Why GAO Did This Study

The financing of the federal government depends largely on the Internal Revenue Service’s (IRS) ability to administer the tax laws, which includes providing service to taxpayers and enforcing the law so that individuals and businesses pay the taxes they owe. The President’s fiscal year 2010 budget request details how IRS intends to allocate its resources to achieve these goals while also continuing its investment modernizing its tax processing systems.

GAO was asked to (1) describe budget trends, including dollars and full time equivalents; (2) describe legislative proposals that, if enacted, could result in savings or increased revenues; (3) describe the requested increases in funding for new initiatives; (4) assess return on investment (ROI) information; and (5) assess and the status of the Business Systems Modernization (BSM) program. To do this, GAO compared the budget request to prior years, analyzed key documents, and interviewed IRS officials.

What GAO Found

The President’s fiscal year 2010 budget request for IRS of $12.1 billion is a 5.2 percent increase of $603 million over the fiscal year 2009 appropriation, with increases for enforcement (7.6 percent), operations support (5.6 percent), and BSM (10.3 percent) and a 1.0 percent decrease for taxpayer services. The President’s budget documents include legislative proposals aimed at reducing the tax gap. Five are directly supported by prior GAO work and could result in just over ten billion dollars in savings or increased revenues over the next 10 years, such as requiring information reporting on payments to corporations (potential increased revenue of about $8.2 billion over 10 years).

The budget request includes $463 million for program increases, of which about 72 percent is for new enforcement initiatives. Four new initiatives are expected to cost $332 million in fiscal year 2010 with an initial ROI of 1.8, or a return of $1.80 on a dollar invested. By fiscal year 2012, the total 3-year investment is estimated to be almost $900 million and the annual ROI rises to 7.8 when new hires are expected to reach their full potential. IRS also provided a projected ROI for each initiative.

What GAO Recommends

GAO recommends that the Commissioner of Internal Revenue develop actual ROIs and compare them to the projected ROIs included in the budget request. While not explicitly agreeing with our recommendation, IRS’s Chief Financial Officer said IRS will continue to improve analytical tools used for resource decisions for major enforcement programs.

To view the full product, including the scope and methodology, click on GAO-09-754. For more information, contact Jim White, (202) 512-9110, whitej@gao.gov.