

GAO Highlights

Highlights of [GAO-15-624](#), a report to congressional committees.

Why GAO Did This Study

The financing of the federal government depends largely upon IRS's ability to collect taxes, including providing taxpayer services that make voluntary compliance easier and enforcing tax laws to ensure compliance with tax responsibilities. For fiscal year 2016, the President requested \$12.9 billion in appropriations for IRS; the request is almost \$2 billion (18 percent) more than IRS's fiscal year 2015 appropriation.

Because of the size of IRS's budget and the importance of its service and compliance programs for all taxpayers, GAO was asked to review the fiscal year 2016 budget request for IRS and the effects of recent budget constraints. In February 2015, GAO reported interim information on IRS's budget. This report (1) analyzes select IRS business units' budget and staffing; (2) describes how IRS is managing in a constrained budget environment; (3) assesses key data for IT investments; and (4) describes IRS progress in implementing selected GAO open recommendations. To conduct this work, GAO reviewed the fiscal year 2016 CJ, IRS and Office of Management and Budget guidance, and IRS data from fiscal years 2010 to 2014, and interviewed IRS officials.

What GAO Recommends

GAO recommends that IRS implement controls to ensure that information reported on major IT investments is accurate, define key terms in the CJ, and continue implementing previous recommendations. IRS agreed with the recommendations.

View [GAO-15-624](#). For more information, contact James R. McTigue, Jr. at (202) 512-9110 or mctiguej@gao.gov.

June 2015

IRS 2016 BUDGET

IRS Is Scaling Back Activities and Using Budget Flexibilities to Absorb Funding Cuts

What GAO Found

Business unit trends. Internal Revenue Service (IRS) total appropriations declined from a high of \$12.1 billion in fiscal year 2010 to \$11.3 billion in fiscal year 2014, a reduction of about 7 percent. GAO selected business units with large declines in obligations—both dollar amount and percent—from fiscal year 2010 to fiscal year 2014, the most current spending data available. To absorb budget cuts, the business units GAO reviewed—Human Capital Office, Office of Chief Counsel, and Small Business/Self-Employed Division—each reduced staff (full-time equivalents or FTEs) by 16 to 30 percent. According to officials, they also prioritized legally required programs, such as tax litigation, and reduced some programs or services, such as limiting non-filer investigations, postponing software acquisitions, and delaying approximately 24,000 employee background reinvestigations. Such scaled back activities potentially reduce program effectiveness or increase risk to IRS and the federal government.

Change in Full-Time Equivalents at Selected Business Units, Fiscal Years 2010-2014

Business unit	Fiscal year 2014 FTEs	Change in FTEs from fiscal year 2010 to 2014	Percent change in FTEs from fiscal year 2010 to 2014
Human Capital Office	1,205	-506	-29.6%
Office of Chief Counsel	2,101	-402	-16.1%
Small Business/Self-Employed	21,681	-5,417	-20.0%

Source: GAO analysis of IRS data. | GAO-15-624

Budget environment. IRS's budget decreased by an additional \$346 million from fiscal year 2014 to fiscal year 2015. IRS used its flexibility to absorb this reduction by allocating user fee revenue, which comprised 3.4 percent of its budget, or \$416 million, in fiscal year 2014. Additionally, to increase agency-wide coordination of budget decisions, IRS formed a new office and committee to inform budget formulation and execution decisions.

Information technology data. IRS requested \$3.2 billion for information technology (IT) investments. This accounted for 23 percent of IRS's budget request for fiscal year 2016. However, IRS provided inaccurate data on actual obligations to date for major IT investments in its congressional justification (CJ) for fiscal year 2016. As a result, Congress does not have accurate, reliable, and complete data on IT investments to inform its budget decisions or aid in its oversight. Additionally, IRS did not use standard definitions for "life-cycle cost" and "projected useful life of the current asset" or explain the terms in a way that could be understood and used.

Open GAO recommendations. Eighty-eight recommendations and eight matters for congressional consideration could have financial implications if implemented. IRS made progress implementing many recommendations, including two particularly important ones. First, IRS has begun to estimate return on investment for specific compliance projects within its correspondence exam program. Second, IRS's updated cost estimate for the Patient Protection and Affordable Care Act improved from previous versions and met or substantially met the criteria in three of four overall categories, but is still not reliable because it only partially met the criteria in the overall credibility category.