



441 G St. N.W.
Washington, DC 20548

March 8, 2016

The Honorable John Boozman
Chairman
The Honorable Christopher Coons
Ranking Member
Subcommittee on Financial Services and
General Government
Committee on Appropriations
United States Senate

Internal Revenue Service: Preliminary Observations on the Fiscal Year 2017 Budget Request and 2016 Filing Season Performance

This letter transmits briefing slides in response to your request for information based on our ongoing reviews of the fiscal year 2017 budget request for the Internal Revenue Service (IRS) and the 2016 tax filing season. See the enclosed briefing slides which include the information used to brief your staff February 24, 2016, and were subsequently updated.

You asked us to provide preliminary information on the President's fiscal year 2017 budget request for IRS and on IRS's 2016 filing season performance. Our briefing objectives were to describe trends in IRS's (1) budget and operations from fiscal year 2011 through the fiscal year 2017 request, including IRS efforts to strategically manage its budget, and (2) performance in providing taxpayer service during the 2016 filing season to date compared to prior years and interim performance of IRS's processing of individual income tax returns.

To describe trends in IRS's budget and operations from fiscal year 2011 through the President's fiscal year 2017 request, we reviewed the President's budget request and IRS's congressional justifications for fiscal years 2011 through 2017 as well as IRS planning documents. This time frame was selected to provide 5 years of full-year data in addition to current year and requested levels. We also included data from fiscal years 2000 to 2016 appropriations adjusted for inflation for context and interviewed IRS budget and operations officials. To describe trends in IRS's performance in providing taxpayer service and processing tax returns, we reviewed IRS filing season performance data for fiscal years 2011 to 2015 and 2016 data through mid-February. We also interviewed IRS officials and industry partners, including major tax preparation and software firms who interact with IRS, on key aspects of the 2016 filing season performance and challenges. To assess data reliability, we reviewed IRS data and documentation, assessed documentation for data limitations, and compared those results to our data reliability standards. We determined that the data presented in this report are sufficiently reliable for our purposes.

We conducted this performance audit from January to March 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In summary, we found the following:

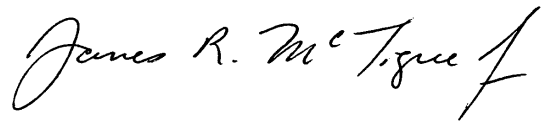
- IRS's fiscal year 2016 appropriation increased by \$290 million to \$11.2 billion over fiscal year 2015 but is about \$900 million (7 percent) lower than fiscal year 2011. IRS allocated the funds across 3 appropriation accounts: Taxpayer Services (\$176.8 million), Operations Support (\$108.2 million), and Enforcement (\$4.9 million). For fiscal year 2017, the President requested \$12.3 billion in appropriations, about a \$1 billion increase (9 percent) over fiscal year 2016 enacted levels. This includes \$515 million in a program integrity cap adjustment. Absent legislative approval to spend above the cap, the request is \$11.8 billion, a 5 percent increase. However, IRS also may allocate other budgetary resources, such as user fee revenue. In fiscal year 2015, transfers of user fees (\$454 million) accounted for 3.8 percent of total available resources (\$11,976 million). Full-time equivalents funded with annual appropriations declined by 12,000 (13 percent) between fiscal years 2011 and 2016. After years of taking short-term actions such as limiting hiring and curtailing overtime, IRS is taking steps to strategically manage its resources by identifying priorities in formulating its 2017 budget request. Further, we have open recommendations to IRS—including 10 priority recommendations—that would help IRS better manage operations and improve taxpayer service. Implementing these recommendations is a key step in reducing the \$385 billion net tax gap, as well as in strengthening tax administration and service to taxpayers.
- Processing of individual income tax returns in 2016 has gone relatively smoothly through mid-February and IRS anticipates improved taxpayer service due, in part, to additional funding. Specifically, IRS projects that the percentage of callers seeking live assistance who receive it (level of service) will increase from about 38 percent for fiscal year 2015 to 47 percent for fiscal year 2016—including 65 percent for the filing season. IRS also projects that average telephone wait time will improve from about 31 minutes in fiscal year 2015 to about 26 minutes in fiscal year 2016. However, this will still be about twice as long as the wait times in fiscal year 2011. Nevertheless, IRS has provided improved telephone service through mid-February compared to the same time last year—level of service was 76 percent (a 33 percentage point increase) while the average wait time dropped to 9 minutes (an improvement of about 70 percent). Importantly, improved customer service, including for telephones, can increase voluntary tax compliance. IRS took steps in 2016—including detailing staff from enforcement to customer service and providing overtime—to help improve service. Finally, IRS is leveraging industry partners to combat identity theft refund fraud and improve cybersecurity efforts to protect taxpayer information.

Agency Comments

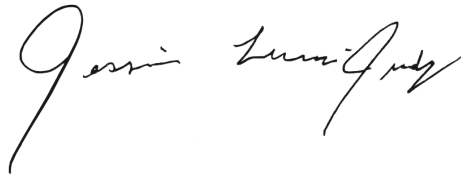
We provided a draft of this report to the Commissioner of Internal Revenue for review and comment. IRS provided technical comments which were incorporated as appropriate.

As arranged with your office, unless you publically announce the contents of this report earlier, we plan no further distribution until 30 days after the date of this report. At that time, we will send copies of this report to the Chairman and Ranking Members of other Senate and House committees and subcommittees that have appropriation, authorization, and oversight responsibilities for IRS. We will also send copies to the Commissioner of Internal Revenue, the Secretary of the Treasury, and other interested parties. The report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact us at (202) 512-9110 or mctiguej@gao.gov or lucasjudyj@gao.gov. Contact points for our offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made major contributions to this report were Tom Gilbert, Assistant Director; Joanna Stamatiades, Assistant Director; James Cook; Laurie King; Melissa King; Erin Saunders Rath; and Elwood White.



James R. McTigue, Jr.
Director, Tax Issues
Strategic Issues



Jessica Lucas-Judy
Acting Director, Tax Issues
Strategic Issues

Enclosure

Internal Revenue Service: Preliminary Observations on the Fiscal Year 2017 Budget Request and 2016 Filing Season Performance

**Information Presented to the Subcommittee on Financial Services and General Government
Committee on Appropriations, United States Senate**

February 24, 2016

(Updated March 8, 2016)

Objectives

You asked us to provide preliminary information on the President's fiscal year 2017 budget request for the Internal Revenue Service (IRS) and on IRS's 2016 filing season performance. This briefing describes trends in IRS's

1. budget and operations from fiscal year 2011 through the fiscal year 2017 request, including IRS efforts to strategically manage its budget, and
2. performance in providing taxpayer service during the 2016 filing season to date compared to prior years and interim performance of IRS's processing of individual income tax returns.

Scope and Methodology

- **IRS Budget:** To describe trends in IRS's budget and operations from fiscal year 2011 through the President's fiscal year 2017 request, we reviewed the President's budget request and IRS's congressional justifications for fiscal years 2011 through 2017 as well as IRS planning documents. This time frame was selected to provide 5 years of full year data in addition to current year and requested levels. We also included data from fiscal years 2000 to 2016 appropriations adjusted for inflation for context and we interviewed IRS budget and operations officials.
- **2016 Filing Season Performance:** To describe trends in IRS's performance in providing taxpayer service and processing tax returns, we reviewed IRS filing season performance data for fiscal years 2011 to 2015 and 2016 data through mid-February. We also interviewed IRS officials and selected industry partners—including major tax preparation and software firms who interact with IRS on key aspects of the filing season—on 2016 filing season performance and challenges.
- To assess data reliability, we reviewed IRS data and documentation, assessed documentation for data limitations, and compared those results to our data reliability standards. We determined that the data presented in this report are sufficiently reliable for our purposes. IRS provided technical comments on the content of the briefing which were incorporated, as appropriate.

Results in Brief: IRS Budget

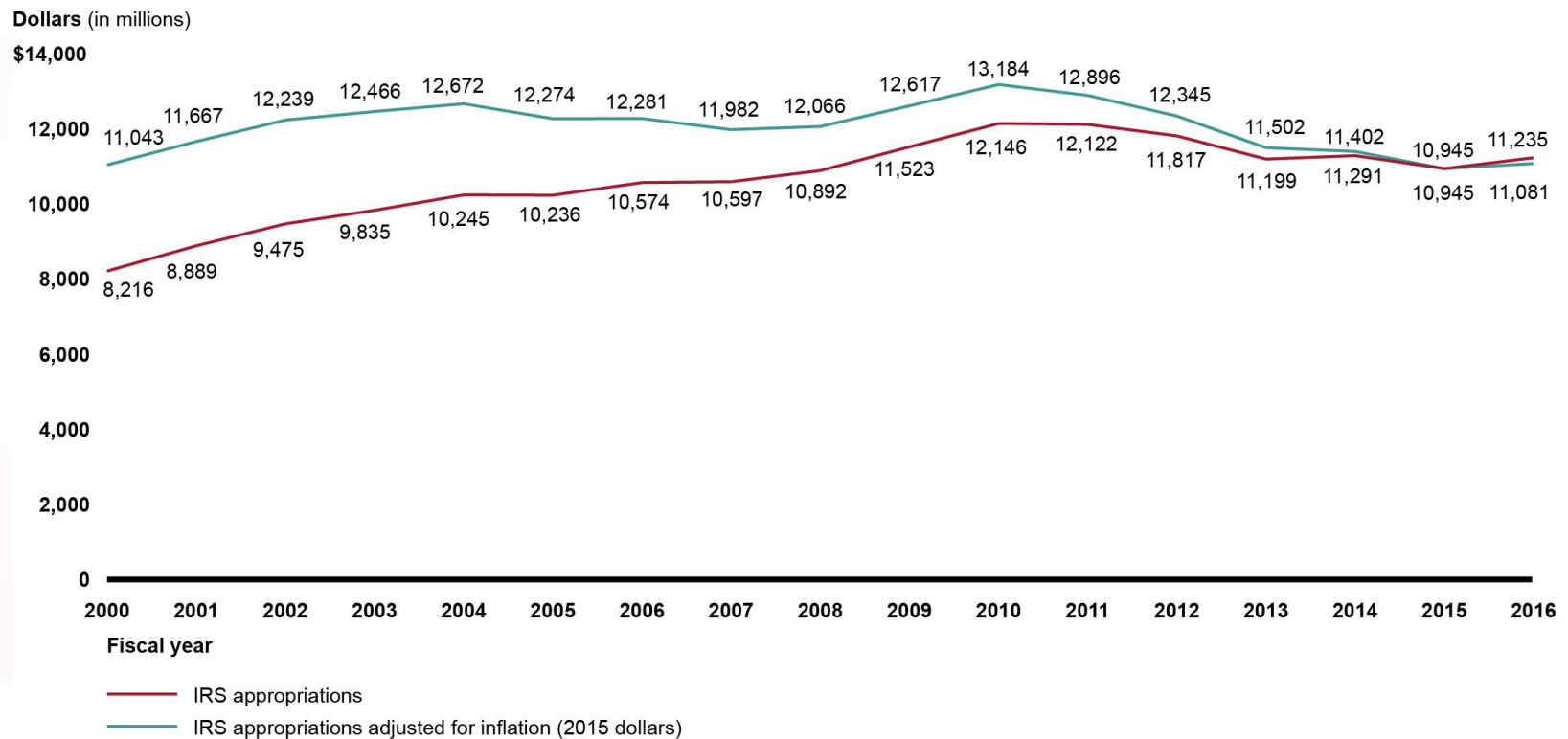
- IRS's fiscal year 2016 appropriation increased by \$290 million to \$11.2 billion over fiscal year 2015 but is about \$900 million (7 percent) lower than fiscal year 2011.
 - IRS allocated the funds across 3 appropriation accounts: Taxpayer Services (\$176.8 million), Operations Support (\$108.2 million), and Enforcement (\$4.9 million).
- For fiscal year 2017, the President requested \$12.3 billion in appropriations, about a \$1 billion increase (9 percent) over fiscal year 2016 enacted levels.
 - This includes \$515 million in a program integrity cap adjustment. Absent legislative approval to spend above the cap, the request is \$11.8 billion, a 5 percent increase.
 - IRS may also allocate other budgetary resources, such as user fee revenue. In fiscal year 2015, transfers of user fees (\$454 million) accounted for 3.8 percent of total available resources (\$11,976 million).
- Full-time equivalents funded with annual appropriations declined by 12,000 (13 percent) between fiscal years 2011 and 2016.
- After years of taking short-term actions such as limiting hiring and curtailing overtime, IRS is taking steps to strategically manage its resources by identifying priorities in formulating its 2017 budget request. Implementing our open recommendations can also help IRS achieve its priorities.

Results in Brief: 2016 Filing Season

- Processing of individual income tax returns in 2016 has gone relatively smoothly through mid-February and IRS anticipates improved taxpayer service due, in part, to the additional funding.
 - Specifically, IRS projects that
 - the percentage of callers seeking live assistance who receive it (level of service) will increase from about 38 percent for fiscal year 2015 to 47 percent for fiscal year 2016—including 65 percent for the filing season, and
 - the average telephone wait time will improve some from about 31 minutes for fiscal year 2015 to about 26 minutes for fiscal year 2016. However, this will still be about twice as long as the wait time for fiscal year 2011.
 - IRS has provided improved telephone service through mid-February compared to the same time last year—level of service was 76 percent (a 33 percentage point increase) while the average wait time dropped to 9 minutes (an improvement of about 70 percent).
- Importantly, improved customer service, including for telephones, can help increase voluntary tax compliance. IRS took steps in 2016—including detailing staff from enforcement to customer service and providing overtime—to help improve service. Finally, IRS is leveraging industry partners to combat identity theft refund fraud and improve cybersecurity efforts to protect taxpayer information.

Adjusting for Inflation, IRS's Appropriations for Fiscal Year 2016 Are Near the Fiscal Year 2000 Level

Figure 1: IRS Appropriations Nominal and Inflation Adjusted (2015 Dollars, in Millions), from Fiscal Years 2000 to 2016



Source: GAO analysis of Congressional Research Service reports for fiscal years 2000 through 2004, Internal Revenue Service Congressional Justifications for Fiscal Years 2005 through 2014, the Consolidated and Further Continuing Appropriations Act, 2015, and the Consolidated Appropriations Act, 2016. Pub. L. No. 113-235, 128 Stat. 2130 (Dec. 16, 2014); Pub. L. No. 114-113, 129 Stat. 2242 (Dec. 18, 2015). | GAO-16-459R

Note: Inflation adjustments were made using Bureau of Economic Analysis data and CBO projections of the fiscal year chain weighted GDP price index.

IRS's Fiscal Year 2016 Appropriations Increased \$290 Million From Prior Year

Fiscal Year 2016 Increase

- IRS was required to allocate the funds across 3 areas:
 - taxpayer services,
 - cybersecurity, and
 - identity theft prevention.
- Cybersecurity efforts protect taxpayer information from unauthorized access and interference of operations while identity theft refund fraud is the use of stolen taxpayer information to fraudulently obtain a refund.

Appropriation Account

Table 1: IRS Allocation of \$290 Million Increase in Appropriations from Fiscal Years 2015 to 2016 (Dollars in Millions)

| | Areas of Increase | | | Total |
|--------------------|------------------------|-----------------------|---------------------------|------------------------|
| | Taxpayer Services | Cybersecurity | Identity Theft Prevention | |
| Taxpayer Services | \$176.6 | - | \$0.2 | \$176.8 (61%) |
| Operations Support | 1.8 | 95.4 | 11.0 | \$108.2 (37.3%) |
| Enforcement | - | - | 4.9 | \$4.9 (1.7%) |
| Total | \$178.4 (61.5%) | \$95.4 (32.9%) | \$16.1 (5.6%) | \$290 (100%) |

Source: GAO analysis of IRS data. | GAO-16-459R

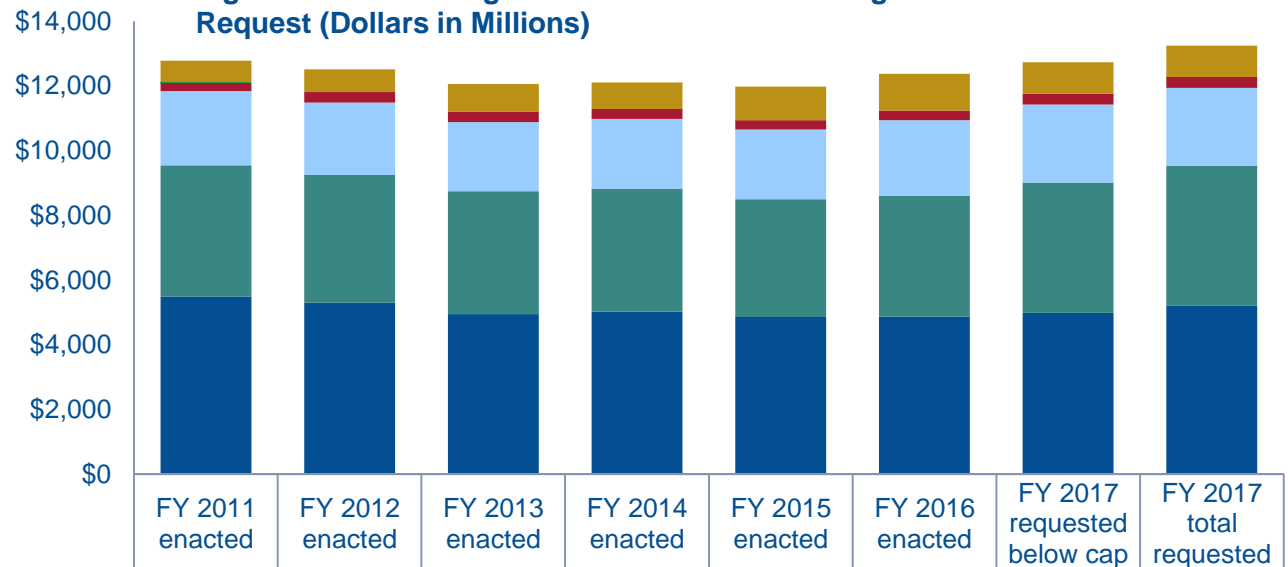
Notes: The Consolidated Appropriations Act of 2016, division E, section 113, gave IRS authority to allocate the \$290 million to the Taxpayer Services, Operations Support, and Enforcement accounts. Some totals do not add due to rounding.

The Fiscal Year 2017 Budget Request for IRS Is \$12.3 Billion, \$11.8 Billion of Which Is Below the Spending Cap

Fiscal Year 2017 Request

- \$12.3 billion, a \$1 billion increase from fiscal year 2016 enacted levels.
- This includes \$515 million in a program integrity cap adjustment.
- Absent legislative approval to spend above the cap, the request is \$11.8 billion, a 5 percent increase.
 - Congress passes cap adjustments to allow additional funding above discretionary spending limits for certain activities that are expected to generate benefits that exceed cost.

Figure 2: IRS Funding In Fiscal Years 2011 through 2016 and 2017 Request (Dollars in Millions)



| | FY 2011 enacted | FY 2012 enacted | FY 2013 enacted | FY 2014 enacted | FY 2015 enacted | FY 2016 enacted | FY 2017 requested below cap | FY 2017 total requested |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------------------|-------------------------|
| Total budgetary resources | \$12,777 | \$12,512 | \$12,053 | \$12,106 | \$11,976 | \$12,374 | \$12,730 | \$13,245 |
| Annually appropriated resources | 12,122 | 11,817 | 11,199 | 11,291 | 10,945 | 11,235 | 11,765 | 12,280 |
| Other resources, such as user fees | 655 | 695 | 855 | 815 | 1,031 | 1,139 | 965 | 965 |
| Health Insurance Tax Credit Administration | 15 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Business Systems Modernization | 263 | 330 | 313 | 313 | 290 | 290 | 343 | 343 |
| Taxpayer Services | 2,293 | 2,240 | 2,136 | 2,157 | 2,157 | 2,333 | 2,406 | 2,406 |
| Operations Support | 4,057 | 3,947 | 3,801 | 3,799 | \$3,638 | 3,747 | 4,031 | 4,314 |
| Enforcement | 5,493 | 5,299 | 4,949 | 5,022 | 4,860 | 4,865 | 4,985 | 5,216 |

Source: Congressional budget justifications for IRS, fiscal years 2013 through 2017. | GAO-16-459R

Notes: FY = fiscal year. Dollars are nominal and not adjusted for inflation, and numbers may not add due to rounding.

The Consolidated Appropriations Act of 2016, division E, section 113, gave IRS authority to allocate the \$290 million to the Taxpayer Services, Operations Support, and Enforcement accounts.

Fiscal year 2013 enacted represents the operating level after applying across-the-board rescission and reductions required by sequestration.

In fiscal year 2012 and thereafter, amounts appropriated for Health Insurance Tax Credit Administration, which had been a separate account, were moved to the Taxpayer Services appropriation.

FTEs Funded with Annual Appropriations Declined by 12,000 (13 Percent) Between Fiscal Years 2011 and 2016

Fiscal Year 2016 Staffing Projections

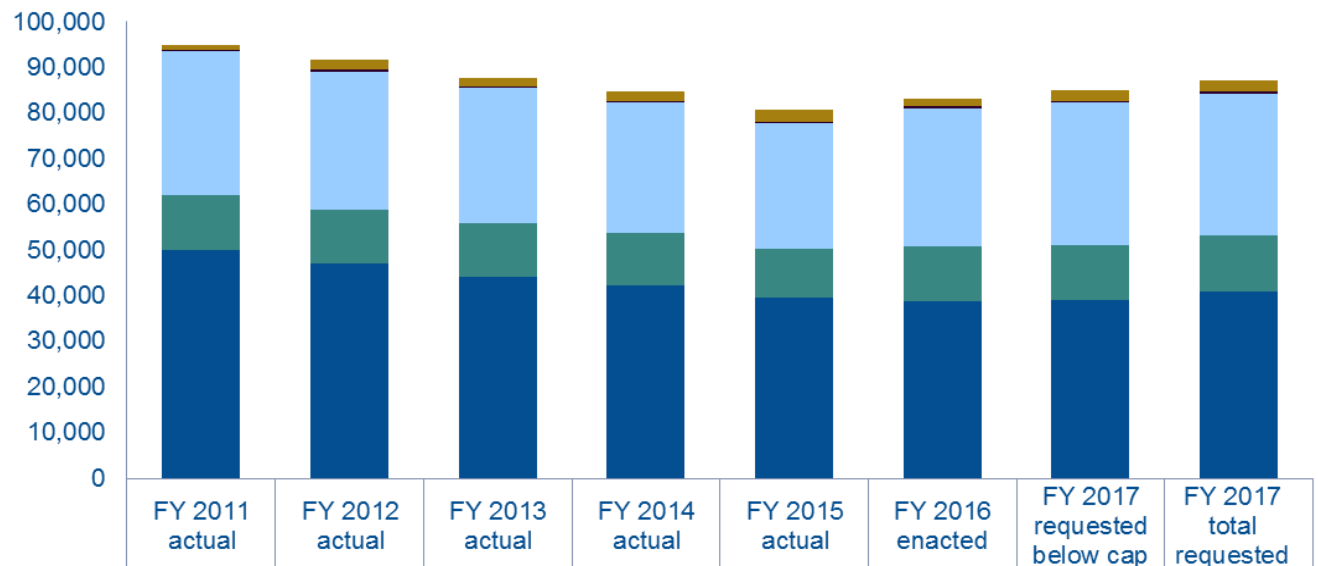
Note: These projections do not include FTEs funded with the \$290 million increase.

- IRS projects that FTEs funded with annual appropriations will be 76,930—over 4,600 FTEs (6 percent) below enacted levels.
- Most of the decline is in the Taxpayer Services account where IRS projects 3,450 (11 percent) fewer FTEs than enacted.
- IRS attributes this decline to mandatory cost increases which caused IRS to continue hiring restrictions.

Fiscal Year 2017 Staffing Request

- Over 84,800 FTEs, a 4 percent increase from the fiscal year 2016 enacted level.
- The largest requested increase is for over 2,000 FTEs (6 percent) for Enforcement. Staffing for Enforcement has decreased by over 22 percent (over 10,000 FTEs) between fiscal years 2011 and 2016.

Figure 3: IRS Full-time Equivalents, Fiscal Years 2011 through 2015 Actual, 2016 Enacted, and 2017 Requested



| | FY 2011 actual | FY 2012 actual | FY 2013 actual | FY 2014 actual | FY 2015 actual | FY 2016 enacted | FY 2017 requested below cap | FY 2017 total requested |
|--|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------------------|-------------------------|
| Total FTEs | 94,909 | 91,671 | 87,765 | 84,761 | 80,792 | 83,105 | 84,898 | 87,022 |
| Total FTEs funded with annual appropriations | 93,906 | 89,486 | 85,881 | 82,643 | 78,107 | 81,572 | 82,679 | 84,803 |
| FTEs funded with other resources | 1,003 | 2,185 | 1,884 | 2,118 | 2,685 | 1,533 | 2,219 | 2,219 |
| Business Systems Modernization | 309 | 562 | 451 | 337 | 309 | 440 | 469 | 469 |
| Taxpayer Services | 31,574 | 30,236 | 29,646 | 28,535 | 27,476 | 30,370 | 31,056 | 31,056 |
| Operations Support | 12,103 | 11,499 | 11,610 | 11,652 | 10,614 | 11,922 | 12,013 | 12,250 |
| Enforcement | 49,920 | 47,189 | 44,174 | 42,119 | 39,708 | 38,840 | 39,141 | 41,028 |

Source: Congressional budget justifications for IRS, fiscal years 2013 through 2017. | GAO-16-459R

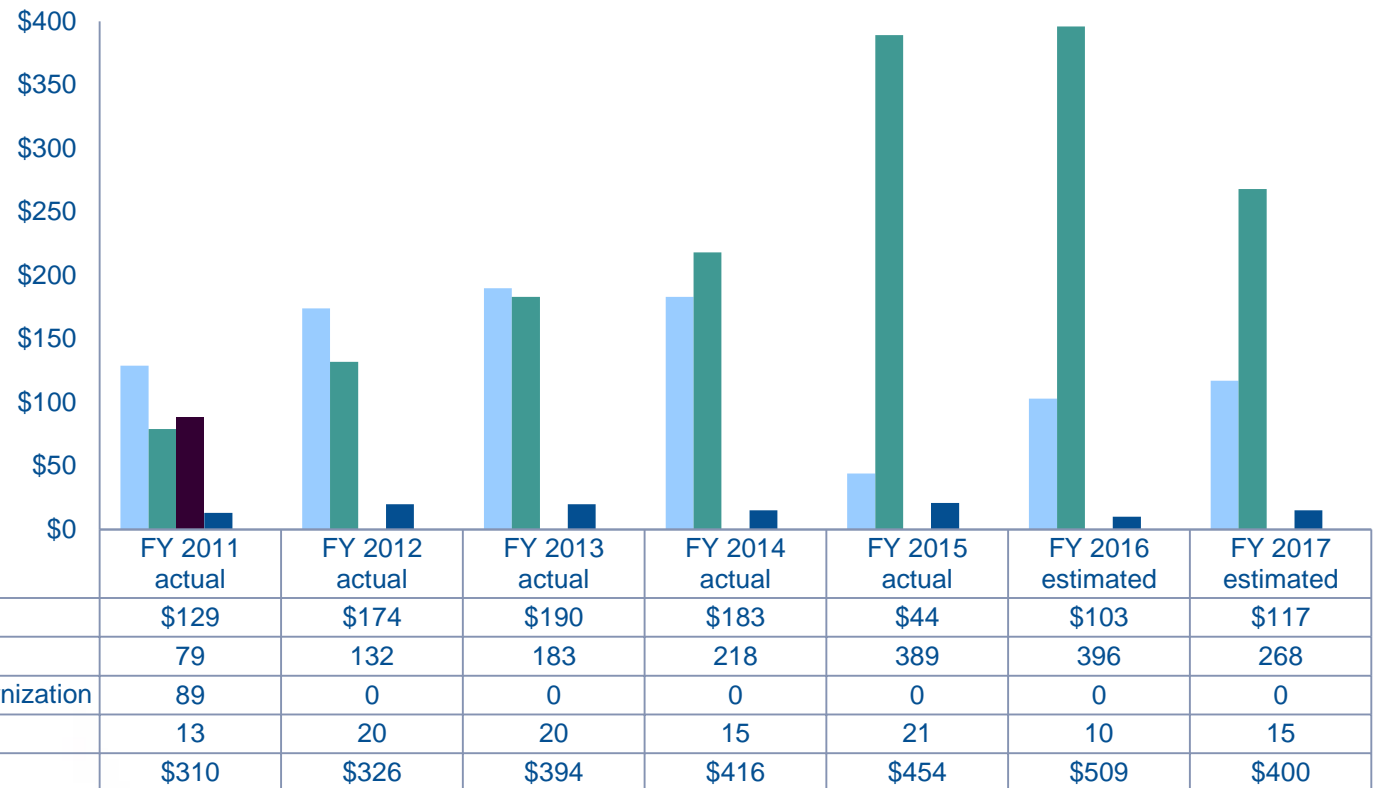
Notes: FY = fiscal year. FTE = full-time equivalent. Total FTEs include FTEs funded with other budgetary resources, such as user fees. The administrative resources for the Health Insurance Tax Credit Administration were moved to the Taxpayer Services appropriation.

IRS Used Its Flexibility in Spending User Fee Revenue to Increase Operations Support Funding

IRS User Fees

- IRS's services and operations are primarily funded through annual appropriations. However, IRS has the statutory authority to supplement its appropriations with other resources, such as user fees.
- In fiscal year 2015, transfers of user fees (\$454 million) accounted for 3.8 percent of total available resources (\$11,976 million).
- IRS carried over an unobligated balance of \$194 million in user fees from fiscal year 2015 and available for obligation in 2016. We have suggested that carryovers are one way agencies can sustain operations in the event of a sharp downturn in collections (see GAO-08-386SP).
- From fiscal years 2014 to 2015, IRS
 - increased transfers to Operations Support by \$171 million, and
 - decreased transfers to Taxpayer Services by \$139 million.

Figure 4: IRS User Fee Transfers to Appropriation Accounts, Fiscal Years 2011 through 2015 Actual, and 2016 and 2017 Estimated (Dollars in Millions)

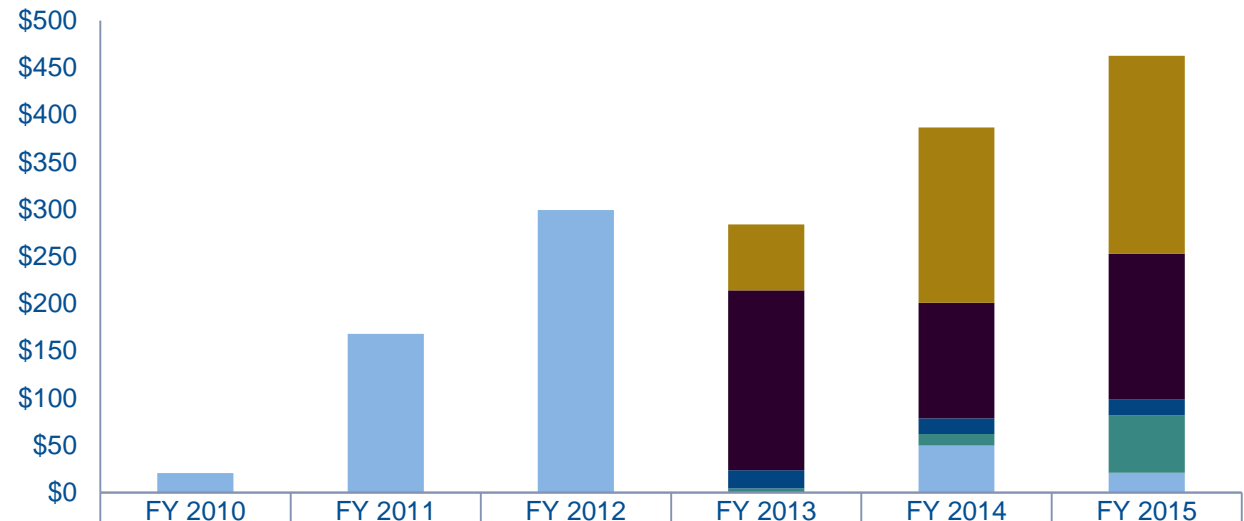


User Fee Revenue Funded Almost Half of Patient Protection and Affordable Care Act (PPACA) Spending in Fiscal Years 2014 and 2015

Fiscal Year 2017 Budget Request

- IRS requested \$402.4 million for PPACA, almost double the fiscal year 2016 enacted amount of \$204.6 million, but about \$60 million less than IRS spent in fiscal year 2015.
- IRS requested over 2,400 full-time equivalents to implement PPACA.

Figure 5: Patient Protection and Affordable Care Act Spending by Account, Fiscal Years (FY) 2010 to 2015 (Dollars in Millions)



| Account | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 |
|--|---------|---------|---------|---------|---------|---------|
| Total | \$20.7 | \$168.2 | \$299.2 | \$284.0 | \$386.6 | \$462.5 |
| User Fee Revenue | - | - | - | 69.7 | 185.7 | 209.6 |
| Operations Support | - | - | - | 190.7 | 122.3 | 154.0 |
| Enforcement | - | - | - | 19.3 | 16.6 | 17.4 |
| Taxpayer Services | - | - | - | 4.3 | 12.1 | 60.5 |
| Department of Health and Human Services, Health Insurance Reform Implementation Fund | \$20.7 | \$168.2 | \$299.2 | - | \$49.9 | \$21.0 |

Source: GAO analysis of IRS data. | GAO-16-459R

Notes: FY = fiscal year. PPACA was enacted and subsequently amended by the Health Care and Education Reconciliation Act of 2010. Pub. L. No. 111-148, 124 Stat. 119 (Mar. 23, 2010); Pub. L. No. 111-152, 124 Stat. 1029 (Mar. 30, 2010). IRS's user fee revenue must be transferred to an appropriation account to be obligated.

Implementing Our Open Recommendations Can Help IRS Meet Its Strategic Priorities

- In a December 2015 letter to IRS, we identified 11 of our approximately 200 open recommendations to IRS as being the highest priority for implementation; 10 of these remain open.
 - Three recommendations aimed at improving IRS's budget formulation (GAO-14-605), resource allocation decisions (GAO-13-151), and oversight of the multi-billion dollar information technology (IT) investment (GAO-14-298).
 - Two recommendations (one of which has now been implemented, GAO-14-633) focused on collecting more information to further combat identity theft (GAO-15-119).
 - Four recommendations would help better position IRS to respond to changing business models or make improvements to key programs (GAO-14-732, GAO-14-453, GAO-14-479, and GAO-15-514).
 - Two recommendations would improve taxpayer service (GAO-13-435 and GAO-15-163).
- IRS reported to us that it has identified points of contact for each recommendation and is working internally to respond.
- Implementing these recommendations is a key step in reducing the \$385 billion net tax gap, as well as in strengthening tax administration and service to taxpayers.
- Of the 11 priority recommendations, 6 relate to budget and filing season issues discussed in this briefing.

IRS's Fiscal Year 2017 Congressional Justification Focused on Selected Objectives

Using a new budget formulation process, each IRS operating division submitted initiatives along with the resource needs it believed necessary to achieve its objectives. IRS management then prioritized the initiatives based on their alignment to IRS's strategic plan. IRS established themes to guide its investment strategy and resource allocation, and the budget requests additional funding for:

- Understanding non compliant taxpayer behavior and developing approaches to deter and change it. (Theme 2: \$399 million, all of which is above the spending cap)
- Facilitating voluntary compliance by empowering taxpayers with secure and innovative tools and support. (Theme 1: \$263 million, including \$8 million above the spending cap)
- Maintaining current operating levels, changes to the base (\$167 million, all of which is below the spending cap)
- Driving more agility, efficiency, and effectiveness in IRS operations. (Theme 6: \$121 million, of which \$102 million is above the spending cap)
- Strengthening cybersecurity and eliminating identity theft. (Focus Area: \$90 million, all of which is below the spending cap)

In a change from prior years, the congressional justification did not include details on IRS's overall IT budget. According to IRS, these details will instead be released within 30 days of the release of the President's budget. Under law, the Department of the Treasury is required to submit a Capital Investment Plan by that deadline which includes this data.

Related Priority Recommendations: The 2 recommendations related to budget formulation and resource allocation remain open. Specifically, IRS should develop a long-term strategy to address operations amidst an uncertain budget environment (GAO-14-605), and IRS should adjust resource allocation decisions using actual return on investment data (GAO-13-151).

Tax Return Processing Has Been Generally Smooth through Mid-February

- The 2016 filing season began on time on January 19 and IRS officials said that tax extenders² were implemented without significant challenges. As of February 26, 2016, IRS had processed about 56 million individual tax returns as well as 47 million refunds totaling \$142 billion.
- IRS is processing additional PPACA forms beginning in 2016. According to IRS and industry officials, this change is being implemented smoothly with no significant disruptions reported.
- While IRS experienced a major system failure in February that halted returns processing for about a day, it had minimal effect on overall processing of returns and refunds.
- Industry partners we spoke with agreed that the filing season has proceeded smoothly as of early February and communication with IRS is better than in prior years.

²Protecting Americans from Tax Hikes Act of 2015, Pub. L. No. 114-113, div. Q, 129 Stat. 2242 (Dec. 18, 2015).

IRS Expects Telephone Service and Average Wait Time to Improve for Fiscal Year 2016

Fiscal Year 2016 Management

- IRS is investing \$178.4 million of the \$290 million budget increase on taxpayer services.
- IRS will hire 1,000 seasonal telephone assistants who are expected to begin answering calls in March 2016.

Fiscal Year 2016 Performance

With this additional funding, IRS projects an increase in telephone level of service to:

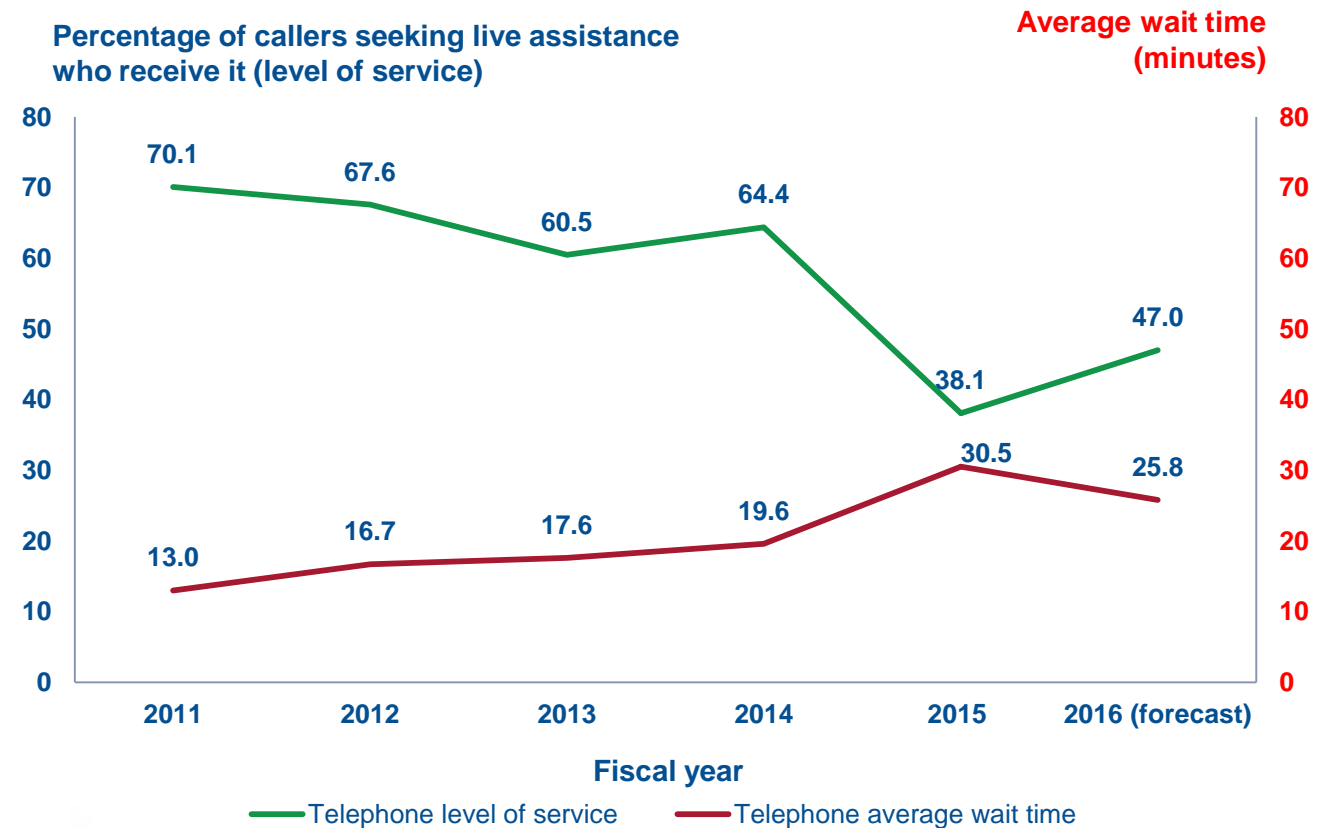
- 65 percent for the filing season, and
- 47 percent for fiscal year 2016.

2016 Filing Season Performance

As of February 13, compared to the same time in 2015:

- IRS's telephone level of service was 76 percent compared to 43 percent (a 33 percentage point increase), and
- average wait time was 9 minutes compared to 28 minutes (an improvement of about 70 percent).

Figure 6: IRS Telephone Level of Service and Average Telephone Wait Time, Fiscal Year 2011 through Fiscal Year 2016 Performance Forecast



IRS Took Steps to Improve Telephone Service in 2016

IRS took the following steps to achieve a higher level of telephone service in 2016:

- IRS plans to use 200 FTEs from one of its compliance functions to answer telephone calls in 2016. IRS officials believe this step was necessary because funding came too late in the year to hire and train assistors to cover the filing season. Improved customer service can positively affect voluntary tax compliance.
- IRS plans to provide 600 FTEs of overtime for assistors to respond to correspondence and telephone calls in fiscal year 2016 compared to fewer than 60 FTEs for all of fiscal year 2015.

Related Priority Recommendations: Both priority recommendations related to taxpayer services remain open.

- In December 2014, we recommended that IRS systematically and periodically compare its telephone service to the best in business to identify gaps between actual and desired performance (GAO-15-163). IRS disagreed with this recommendation, noting that it is difficult to identify comparable organizations with a size or scope similar to that of the IRS. We disagree that such comparisons cannot be made and believe this recommendation should be implemented. In fall 2015, Treasury and IRS officials said they had no plans to develop a comprehensive customer service strategy or specific goals for telephone service tied to the best in the business and customer expectations. Without such a strategy, Treasury and IRS can neither measure nor effectively communicate to Congress the types and levels of customer service taxpayers should expect and the resources needed to reach those levels. Therefore, in December 2015 we suggested that Congress consider requiring that Treasury work with IRS to develop a comprehensive customer service strategy (GAO-16-151).
- IRS plans to start implementing an online account component in 2016, but we have recommended that IRS develop a long-term strategy to improve web services (GAO-13-435). A long-term strategy will help IRS maximize the benefit to taxpayers and reduce costs.

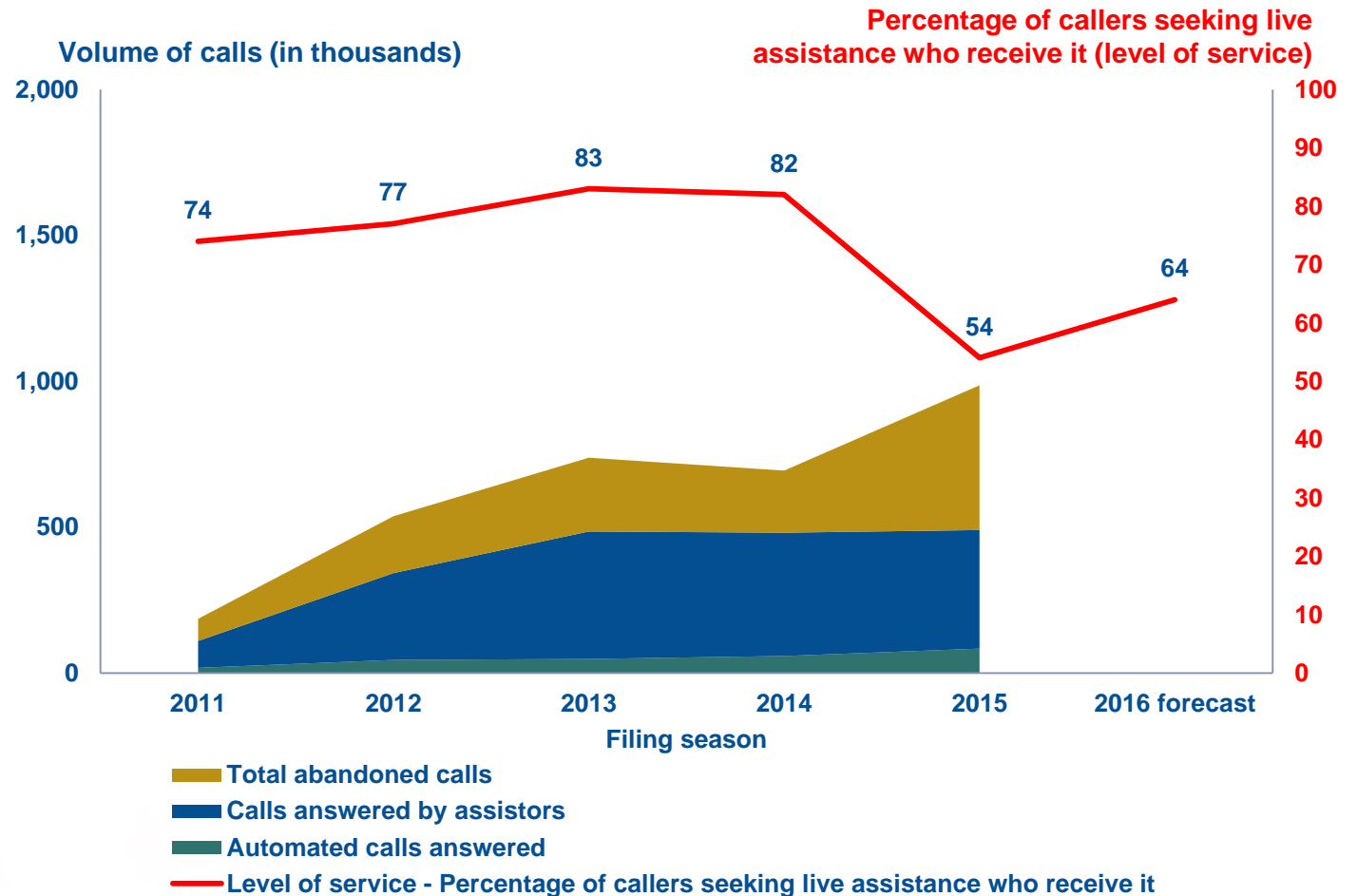
IRS Plans to Improve Service on Identity Theft Calls After a Volume Increase of 430 Percent Between Filing Seasons 2011 and 2015

Figure 7: IRS Identity Theft Call Volume and Performance for Filing Seasons 2011 through 2015 and 2016 Performance Forecast

2016 Performance
 IRS expects telephone access for its Identity Protection Specialized Unit to be 57 percent for the fiscal year and 64 percent during the filing season.

Prior Years Performance

- Average wait time significantly increased from about 8 to 31 minutes (or about 290 percent) between fiscal years 2011 and 2015.
- Total volume increased from about 185,600 to 986,100 calls (431 percent) between the 2011 and 2015 filing seasons.



Source: GAO analysis of IRS data. | GAO-16-459R
 Note: Data are cumulative from January 1 of each year to April 2, 2011; March 31, 2012; March 30, 2013; March 29, 2014; March 28, 2015.
 IRS did not forecast all 2016 call volume data.

IRS Is Leveraging Industry Partners to Combat Ongoing Identity Theft Challenges

Identity Theft Prevention Spending

- In fiscal year 2016: IRS is investing \$16.1 million (of the \$290 million funding increase) to implement action items from the 2015 Security Summit.
- For fiscal year 2017, IRS requested \$90 million for identity theft prevention.

For additional information about identity theft related fraud, see GAO-15-119.

- IRS convened a Security Summit in 2015 to leverage industry—including tax preparation companies, state tax agencies, and others—to combat identity theft.
- IRS is taking action on key items from the summit including:
 - collecting additional data for fraud filters,
 - forming active working groups for ongoing efforts, and
 - conducting educational campaigns.

Related Priority Recommendations: IRS has implemented 1 priority recommendation related to identity theft and 1 remains open.

- IRS implemented the recommendation to assess the costs and benefits of accelerating W-2 deadlines (GAO-14-633). IRS concluded that the federal government could potentially protect billions of dollars in net revenue by using W-2 information to detect identity theft refund fraud before issuing refunds.
- As of November 2015, IRS officials told us that they have yet to implement our recommendation that IRS assess taxpayer authentication options to further combat refund fraud and noted that the agency has developed guidance for its Identity Assurance Office to assess costs, benefits, and risks, and that its analysis will inform decision making on authentication-related issues. (GAO-15-119)

Preliminary Observations

IRS's budget is its primary tool for operationalizing its strategic priorities. Given the increase in responsibilities related to identity theft prevention and implementation of numerous mandates, such as those in PPACA, the decline in the budget and staffing levels since fiscal year 2011, and the severe decline in IRS's customer service in fiscal year 2015, it continues to be important that IRS make tough decisions about how to improve. We have reported for several years that IRS needs to dramatically revise its approach to customer service. IRS can continue leveraging industry partners, who play an important role in tax administration, to better serve taxpayers.

Given additional resources in fiscal year 2016, IRS has taken steps to improve service and operations in key areas. However, additional funding is not the only solution. IRS has flexibility in how it allocates resources—including user fee revenue—to ensure that its resources are used effectively. After years of taking short-term actions such as limiting hiring and curtailing overtime, IRS is taking steps to strategically manage its resources by identifying priorities in formulating its 2017 budget request. Further, we have open recommendations to IRS—including 10 priority recommendations—that would help IRS better manage operations and improve taxpayer service.

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's website (www.gao.gov). Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to www.gao.gov and select "E-mail Updates."

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, <http://www.gao.gov/ordering.htm>.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on [Facebook](#), [Flickr](#), [Twitter](#), and [YouTube](#). Subscribe to our [RSS Feeds](#) or [E-mail Updates](#). Listen to our [Podcasts](#). Visit GAO on the web at www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Website: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Katherine Siggerud, Managing Director, siggerudk@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800 U.S. Government Accountability Office, 441 G Street NW, Room 7149 Washington, DC 20548

