its ability to fulfill its mission. Fortunately, the IRS has been able to execute successful filing seasons, despite these cuts, but this success is often at the expense of other important but less visible activities. Any deterioration in taxpayer services and enforcement creates a long-term risk for the U.S. tax system.

Total resources requested to support IRS activities for FY 2016 are \$13,922,269,000. This includes \$12,931,071,000 from direct appropriations, of which \$667,297,000 is provided via a program integrity cap adjustment intended to improve the integrity of the tax system, an estimated \$127,000,000 from reimbursable programs, and an estimated \$385,763,000 from unobligated balances from prior years, and an estimated \$450,360,000 from user fees. The direct appropriation is \$1,986,071,000 more than the FY 2015 enacted level of \$10,945,000,000.

The *IRS Strategic Plan* guides program and budget decisions and supports the Department of the Treasury *FY 2014 to 2017 Strategic Plan*, and the Agency Priority Goal of “increasing self-service options for taxpayers”.

The IRS strategic goals provide a central direction for the attainment of its mission and vision. Its strategic foundation for organizational excellence supplements the strategic goals and describes the internal

initiatives required to support taxpayer-facing actions.

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

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

Each strategic goal is outcome-based and supported by several objectives. The strategic objectives to deliver high quality and timely service to reduce taxpayer burden and encourage voluntary compliance are:

- Design tailored service approaches with a focus on digital customer service to meet taxpayer needs, preferences, and compliance behaviors in order to facilitate voluntary compliance;
- Deliver clear and focused outreach, communications, and education programs to assist taxpayer understanding of tax responsibilities and awareness of emerging tax laws;
- Provide timely assistance through a seamless, multi-channel service environment to encourage taxpayers to meet their tax obligations and accurately resolve their issues;
- Strengthen refund fraud prevention and provide prompt assistance to support victims of identity theft;
- Reduce taxpayer burden and increase return accuracy at filing through timely and efficient tax administration processing;
- Improve service delivery and support effective tax administration by fostering strong relationships with the tax community and government partners; and

- Enhance the quality of tax services by strengthening the outreach, education, and tools provided to the tax professional community.

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

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

The IRS strategic foundation consists of the following objectives:

- Be the best place to work in government by building a highly talented, diverse workforce and cultivating an inclusive and collaborative environment;

- Ensure a secure environment that protects the safety of people and security of facilities;
- Implement and maintain a robust enterprise risk management program that identifies emerging risks and mitigates them before they impact performance;
- Realize operational efficiencies and effectively manage costs by improving enterprise-wide resource allocation and streamlining processes;
- Invest in innovative, secure technology needed to protect taxpayer data and support taxpayer, partner, and business needs; and
- Implement enterprise-wide analytics and research capabilities to make timely, informed decisions.

Taxpayer Service Program: The FY 2016 President's Budget request will allow the IRS to further improve customer service to meet taxpayer demand and continue delivering services to taxpayers.

Providing quality taxpayer service is especially important to help taxpayers avoid making unintentional errors. Assisting taxpayers with their questions before they file their returns prevents inadvertent noncompliance and reduces burdensome post-filing notices and other correspondence from the IRS. Taxpayer demand for self-service and electronic service options at the IRS has dramatically increased in recent years. The IRS continues its commitment to increasing the service options available through the IRS website and mobile application, allowing more taxpayers to reach the IRS through the internet. In FY 2014, there were more than 437 million visits to www.irs.gov, and taxpayers checked their refund status more than 189 million times by accessing the *Where's My Refund?* web

application in English or in Spanish on the IRS website. Taxpayers also used the automated features on the IRS toll-free phone system. Additionally, the IRS2Go mobile application has been downloaded 5.4 million times since its release.

Enforcement Program: The FY 2016 request provides funding to implement Foreign Account Tax Compliance (FATCA) (Public Law 111-147), Affordable Care Act (ACA) (Public Law 111-148), and Information Return Document Matching (IRDM) of merchant payment card and third party reimbursements and basis reporting; protect revenue by reducing the instances of refund fraud, including tax-related identity theft; restore eroding examination and collection enforcement programs; expand criminal investigation capabilities; and address compliance issues in the tax-exempt sector.

Increased resources for the IRS compliance programs yield direct, measurable results through high return on investment (ROI) activities. The FY 2016 Budget includes a \$667 million program integrity cap adjustment that will reduce the deficit through above-base funding for high-ROI tax enforcement and compliance programs, of which \$5 million will be transferred to the Alcohol and Tobacco Tax and Trade Bureau (TTB). Of the remaining \$662 million requested in the program integrity cap adjustment, \$421 million is for traditional revenue-producing initiatives estimated to generate \$2,799 million in additional annual enforcement revenue, achieving an FY 2018 ROI of \$6.4 to \$1.0. Notably, the ROI is likely understated because it only includes amounts received; it does not reflect the effect enhanced enforcement has on deterring non-compliance. This deterrent effect helps to ensure the continued payment of over \$3 trillion in taxes paid each year without direct enforcement measures. The program integrity cap also includes \$91 million to protect revenue, \$37 million for a

revenue-enhancing initiative, and \$315 million for other compliance-related initiatives in the Operations Support account.

New investments are also proposed beyond FY 2016, with cap adjustments through FY 2020 and sustained through additional adjustments through 2025. The activities and new initiatives funded out of the cap adjustments through 2025 will generate approximately \$60 billion in additional revenue over 10 years and will cost about \$19 billion for an estimated net savings of \$41 billion.

Business Systems Modernization: IRS modernization efforts focus on building and deploying advanced information technology systems, processes, and tools to improve efficiency and enhance productivity. The FY 2016 request will allow the IRS to continue leveraging new technologies to develop critical information technology systems needed to support the IRS's taxpayer service and enforcement programs. As part of the \$88 million increased funding, the IRS plans to invest in an enterprise case management system that will provide a standardized solution for performing case management functions. The Enterprise Case Management (ECM) solution will address the need to modernize, upgrade, and consolidate multiple aging IRS case management systems. In addition, the request will allow the IRS to expand the capabilities of the Customer Account Data Engine 2 (CADE 2) relational database which will be replacing other antiquated systems and become the tax data system-of-record, as well as address a financial material weakness. Funding will lead the IRS transition to digital government through web applications that will enhance the taxpayer's online experience, provide secure digital communications, and add more interactive capabilities to existing web self-service products. Additional resources will enhance the development, testing, and

deployment of various estate and gift tax forms for electronic acceptance and increase fraud detection, resolution, and prevention

through use of the Return Review Program (RRP).

IRS FY 2016 Budget Highlights

Dollars in Thousands

| Appropriation | Taxpayer Services | | Enforcement | | Operations Support | | Business Systems Modernization | | Total | |
|---|--------------------|---------------|--------------------|---------------|--------------------|---------------|--------------------------------|------------|---------------------|---------------|
| | \$000 | FTE | \$000 | FTE | \$000 | FTE | \$000 | FTE | \$000 | FTE |
| FY 2015 Enacted | \$2,156,554 | 28,274 | \$4,860,000 | 40,564 | \$3,638,446 | 12,043 | \$290,000 | 398 | \$10,945,000 | 81,279 |
| FY 2016 Changes to Base: | | | | | | | | | | |
| Maintaining Current Levels (MCLs): | \$52,822 | | \$81,120 | | \$65,512 | | \$1,223 | | \$200,677 | |
| Pay Annualization | 4,837 | | 11,875 | | 4,093 | | 197 | | 21,002 | |
| Pay Raise (1.3%) | 18,910 | | 46,428 | | 16,004 | | 770 | | 82,112 | |
| Non-Pay | 3,571 | | 5,171 | | 39,968 | | | | 48,710 | |
| FERS Contribution Increase | 7,362 | | 16,488 | | 5,447 | | 256 | | 29,553 | |
| Federal Employees Health Benefits (FEHB) Program Modification | 18,142 | | 1,158 | | | | | | 19,300 | |
| Efficiencies/Savings: | (\$18,399) | (61) | | | (\$32) | | | | (\$18,431) | (61) |
| Increase e-File Savings | (2,374) | (46) | | | (32) | | | | (2,406) | (46) |
| HCTC Program Termination | (16,025) | (15) | | | | | | | (16,025) | (15) |
| Reinvestment: | | | | | \$16,025 | | | | \$16,025 | |
| Expand Telecom Infrastructure to Handle Increased Demand | | | | | 16,025 | | | | 16,025 | |
| Subtotal FY 2016 Changes to the Base | \$34,423 | (61) | \$81,120 | | \$81,505 | | \$1,223 | | \$198,271 | (61) |
| FY 2016 Current Services (Base) | \$2,190,977 | 28,213 | \$4,941,120 | 40,564 | \$3,719,951 | 12,043 | \$291,223 | 398 | \$11,143,271 | 81,218 |
| Program Changes: | | | | | | | | | | |
| Program Increases Before Cap Adjustment: | \$217,826 | 3,072 | \$106,612 | 1,075 | \$708,110 | 1,490 | \$87,955 | 178 | \$1,120,503 | 5,815 |
| Improve Taxpayer Services | 183,142 | 2,806 | | | 118,381 | 164 | | | 301,523 | 2,970 |
| Leverage New Technologies to Advance the IRS Mission | | | | | 3,618 | | 87,955 | 178 | 91,573 | 178 |
| Implement Information Technology (IT) Changes to Deliver Tax Credits and Other Requirements | | | | | 305,645 | 818 | | | 305,645 | 818 |
| Improve Upfront Identification and Resolution of Identity Theft Returns | 15,562 | 193 | | | 3,322 | | | | 18,884 | 193 |
| Implement Foreign Account Tax Compliance Act (FATCA) | | | 33,625 | 321 | 37,380 | 140 | | | 71,005 | 461 |
| Sustain Critical Information Technology (IT) Infrastructure | | | | | 188,514 | 157 | | | 188,514 | 157 |
| Address Impact of Affordable Care Act (ACA) Statutory Requirements | 108 | 1 | 44,775 | 432 | 22,323 | 50 | | | 67,206 | 483 |
| Enhance Service Options for Taxpayers | 13,891 | 45 | | | 2,352 | 9 | | | 16,243 | 54 |
| Restore Staffing for Essential Support Programs | | | | | 19,938 | 152 | | | 19,938 | 152 |
| Increase Service for Low-Income Taxpayers and Taxpayers in Need of Hardship Relief | 5,123 | 27 | | | 596 | | | | 5,719 | 27 |
| Implement Merchant Card and Basis Matching | | | 28,212 | 322 | 6,041 | | | | 34,253 | 322 |
| Total Request Before Cap Adjustment | \$2,408,803 | 31,285 | \$5,047,732 | 41,639 | \$4,428,061 | 13,533 | \$379,178 | 576 | \$12,263,774 | 87,033 |
| Cap Adjustment Program Increases: | | | | | | | | | | |
| Enforcement Initiatives: | | | \$347,100 | 3,161 | \$203,123 | 229 | | | \$550,223 | 3,390 |
| Prevent Identity Theft and Refund Fraud | | | 47,738 | 358 | 34,424 | 62 | | | 82,162 | 420 |
| Increase Audit Coverage | | | 97,353 | 1,038 | 64,456 | 61 | | | 161,809 | 1,099 |
| Improve Audit Coverage of Large Partnerships | | | 13,722 | 107 | 2,527 | | | | 16,249 | 107 |
| Address International and Offshore Compliance Issues | | | 35,206 | 238 | 5,451 | | | | 40,657 | 238 |
| Enhance Collection Coverage | | | 83,236 | 986 | 39,594 | 48 | | | 122,830 | 1,034 |
| Leverage Data to Improve Case Selection | | | 5,111 | 14 | 33,949 | 45 | | | 39,060 | 59 |
| Address Compliance Risks in the Tax-Exempt Sector | | | 15,511 | 146 | 7,951 | 13 | | | 23,462 | 159 |
| Pursue Employment Tax and Abusive Tax Schemes | | | 8,677 | 52 | 8,509 | | | | 17,186 | 52 |
| Enhance Investigations of Transnational Organized Crime (TOC) | | | 37,161 | 194 | 5,367 | | | | 42,528 | 194 |
| Ensure Ethical Standards of Conduct for Practitioners | | | 3,385 | 28 | 895 | | | | 4,280 | 28 |
| Infrastructure Initiatives: | | | | | \$112,074 | 101 | | | \$112,074 | 101 |
| Consolidate and Modernize IRS Facilities | | | | | 85,456 | 74 | | | 85,456 | 74 |
| Maintain Integrity of Revenue Financial Systems | | | | | 12,162 | 7 | | | 12,162 | 7 |
| Implement Agency Wide Shared Services Priorities | | | | | 10,992 | 9 | | | 10,992 | 9 |
| Implement Federal Investigative Standards | | | | | 3,464 | 11 | | | 3,464 | 11 |
| Alcohol and Tobacco Tax and Trade Bureau (TTB) Program Integrity Transfer: | | | \$5,000 | | | | | | \$5,000 | |
| Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities | | | 5,000 | | | | | | 5,000 | |
| Subtotal FY 2016 Cap Adjustment | | | \$352,100 | 3,161 | \$315,197 | 330 | | | \$667,297 | 3,491 |
| Total FY 2016 Budget Request | \$2,408,803 | 31,285 | \$5,399,832 | 44,800 | \$4,743,258 | 13,863 | \$379,178 | 576 | \$12,931,071 | 90,524 |

FY 2016 Budget Adjustments

Maintaining Current Level (MCLs)

Pay Annualization +\$21,002,000 / 0 FTE

Funds are requested for annualization of the January 2015 pay raise.

Pay Raise +\$82,112,000 / 0 FTE

Funds are requested for the proposed January 2016 pay raise.

Non-Pay +\$48,710,000 / 0 FTE

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

FERS Contribution Increase

+\$29,553,000 / 0 FTE

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

Federal Employees Health Benefits (FEHB)

Program Modification +\$19,300,000 / 0 FTE

Funds are requested to modify eligibility for coverage under the Federal Employees Health Benefits (FEHB) Program to certain temporary, seasonal, and/or intermittent employees.

Efficiency Savings

Increase e-File Savings

-\$2,406,000 / -46 FTE

These savings are a result of reduced paper returns. The IRS projects a total of 1,026,100 fewer returns filed on paper (525,100 individual and 501,000 business returns).

HCTC Program Termination

-\$16,025,000 / -15 FTE

This program was terminated January 1, 2014, as provided by the Trade Adjustment Assistance Extension Act of 2011 (TAA Reauthorization) (Public Law 112-40).

Reinvestment

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

This reinvestment expands the Customer Service Representative (CSR) toll-free call center telecommunication infrastructure to allow the IRS to answer the additional telephone calls expected to result from implementation of the ACA (Public Law 111-148). The requested funding covers expanded telecommunications infrastructure and equipment, hardware for high-speed internet connections, and encryption technology.

Program Increases

Improve Taxpayer Services

+\$301,523,000 / +2,970 FTE

This initiative will fund additional staff to increase the CSR telephone level of service (LOS) to 80 percent. Resources are needed to meet the increased demand for taxpayer face to face assistance resulting from ACA implementation; expand staffing to assist with managing the ACA submission processing workload; provide advanced technology to electronically receive amended returns; and increase outreach and communications activities.

Leverage New Technologies to Advance the

IRS Mission +\$91,573,000 / +178 FTE

This initiative will implement an Enterprise Case Management (ECM) solution for performing standard case management functions across the IRS; expand the capabilities of the CADE 2 relational database and address a financial material weakness; enhance the taxpayer's online experience and provide secure digital communications; complete the design and development of various Estate and Gift tax forms for electronic acceptance; and increase fraud detection, resolution, and prevention through use of the RRP.

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

This initiative will allow the IRS to continue to implement the new tax law provisions contained in the ACA. While the Department of Health and Human Services is responsible for the health care policy and insurance provisions in the legislation, the IRS administers more than 45 specific tax provisions and numerous cross-agency sections related to tax administration. This investment supports the administration of one of the largest refundable tax credits the IRS has administered. The investment touches all submission, fraud, and compliance tax administration processes to receive, validate, and handle individual and business tax returns. The investment also will provide enhanced technology infrastructure and applications support and allow necessary, major modifications to existing IRS tax administration systems.

Improve Upfront Identification and Resolution of Identity Theft Returns +\$18,884,000 / +193 FTE

This initiative strengthens the integrity of the tax system by improving IRS's ability to detect and prevent improper refunds. Resources will allow the IRS to expand programs to prevent identity theft-related refund fraud, protect taxpayer identities, and assist victims of identity theft.

Implement Foreign Account Tax Compliance Act (FATCA) +\$71,005,000 / +461 FTE

This initiative provides funding for enforcement staff to implement new reporting, disclosure, and withholding requirements mandated by FATCA that were enacted in the Hiring Incentives to Restore Employment Act of 2010 (Public Law 111-147). This initiative will allow the IRS to address foreign withholding compliance and expand coverage of international tax return filings.

This initiative is expected to produce additional annual enforcement revenue of \$155.1 million once the new hires reach full potential in FY 2018, an ROI of \$2.3 to \$1.

Sustain Critical Information Technology (IT) Infrastructure +\$188,514,000 / +157 FTE

This initiative will restore resources for mainframes, servers, laptops, network devices, and communication equipment to keep IT infrastructure (hardware and software) current for existing and newly developed IRS IT systems. The IRS's IT division provides technology services and solutions that drive effective tax administration, improve service, modernize systems, and ensure the security and resiliency of IRS information systems and data. Funding will enhance systems security to help anticipate evolving threats; increase reliability of enterprise infrastructures to support the increasing number of tax forms submitted electronically; improve risk mitigation capabilities; increase the use of cloud and virtual environments; and expand the use of the next generation of advanced telecommunication technologies.

Address Impact of ACA Statutory Requirements +\$67,206,000 / +483 FTE

As the tax law changes, the IRS must implement programs to ensure that taxpayers understand the new laws, and that the IRS can address noncompliance. The new ACA tax provisions strengthen oversight of tax exempt hospital organizations and include new fees on manufacturers and importers of branded prescription drugs and health insurers. This initiative also expands the compliance coverage of tax-exempt hospital organizations by refining the community benefit reviews and by leveraging this data to conduct examinations; expands coverage of new provisions related to the premium tax credit, individual responsibility requirement, and large employer insurance; and addresses new

audit requirements related to the shared employer responsibility payment.

This initiative includes a \$60.8 million initial investment in traditional revenue-producing activities that are expected to annually produce additional enforcement revenue of \$181.7 million, once the new hires reach full potential in FY 2018, an ROI of \$2.8 to \$1, and an initial investment of \$6.4 million in revenue-protecting activities that are expected to protect \$88.7 million of revenue, a protected ROI of \$12.2 to \$1.

Enhance Service Options for Taxpayers
+\$16,243,000 / +54 FTE

The IRS is developing a customer-centric strategy known as Service on Demand (SOD) strategy. SOD will focus on improving the taxpayer experience by understanding their wants, needs, and service channel preferences. By creating new digital capabilities and reducing the burden on taxpayers, SOD will change the IRS's relationship with taxpayers and will allow earlier and more frequent engagement. This initiative will improve the speed and convenience of interacting with the IRS.

Restore Staffing for Essential Support Programs
+\$19,938,000 / +152 FTE

This initiative will provide staffing for IRS support organizations to address base functional requirements that have been challenged by the staffing constraints experienced since FY 2011. In order to continue to provide services at an optimal level, additional staffing is required to provide effective procurement, security, and employee support services; develop and enhance human capital and financial management; support research to improve tax administration; and protect taxpayer privacy.

Increase Service for Low-Income Taxpayers and Taxpayers in Need of Hardship Relief
+5,719,000 / +27 FTE

This initiative provides funding to support taxpayers facing financial hardship by increasing funding for the Low Income Taxpayer Clinic (LITC) Grant Program from \$10 million to \$12 million. It also increases funding for the Taxpayer Advocate Service (TAS) by \$3.4 million for the TAS to address the anticipated workload resulting from increased IRS enforcement activities requested in the Budget.

Implement Merchant Card and Basis Matching
+\$34,253,000 / +322 FTE

This initiative will allow the IRS to take advantage of the reporting provisions for merchant payment card and third party reimbursements enacted in the Housing and Economic Recovery Act of 2008 (Public Law 110-289); and basis reporting on security sales enacted in the Emergency Economic Stabilization Act of 2008 (Public Law 110-343). These efforts will ensure business and individual taxpayers meet their tax obligations; investigate discrepancies related to payment card and securities basis reporting issues; and address fraud and criminal violations that will be uncovered as the IRS establishes broader compliance programs. This initiative is expected to produce additional annual enforcement revenue of \$321.6 million, once the new hires reach full potential in FY 2018, an ROI of \$11.1 to \$1.

Prevent Identity Theft and Refund Fraud
+\$82,162,000 / +420 FTE

This initiative provides staffing and advanced technologies to handle the increased workload associated with identity theft and refund fraud. This initiative will improve upfront identification and resolution of identity theft; help the IRS address the backlog of identity theft cases associated with pre-refund and post-refund compliance activities; recover

funds related to questionable refunds from external sources; prevent false tax returns filed by prisoners and reduce erroneous tax refunds; focus on bank accounts that receive multiple Automated Clearinghouse (ACH) or tax refund check deposits; continue the expansion of the specialized Criminal Investigation (CI) Identity Theft Clearinghouse that processes identity theft leads; and invest in information technology projects that will protect taxpayer information, help verify potentially fraudulent identity theft tax returns, and reduce erroneous payments.

This initiative includes a \$2.7 million initial investment in traditional revenue-producing activities that are expected to produce additional annual enforcement revenue of \$63.8 million, once the new hires reach full potential in FY 2018, an ROI of \$20.6 to \$1, and an initial investment of \$79.4 million in revenue-protecting activities that are expected to protect nearly \$1.0 billion in revenue, a protected ROI of \$13.2 to \$1.

Increase Audit Coverage
+\$161,809,000 / +1,099 FTE

This initiative will allow the IRS to increase its examination program coverage over a broad range of compliance priorities. Tight budget constraints have eroded the examination staff available to conduct audits causing the individual audit coverage to decline below 0.9 percent. Due to growth in individual returns filed and the time required for new hires to reach full-working level, this initiative will still result in an individual coverage rate below 1.0 percent. Reduced coverage causes increased risk to the integrity of the voluntary tax compliance system. This initiative will provide additional field employees to reverse the decline in individual audit coverage; expand coverage of Employment tax returns and Estate and Gift tax returns; expand examinations; increase individual and business document matching programs to identify and

reduce income misreporting; provide an imaging solution to support collaboration and improve exam efficiency; and improve the effectiveness of the litigation program by expediting both the analysis and sharing of electronic data during the lifecycle of Tax Court cases.

This initiative includes a \$150.7 million initial investment in traditional revenue-producing activities that are expected to annually produce additional enforcement revenue of \$1,266.7 million, once the new hires reach full potential in FY 2018, an ROI of \$8.0 to \$1, and an initial investment of \$11.1 million in revenue-protecting activities that are expected to protect revenue of \$112.1 million, a protected ROI of \$8.8 to \$1.

Improve Audit Coverage of Large Partnerships ***+\$16,249,000 / +107 FTE***

The resources requested in this initiative will increase the number of agents with specialized knowledge in partnership law, and strengthen enforcement activities relating to flow-through entities and improve compliance by enhancing Tax Equity and Fiscal Responsibility (TEFRA) procedures. This initiative is expected to produce additional annual enforcement revenue of \$129.1 million, once the new hires reach full potential in FY 2018, an ROI of \$7.6 to \$1.

Address International and Offshore Compliance Issues ***+\$40,657,000 / +238 FTE***

This initiative will expand coverage of entities with undisclosed offshore accounts to ensure their compliance with required U.S. tax reporting. Funding will allow the IRS to promote voluntary compliance with U.S. laws through strategic enforcement actions directed at identifying U.S. taxpayers involved in abusive offshore tax schemes through banks, other financial institutions, and third party structures; expand information gathering and data analysis to identify promoters or

facilitators of abusive offshore schemes; and expand the pursuit of international tax and financial crimes as well as grow the IRS Attaché presence.

This initiative is expected to produce additional annual enforcement revenue of \$159.6 million, once the new hires reach full potential in FY 2018, an ROI of \$3.7 to \$1.

Enhance Collection Coverage

+\$122,830,000 / +1,034 FTE

This initiative will ensure that the IRS has sufficient resources to work the collection inventory and bring taxpayers who fail to pay their tax debt into compliance. These resources will allow the IRS to address growing collection case inventories and call volumes that have resulted from reduced staffing levels in recent years; increase coverage of the growing volume of employment tax cases among business taxpayers; improve service to taxpayers calling the Automated Collection System (ACS) to resolve their account delinquencies; provide resources for Campus Collection to reach out to taxpayers earlier in the collection process; help taxpayers experiencing economic hardship to resolve their liabilities through the Offers in Compromise (OIC) program; increase opportunities to expand new collection streams; develop IT solutions to provide better analytic models, case routing, and case resolution tools and techniques; expand the data available in the Compliance Data Warehouse (CDW); and improve the capability to identify nonfilers of business returns.

This initiative is expected to produce additional annual enforcement revenue of \$1,179.7 million, once the new hires reach full potential in FY 2018, an ROI of \$9.0 to \$1.

Leverage Data to Improve Case Selection

+\$39,060,000 / +59 FTE

This initiative will improve data accessibility and usability for better case selection, issue identification, and treatment assignment. Taxpayer behaviors, including those of individuals, small businesses, and large corporate taxpayers, are constantly changing. The IRS must adapt quickly to changing taxpayer behavior to prevent fraud and tax code misuse. This initiative will increase the digital availability of tax return information; allow the IRS to identify taxpayer behavioral changes and test compliance responses promptly; optimize compliance case identification and treatment assignment to increase effectiveness while reducing risk-related costs; enhance IRS large corporate taxpayer issue identification/return selection activities; and provide skilled staff in areas such as machine learning, statistical modeling, and data mining.

Improved use of analytics will increase revenue collection and, while this is not included in the IRS's traditional ROI calculations, this initiative is projected to increase revenue by \$75.4 million in FY 2018, achieving an ROI of \$1.8 to \$1.

Address Compliance Risks in the

Tax-Exempt Sector +\$23,462,000 / +159 FTE

This initiative will help the IRS build and maintain public trust by anticipating and addressing the tax-exempt sector's needs, encourage voluntary compliance, and effectively enforce the law to ensure compliance. It will enhance the streamlined application process for exempt organizations seeking tax-exempt status; protect taxpayer donations to charities; protect participants in retirement plans and their assets, which total over \$23 trillion; provide voluntary correction opportunities related to employment taxes and retirement plans; improve service by integrating three separate determination application systems into one end-to-end

system; and focus resources on areas with the greatest risk and ensure that all resources in the Tax Exempt and Government Entities arena are developed and deployed appropriately.

Pursue Employment Tax and Abusive Tax Schemes +\$17,186,000 / +52 FTE

This initiative will enhance overall enforcement efforts, increase the number of convictions and assessments, and allow the IRS to apply network analysis to the investigation of abusive tax schemes. Network analysis software will proactively identify potentially noncompliant taxpayers in multiple program areas. These resources will improve the sharing of information among IRS operating divisions and expand the IRS's capability to identify significant tax cases.

Enhance Investigations of Transnational Organized Crime (TOC)

+\$42,528,000 / +194 FTE

This initiative will address the growth in criminal activity of a global nature by allowing IRS to hire special agents who will support the U.S. National Drug Control Strategy, the President's Strategy to Combat Transnational Organized Crime, and the National Money Laundering Strategy; increase investigations of third party money launderers and international banks; work with international partners to identify illicit financial networks that are utilized to launder the proceeds of TOC organizations; and strengthen the IRS's partnerships with domestic and international law enforcement agencies to more effectively fight transnational narcotics, money laundering, and terrorist organizations worldwide.

Ensure Ethical Standards of Conduct for Practitioners +\$4,280,000 / +28 FTE

This initiative will allow the IRS's Office of Professional Responsibility (OPR) to conduct oversight of return preparers who represent

taxpayers and are subject to Circular 230, Regulations Governing Practice Before the Internal Revenue Service. These resources will provide additional staff to handle the growing number of cases requiring litigation; establish three satellite offices strategically located across the country to handle disciplinary case conferences and related negotiations; and invest in technology to provide video conference capability and a system interface that will allow OPR to increase research capability and exchange referrals and other pertinent information electronically with the Return Preparer Office.

Consolidate and Modernize IRS Facilities +\$85,456,000 / +74 FTE

This initiative will provide space renovation resources needed to alter and reduce office space throughout the IRS inventory and realize an estimated annual rent savings of \$23 million. The IRS plans to reinvest the rent savings from this initiative to fund rent increases for the remaining buildings and for other new space reduction projects. Major reductions and consolidations are achievable at IRS occupied buildings where the following strategies can be implemented: reducing workstation size in accordance with revised National Workplace Standards; workspace sharing for frequent teleworkers and employees who work outside of their assigned post of duty more than 80 hours per month; and realignment of occupied workspace and consolidation of vacant workspace. In order for the IRS to take advantage of large scale rent reduction opportunities, additional funding will be needed.

Maintain Integrity of Revenue Financial Systems +\$12,162,000 / +7 FTE

This initiative will support and improve the IRS's revenue financial accounting systems to ensure timely and accurate reporting of tax data. The revenue financial and accounting systems include the general ledger, which is

required to reconcile and report to the Department of the Treasury on \$3.1 trillion in revenue before refunds and \$374 billion in individual and business tax refunds in FY 2014; produce the annual audited financial statements; and perform other operational and financial reporting on unpaid tax assessments currently identified by GAO as a material weakness. This initiative will allow the IRS to make the necessary system and programming changes to comply with OMB mandates, and to stay current with internal changes made to IRS's tax processing systems for tax administration that also affect financial reporting.

***Implement Agency Wide Shared Services
Priorities +\$10,992,000 / +9 FTE***

This initiative will allow the IRS to implement security measures to protect IRS employees, facilities, operations and information. This initiative consists of countermeasures to address the security risks identified during the FY 2010 Facility Risk Assessment in 191 IRS buildings, impacting over 70,000 employees. Resources will replace outdated security systems and implement solutions to vulnerabilities in the IRS facilities.

***Implement Federal Investigative Standards
+\$3,464,000 / +11 FTE***

This initiative will provide resources to support the financial responsibility

determination required by Executive Order 13467, Reforming Processes Related to Suitability for Government Employment, Fitness for Contractor Employees, and Eligibility for Access to Classified National Security Information (June 30, 2008). The IRS will receive requests, and process and provide results to federal agencies conducting background investigations. The resources will establish a project office to define the process for completing and uploading consent-based tax check authorizations in accordance with IRC Section 6103 (c) to a central repository; establish standards for defining tax compliance, create an automated tax compliance extract; create a summary report that will be used by various federal agencies to support a suitability determination or grant a security clearance; and conduct associated federal tax compliance activities for employees and contractors if needed.

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

The IRS will transfer \$5 million to TTB for those high-ROI tax enforcement activities that produce additional revenue through program activities designated to narrow the federal excise tax gap on alcohol and tobacco commodities. More detailed information can be found in the TTB chapter of this volume.

Return on Investment (ROI) for IRS FY 2016 Enforcement Initiatives

Dollars in Millions

| | First Year (FY 2016) | | | Full Performance (FY 2018) | | |
|--|----------------------|------------------|------------|----------------------------|------------------|------------|
| | Cost | Revenue | ROI | Cost | Revenue | ROI |
| FY 2016 Revenue Producing Enforcement Initiatives | \$586.7 | \$1,117.9 | 1.9 | \$595.0 | \$3,457.3 | 5.8 |
| Revenue-Producing Enforcement Initiatives to Implement Enacted Legislation | \$166.1 | \$256.5 | 1.5 | \$160.4 | \$658.4 | 4.1 |
| Implement Foreign Account Tax Compliance Act (FATCA) | 71.0 | 67.7 | 1.0 | 66.6 | 155.1 | 2.3 |
| Implement Merchant Card and Basis Matching | 34.3 | 124.2 | 3.6 | 29.0 | 321.6 | 11.1 |
| Address Impact of Affordable Care Act (ACA) Statutory Requirements | 60.8 | 64.6 | 1.1 | 64.8 | 181.7 | 2.8 |
| Cap Adjustment Enforcement Initiatives | \$420.6 | \$861.4 | 2.0 | \$434.6 | \$2,798.9 | 6.4 |
| Immediate and Directly Measurable Revenue-Producing Initiatives | \$333.1 | \$861.4 | 2.6 | \$352.8 | \$2,798.9 | 7.9 |
| Address International and Offshore Compliance Issues | 40.7 | 49.3 | 1.2 | 43.1 | 159.6 | 3.7 |
| Increase Audit Coverage | 150.7 | 397.5 | 2.6 | 158.5 | 1,266.7 | 8.0 |
| Enhance Collection Coverage | 122.8 | 345.9 | 2.8 | 131.2 | 1,179.7 | 9.0 |
| Improve Audit Coverage of Large Partnerships | 16.2 | 44.5 | 2.7 | 16.9 | 129.1 | 7.6 |
| Prevent Identity Theft and Refund Fraud | 2.7 | 24.2 | 9.0 | 3.1 | 63.8 | 20.6 |
| Strategic Revenue-Producing Initiatives (which do not have immediately measurable ROI, but clear long-term revenue effects) | \$87.5 | \$0.0 | 0.0 | \$81.8 | \$0.0 | 0.0 |
| Address Compliance Risks in the Tax-Exempt Sector | 23.5 | 0.0 | 0.0 | 24.6 | 0.0 | 0.0 |
| Pursue Fraud Referrals, Employment Tax, and Abusive Tax Schemes | 17.2 | 0.0 | 0.0 | 16.2 | 0.0 | 0.0 |
| Enhance Investigations of Transnational Organized Crime | 42.5 | 0.0 | 0.0 | 35.9 | 0.0 | 0.0 |
| Ensure Ethical Standards of Conduct for Practitioners | 4.3 | 0.0 | 0.0 | 5.1 | 0.0 | 0.0 |

Explanation of Budget Activities

Taxpayer Services

The FY 2016 President's Budget request is \$2,408,803,000 in direct appropriations, an estimated \$34,600,000 from reimbursable programs, an estimated \$55,595,000 from user fees, and an estimated \$14,100,000 from unobligated balances from prior years for a total operating level of \$2,513,098,000. This appropriation funds the following budget activities.

Pre-filing Taxpayer Assistance & Education (\$682,753,000 from direct appropriations)

This budget activity funds services to assist with tax return preparation, including tax law interpretation, publication, production, and advocacy services. In addition, funding for these programs supports taxpayer education, outreach, volunteer support time and locations, and pre-filing taxpayer support through electronic media.

Filing & Account Services (\$1,726,050,000 from direct appropriations)

This budget activity funds programs that provide filing and account services to taxpayers, process paper and electronically submitted tax returns, issue refunds, and maintain taxpayer accounts.

Enforcement

The FY 2016 President's Budget request is \$5,399,832,000 in direct appropriations, an estimated \$39,400,000 from reimbursable programs, an estimated \$33,075,000 from non-reimbursable offsetting collections, an estimated \$13,010,000 from unobligated balances from prior years, an estimated \$16,240,000 from user fees, and a \$5,000,000 transfer out to the TTB for a total operating level of \$5,496,557,000. To reduce future deficits, a portion of this appropriation, \$352,100,000, is requested as part of the \$667,297,000 total program integrity cap adjustment for the IRS, which is an above-base investment in tax enforcement and compliance programs, including a \$5,000,000 transfer to TTB for high return on investment enforcement activities. In conjunction with

specified funds provided in the IRS Operations Support account, the program integrity cap adjustment will support tax compliance initiatives expected to generate high returns on investment in the form of increased tax revenues. This appropriation funds the following budget activities.

Investigations (\$713,282,000 from direct appropriations)

This budget activity funds the 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. These programs identify and document the movement of legal and illegal sources of income and instances of suspected intent to defraud. This budget activity also provides resources for international investigations involving U.S. citizens residing abroad, non-resident aliens, and expatriates, and includes investigation and prosecution of tax and money laundering violations associated with narcotics organizations.

Exam & Collections (\$4,513,376,000 from direct appropriations)

This budget activity funds programs that enforce the tax laws and increase compliance through examination and collection and ensure proper payment and tax reporting. It also includes programs such as specialty tax examinations (employment tax, excise tax, and estate and gift tax exams), international collections, and international examinations. The budget activity also provides for campus support of the Questionable Refund program and associated appeals and litigation activities.

Regulatory (\$173,174,000 from direct appropriations)

This budget activity funds the development and printing of published IRS guidance materials; interpretation of tax laws; internal

advice to the IRS on general non-tax legal issues such as procurement, personnel, and labor relations; enforcement of regulatory rules, laws, and approved business practices; and support of taxpayers in the areas of pre-filing agreements, determination letters, and advance pricing agreements. The Return Preparer Program is funded within this activity in addition to the Office of Professional Responsibility, which identifies, communicates, and enforces the Treasury Circular 230 standards of competence, integrity, and conduct of professionals representing taxpayers before the IRS.

Operations Support

The FY 2016 President's Budget request is \$4,743,258,000 in direct appropriations, an estimated \$53,000,000 from reimbursable programs, an estimated \$378,525,000 from user fees, and an estimated \$131,787,000 from unobligated balances from prior years for a total operating level of \$5,306,570,000. A portion of this appropriation, \$315,197,000, is requested as part of the \$667,297,000 program integrity cap adjustment for the IRS tax enforcement and compliance programs, which provides an above-base investment in these programs to reduce future deficits. In conjunction with specified funds provided to the IRS Enforcement account, the program integrity cap adjustment will support new tax compliance initiatives that are expected to generate high returns on investment in the form of increased tax revenues. This appropriation funds the following budget activities.

Infrastructure (\$973,521,000 from direct appropriations)

This budget activity funds administrative services related to space and housing, rent and space alterations, building services, maintenance, guard services, and non-IT equipment.

Shared Services & Support (\$1,274,194,000 from direct appropriations)

This budget activity funds policy management, IRS-wide support for research, strategic planning, communications and liaison, protection of sensitive information and the privacy of taxpayers and employees, finance, human resources, and equity, diversity, and inclusion programs. It also funds printing and postage, business systems planning, security, corporate training, legal services, procurement, and specific employee benefits programs.

Information Services (\$2,495,543,000 from direct appropriations)

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.

Business Systems Modernization

The FY 2016 President's Budget request is \$379,178,000 in direct appropriations. This appropriation funds the following budget activity.

Business Systems Modernization (\$379,178,000 from direct appropriations)

This budget activity funds the planning and capital asset acquisition of information technology (IT) to modernize IRS business systems, including labor and related contractual costs. It funds investments to systems which enhance the IRS's capability to detect, resolve, and prevent tax noncompliance, simplify the taxpayer's online experience, provide secure digital communications, and add more interactive

capabilities to existing web self-service products. This budget activity ensures the IRS continues to move forward and use technologies to improve performance and change how taxpayers interact with the IRS.

Legislative Proposals

The FY 2016 President's Budget request includes a number of legislative proposals intended to reduce the tax gap and improve tax compliance with minimal taxpayer burden. The Treasury Office of Tax Analysis (OTA) estimates these new tax gap proposals will increase revenue by \$84.3 billion over the next ten years, which includes \$59.7 billion generated by program integrity cap adjustments. The IRS estimates the implementation costs for the FY 2016 President's Budget tax gap proposals to be \$157.5 million (excluding the program integrity cap adjustments ten-year cost) over three years, including the initial startup, processing, and compliance operational costs. Note that in a few cases estimates are not yet available due to timing. The Administration proposes to expand information reporting and sharing, improve compliance by businesses, and strengthen tax administration. The Budget also proposes to amend the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended, to provide 10-years (FYs 2016-2025) of discretionary caps to permit program integrity cap adjustments, which cost about \$19 billion while generating approximately \$60 billion, for a net savings of \$41 billion over the 10-year budget window.

The IRS requests Streamlined Critical Pay (SCP) authority through September 30, 2020. This SCP authority expired September 30, 2013. Currently there are approximately 30 senior employees under SCP appointments. If the SCP is not renewed, the IRS will not be able to recruit and retain top-level talent, especially IT professionals who can help protect taxpayer data from cyber-attacks and

who are working to modernize the IRS's IT infrastructure. According to Treasury Inspector General for Tax Administration report 2015-IE-R001, *The Internal Revenue Service's Use of Its Streamlined Critical Pay Authority*, "Private sector expertise had been

crucial to introducing new leadership to supplement in-house expertise, and the IRS had taken advantage of the private sector expertise by retaining the critical pay appointees whenever feasible."

IRS Performance by Program

| Programs | Performance Measure | FY 2011 Actual | FY 2012 Actual | FY 2013 Actual | FY 2014 Actual | FY 2015 Target | FY 2016 Target |
|-------------------|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Taxpayer Services | Customer Service Representative (CSR) Level of Service (%) | 70.1 | 67.6 | 60.5 | 64.4 | 38.0 | 80.0 |
| Taxpayer Services | Percent of Individual Returns Processed Electronically (%) | 76.9 | 80.5 | 82.5 | 84.1 | 84.6 | 85.0 |
| Enforcement | Automated Collection System (ACS) Accuracy (%) | 94.9 | 94.7 | 94.4 | 95.2 | 94.0 | 94.0 |
| Enforcement | Examination Coverage - Individual (%) | 1.1 | 1.0 | 1.0 | 0.9 | 0.8 | 0.8 |
| Enforcement | Conviction Rate (%) | 92.7 | 93.0 | 93.1 | 93.4 | 92.0 | 92.0 |

Description of Performance

In FY 2014, the IRS continued to provide quality service to taxpayers and enforce the laws in a balanced manner, but was unable to maintain some of its performance levels due to resource constraints. Nevertheless, IRS continued to deliver in key areas, including international, tax exempt, and refund fraud, including identity theft.

Taxpayer Services

Providing taxpayers top-quality service and helping them understand and meet their tax obligations remain top priorities for the IRS. The IRS strives to deliver high quality and timely service to taxpayers and stakeholders. Although the IRS had significant accomplishments serving taxpayers in FY 2014, budget constraints forced the IRS to focus on its top priorities and reduce funding in many areas.

The IRS process for programming and testing systems was delayed by a month due to the lapse in federal appropriations in October

2013. Despite this delay and significant resource constraints, the IRS achieved the following results through September 2014:

- Posted 137.9 million individual returns and issued more than 114.8 million refunds totaling \$315.6 billion;
- Achieved a 64.4 percent LOS, although average wait times increased to almost 20 minutes;
- Answered 23.1 million assistor calls,
- Achieved accuracy rates of 95.0 percent for tax law questions and 96.2 percent of account questions received via the telephone; and
- Direct deposited more than \$244.8 billion in refunds.

The number of individual and business returns filed electronically (e-file) continues to grow. Quicker refunds and a more efficient way for taxpayers to file accurate returns, coupled with innovative technology, such as home computer filing, contribute to the increase in e-file returns. FY 2014 results included:

- Individual returns electronically filed increased to 84.1 percent of filings, an increase of 1.9 percent;
- Business returns filed electronically increased to 43.1 percent of filings, an increase of 7.2 percent;
- Home-computer filing increased to 48.0 million tax returns, an increase of 6.0 percent; and
- Tax professional use of e-file increased by 1.2 percent, to 77.8 million returns.

The IRS continued to enhance digital self-service options by increasing the amount of tax information and services available to taxpayers through IRS.gov and the mobile app, IRS2Go. The IRS developed and launched new web and mobile tools allowing taxpayers and third parties to transact with the IRS including:

- **Get Transcript.** Provides current digital display and print of an individual's tax record across five transcript types using enterprise-wide authentication. Since the January 2014 launch, more than 18.6 million transcripts have been generated through this application, which represents more than 79 percent of all transcript requests during that time period.
- **IRS2Go.** Provides a "Where's my Refund" tracker and locator for voluntary tax assistance on a re-engineered mobile tool. The IRS2Go mobile application has been downloaded 5.4 million times since its release.
- **Direct Pay.** An individual taxpayer can make a payment fully electronically without paying a fee. Payment scheduling and payment lookup features have been added. Direct Pay has collected more than

\$2.7 billion since the November 2013 launch.

- **e-Authentication.** Provides secure access to IRS online tools and applications. Since the January 2014 launch, more than 5.8 million knowledge-based authentications have occurred.
- **Payment Mix Comparison Tool.** This tool will encourage accurate reporting by payment recipients according to Form 1099-K, *Payment Card and Third Party Network Transactions*, and help reduce the tax gap.
- **Online Payment Agreement improvement.** Provides the taxpayer the ability to fully submit an application for an installment agreement online.

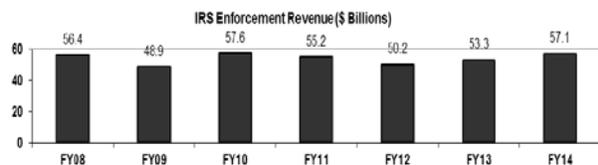
The FY 2014 *Service Approach* identified in the IRS Strategic Plan allowed the IRS to reserve person-to-person service for those who had issues that only the IRS could resolve (e.g. assisting taxpayers who have received a notice). Savings from these initiatives were reinvested into improving service on the phones and at walk-in sites. It allowed the IRS to use the right mix of technology, employees, and IRS partners to best serve customers in the face of changing resources. Comprehensive engagement and communication efforts have helped both employees and taxpayers migrate towards alternative self-service channels.

The IRS continues to improve and expand its outreach and educational services through partnerships with state taxing authorities, volunteer groups, and other organizations. Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites provided free tax assistance for the elderly, disabled, and limited English proficient individuals and families. More than 3.6 million tax returns were filed at Volunteer

Income Tax Assistance/Tax Counseling for the Elderly volunteer sites, representing a 7.4 percent increase over last year while maintaining a 92.2 percent accuracy rate.

Enforcement

In FY 2014, the IRS collected more than \$57.1 billion, a 7 percent increase from FY 2013 through the same period. This is the fifth consecutive year the IRS exceeded \$50 billion in enforcement revenue for a total IRS-wide ROI of \$5.1 to \$1. It is important to note, however, that a variety of factors beyond IRS's control impact enforcement revenue collections, including changes in tax policy and the health of the macroeconomy. Thus, this trend should not be interpreted to suggest that budget cuts have not reduced IRS's enforcement capabilities. In fact, the individual examination coverage rate has steadily declined from 1.11 percent in FY 2010 to 0.86 percent in FY 2014. If IRS enforcement funding had remained at FY 2010 levels, FY 2014 collections would have been



higher.

The ROI estimate does not include the revenue effect of the indirect deterrence value of these investments and other IRS enforcement programs, which is conservatively estimated to be at least three times the direct revenue impact.

The IRS CI program investigates potential criminal violations of the Internal Revenue Code and related financial crimes such as money laundering, currency violations, tax-related identity theft fraud, and terrorist financing that adversely affect tax administration. Highlights of IRS CI's Enforcement performance through FY 2014, compared to FY 2013, include:

- Completing 4,606 criminal investigations, a decrease of 17.1 percent;
- Achieving a conviction rate of 93.4 percent, similar to FY 2013;
- Maintaining a Department of Justice acceptance rate of 93.1 percent with a U.S. Attorney acceptance rate of 90.5 percent; and
- Obtaining 3,110 convictions, similar to FY 2013.

The IRS made changes to the offshore voluntary compliance programs, providing new options to help taxpayers residing overseas and in the United States. Key changes included:

- Eliminating the required risk questionnaire and a requirement that the taxpayer have \$1,500 or less of unpaid tax per year; and
- Requiring the taxpayer to certify that previous failures to comply were due to non-willful conduct.

The IRS implemented several improvements to the Offshore Voluntary Disclosure Program (OVDP) by:

- Requiring additional information from taxpayers applying to the program;
- Eliminating the existing reduced penalty percentage for certain non-willful taxpayers;
- Requiring taxpayers to submit all account statements and pay the offshore penalty at the time of the OVDP application; and
- Enabling taxpayers to submit voluminous records electronically rather than on paper.

The IRS streamlined the determination process for tax-exempt status applications. When an application cannot be completed on its initial merit, the applicant is directed to provide additional information and sign attestations

guaranteeing truthfulness. The IRS also piloted a pre-classification process to improve the content of information request letters; and created Form 1023-EZ, a simplified two page version of the 26 page Form 1023, *Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code*.

The IRS made significant process changes to address concerns about applications for tax exempt status (civic leagues, social welfare organizations, or local associations of employees) under Section 501(c)(4):

- Established a process documenting reasons why applications are selected for further review;
- Developed training and workshops identifying issue advocacy versus political campaign intervention and identifying applications for review of political campaign intervention activities;
- Established processing guidelines for applications involving potentially significant campaign intervention; and
- Created a formal process for determinations personnel to request assistance from technical experts.

Congress passed FATCA in 2010 to improve tax compliance for foreign accounts and cross-border transactions. FATCA aims to ensure that offshore investment activities are properly captured for tax administration purposes by instituting reporting requirements for foreign financial institutions. In FY 2014, the IRS:

- Deployed the FATCA Foreign Financial Institutions Registration System;

- Established the concept of Global Intermediary Identification Numbers (GIINs) – a new international numbering scheme developed by the IRS to implement a standardized worldwide residence-based information reporting and approved and assigned GIINs to over 120,000 financial institutions to date; and
- Deployed the IRS Foreign Financial Institutions List Search and Download Tool.

During FY 2014, the IRS continued its implementation of the ACA and outreach activities to ensure that taxpayers were aware of the new tax provisions under the ACA. The IRS continued its work with the group of organizations set up to facilitate the purchase of health insurance in each state on the requirements and procedures for safeguarding federal tax information used in the Exchange (IRC 6103 (l)(21)), Disclosure of Return Information to Carry Out Eligibility Requirements for Health Insurance Affordability Programs). Also, IRS collaborated with the Department of Health and Human Services on outreach and IT deployment relating to the insurance market reforms and Exchange. In addition, IRS issued more than 30 items of published guidance on ACA Provisions, including final regulations on Branded Prescription Drug Fee and Premium Tax Credit.

In FY 2014, the IRS continued to follow its comprehensive identity theft strategy focused on preventing, detecting, and resolving identity theft cases. In an effort to help victims, the IRS launched the Identity Protection Personal Identification Number (IP PIN) application and has issued approximately 1.5 million IP PINs. The IP PIN is a unique, six-digit number that is assigned annually to victims of identity theft with resolved cases for use when filing their federal tax return. The IP PIN allows these individuals

to avoid delays in filing returns and receiving refunds.

Taxpayers previously had to call the IRS to replace a lost or misplaced IP PIN. The new application allows taxpayers to quickly file their tax return with manual verification. .

Additionally, taxpayers from Florida, Georgia and the District of Columbia have opted into the IP PIN pilot program. Additionally, the IRS is offering approximately 1.7 million taxpayers the opportunity to opt in to the IP PIN program in instances where the IRS has identified indications of identity theft on their accounts.

Business Systems Modernization

IRS modernization efforts continued in FY 2014:

- **CADE 2** had a smooth filing season launch in January 2014. The project

recently met criteria that provide a high level of confidence in the readiness and accuracy of the system’s performance, operational processes, and data quality. In FY 2014, CADE 2 received more than 140.1 million returns and issued over 113.2 million refunds.

- **Modernized e-File (MeF)** MeF receives and processes all tax returns submitted electronically. For Filing Season 2014, a new MeF release was deployed and performed successfully. In FY 2014, taxpayers submitted more than 231.4 million individual returns and more than 19.1 million business returns.

Dollars in Thousands

| | TAXPAYER SERVICES | | ENFORCEMENT | | OPERATIONS SUPPORT | | TOTAL | |
|---|-------------------|--------------|-----------------|------------|--------------------|------------|------------------|--------------|
| | \$000 | FTE | \$000 | FTE | \$000 | FTE | \$000 | FTE |
| FY 2015 Enacted | | | | | | | | |
| Reinvestment: | | | | | | | | |
| Expand Telecom Infrastructure to Handle Increased Demand | | | | | 16,025 | | 16,025 | |
| Subtotal FY 2016 Changes to Base | | | | | \$16,025 | | \$16,025 | |
| FY 2016 ACA Program Increases: | | | | | | | | |
| Improve Taxpayer Services | 78,343 | 1,231 | | | 23,154 | 7 | 101,497 | 1,238 |
| Address Impact of Affordable Care Act (ACA) Statutory Requirements | 108 | 1 | 44,775 | 432 | 22,323 | 50 | 67,206 | 483 |
| Implement Information Technology (IT) Changes to Deliver Tax Credits and Other Requirements | | | | | 305,645 | 818 | 305,645 | 818 |
| Subtotal FY 2016 ACA Program Increases | \$78,451 | 1,232 | \$44,775 | 432 | \$351,122 | 875 | \$474,348 | 2,539 |
| Total FY 2016 ACA Budget Request | \$78,451 | 1,232 | \$44,775 | 432 | \$367,147 | 875 | \$490,373 | 2,539 |