U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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

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February 27, 2015

Congressional Requesters

Internal Revenue Service: Observations on IRS's Operations, Planning, and Resources

This letter transmits briefing slides in response to your requests for information based on our ongoing reviews of the fiscal year 2016 budget request for the Internal Revenue Service (IRS) and the 2015 tax filing season. See the enclosed briefing slides which include the information used to brief your staff in February 2015.

Our briefing objectives were to describe (1) trends in IRS's budget and operations for fiscal years 2009 through 2015, including the 2015 filing season to date; (2) key aspects of the President's fiscal year 2016 budget request for IRS; and (3) IRS's actions to strategically manage operations.

To describe trends in IRS's budget and operations, we reviewed the President's budget requests and IRS's congressional justifications for fiscal years 2009 through 2016, reviewed IRS filing season performance data, and interviewed IRS officials on performance and challenges. To describe key aspects of the fiscal year 2016 budget request, we reviewed budget proposals and interviewed IRS officials. To analyze IRS's actions to strategically manage operations, we reviewed planning documents and interviewed IRS officials. We also reviewed prior GAO work that recommended improvements to IRS's strategic management, and we interviewed IRS officials about the status of recommendations. To assess the reliability of IRS's filing season performance data, we interviewed knowledgeable officials about computer systems and data limitations. To assess the reliability of budget numbers presented in the congressional justification, we compared the numbers to those presented in the President's budget. We determined that the data presented in this report were sufficiently reliable for our purposes.

We conducted this performance audit from January 2015 to February 2015 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 2015 appropriation ($10.9 billion) and staffing levels (81,279 full-time equivalents, or FTE) continue a decline that has occurred over several years and are now below fiscal year 2009 levels. Since fiscal year 2010, IRS's annual appropriation has declined by $1.2 billion, and staffing has fallen by about 11,000 FTEs since fiscal year 2009, while the agency's workload has increased for reasons such as a surge in identity theft-related refund fraud and the implementation of key provisions of the Patient Protection and Affordable Care Act (PPACA). In response to budget cuts, IRS has taken steps to reduce staffing costs including extending a hiring freeze and limiting seasonal employment. According to the Commissioner of Internal Revenue, IRS may also furlough employees for 2 days later in the fiscal year. IRS is concerned about filing

season performance, and anticipates it may face some challenges processing returns that claim the Premium Tax Credit—an advanceable, refundable tax credit designed to help eligible individuals and families with low or moderate income afford health insurance purchased through the Health Insurance Marketplace. As a result, IRS expects that some refunds may be delayed. IRS also projects significant declines in telephone level of service—only 38 percent of taxpayers who seek help from a live assistor will receive it and wait times will average almost one hour. IRS cites resource constraints and increased call volume as primary factors contributing to the decline in telephone performance.

- IRS's fiscal year 2016 budget request is $12.9 billion. This amount is almost $2 billion (18 percent) more than IRS's fiscal year 2015 appropriation, and $667 million above the discretionary spending cap. About half of the requested increase is for operations support. The largest requested FTE increase is about 4,000 FTEs for enforcement. The budget request includes $490 million and 2,539 FTEs to implement PPACA.

- Additional funding is not the only solution to performance declines across IRS. Although resources are constrained, IRS has some flexibility in how it allocates resources to ensure that limited resources are utilized as effectively as possible. This environment of constrained resources also highlights the importance of strategically managing operations to make tough choices about which services to continue providing and which services to cut. IRS has begun to plan more strategically. For example, in 2014 the agency established the Planning, Programming and Audit Oversight office to improve coordination of resource decision making and long-term strategic planning. This was, in part, a response to our June 2014 recommendation that IRS develop a long-term strategy to address operations amidst an uncertain budget environment. Further, IRS is developing a 6-year initiative to better understand how taxpayers want to interact with the agency. The initiative's overall goal is to provide taxpayers with secure self-service options and to improve taxpayer service. We have previously recommended additional actions IRS could take to improve operations, plan more strategically, and improve revenue collection. These recommendations included that IRS develop a long-term strategy to improve web services provided to taxpayers. As of February 2015, IRS officials reported that the agency does not have a separate online services strategy. Rather, this strategy is a key component of IRS's Service on Demand strategy, which aims to deliver service improvements across different taxpayer interactions such as individual account assistance, refunds, identity theft, and billings and payments.

Agency Comments

On February 20, 2015, IRS provided technical comments on our findings, which we have incorporated where appropriate.

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As arranged with your offices, unless you publically announce the contents of this report earlier, we plan no further distribution until 4 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 is 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 me at (202) 512-9110 or mctiguej@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 Joanna Stamatiades, Assistant Director; Libby Mixon, Assistant Director; Theodore Alexander; Jeff Arkin; Amy Bowser; James Cook; John Dicken; Mary Evans; Shannon Finnegan; Charles Fox; Robert Gebhart; Melissa King; Kirsten Lauber; Paul Middleton; Susan E. Murphy; Edward Nannenhorn; Sherice Nelson; Sabine Paul; Ellen Rominger; Mark Ryan; Erinn L. Sauer; Cynthia Saunders; Erin Saunders Rath; and James White.

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

Enclosure – 1

List of Requesters

The Honorable Orrin Hatch
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The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate

The Honorable John Boozman
Chairman
The Honorable Chris Coons
Ranking Member
Subcommittee on Financial Services and General Government
Committee on Appropriations
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