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

Prepared for Congressional Requesters

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Accessible Version

Objectives

Our objectives are to provide preliminary information on the President's fiscal year 2016 budget request for the Internal Revenue Service (IRS) and on IRS's 2015 filing season performance. This briefing describes

(1) trends in IRS's budget and operations, focusing on fiscal years 2009 to 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.

Scope and Methodology

- 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 officials on filing season performance and challenges.
- To describe key aspects of the fiscal year 2016 budget request, we focused on budget proposals for funding, staffing, new initiatives, return on investment estimates for enforcement initiatives, and legislative proposals related to our prior work.
- To describe IRS's actions to strategically manage operations, we reviewed planning documents and interviewed IRS officials in the Planning, Programming and Audit Oversight (PPAO) office. We also reviewed our prior work that recommended improvements to IRS's strategic management and interviewed IRS officials about the status of those recommendations.
- For each objective, we interviewed IRS budget and operations management officials. We interviewed IRS officials and determined that the data presented in this report were sufficiently reliable for our purposes.

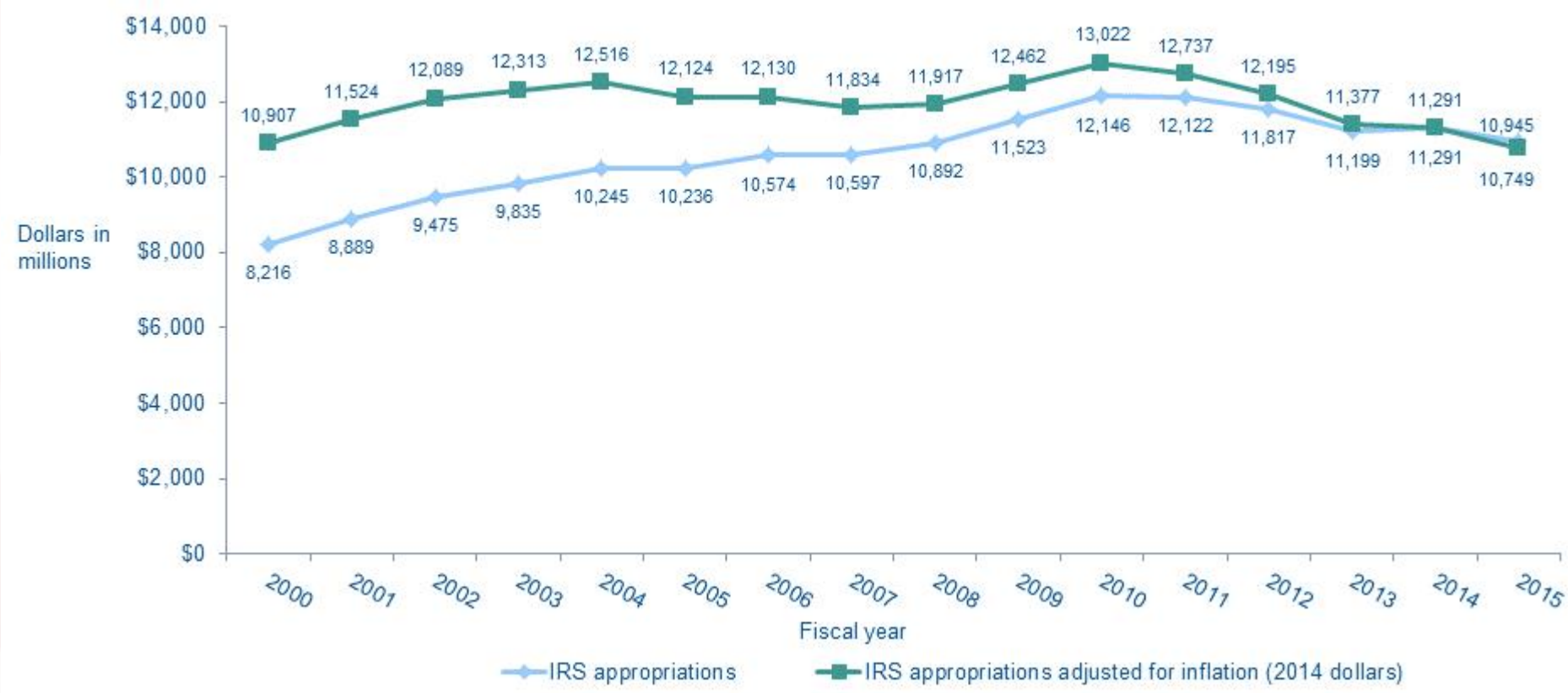
GAO

Results in Brief

- IRS's fiscal year 2015 appropriation ($10.9 billion) and staffing levels (81,279 full-time equivalents) continue a decline that has occurred over recent years and are now below fiscal year 2009 levels.
  - This filing season, IRS expects to face some challenges processing returns that include the Premium Tax Credit (PTC) claim under the Patient Protection and Affordable Care Act (PPACA); this could cause delays in some refunds. IRS projects its telephone level of service (LOS) performance (the percentage of callers seeking live assistance and receiving it) will be about 38 percent and wait times will average about an hour. Finally, identity theft-related refund fraud remains an ongoing challenge.
- For fiscal year 2016, IRS requested $12.9 billion in appropriations, an increase of about $2 billion over fiscal year 2015. This level of funding would support staffing of about 91,000 full-time equivalents (FTEs), an increase of about 11 percent.
- IRS has begun to plan more strategically. For example, in 2014 IRS established the Planning, Programming and Audit Oversight (PPAO) office to better coordinate strategic long-term planning. This was, in part, a response to our prior recommendation that IRS develop a long-term strategy to address operations amidst an uncertain budget environment. IRS is also developing a 6-year strategy to better meet taxpayers' needs and preferences for interacting with the IRS. The strategy's overall goal is to provide secure self-service options for taxpayers and to improve taxpayer service.

Funding Trends: IRS's Fiscal Year 2015 Appropriations are Near the Fiscal Year 2000 Level After Adjusting for Inflation

Figure 1: IRS Appropriations Nominal and Inflation Adjusted (2014 dollars), from Fiscal Year 2000 through Fiscal Year 2015



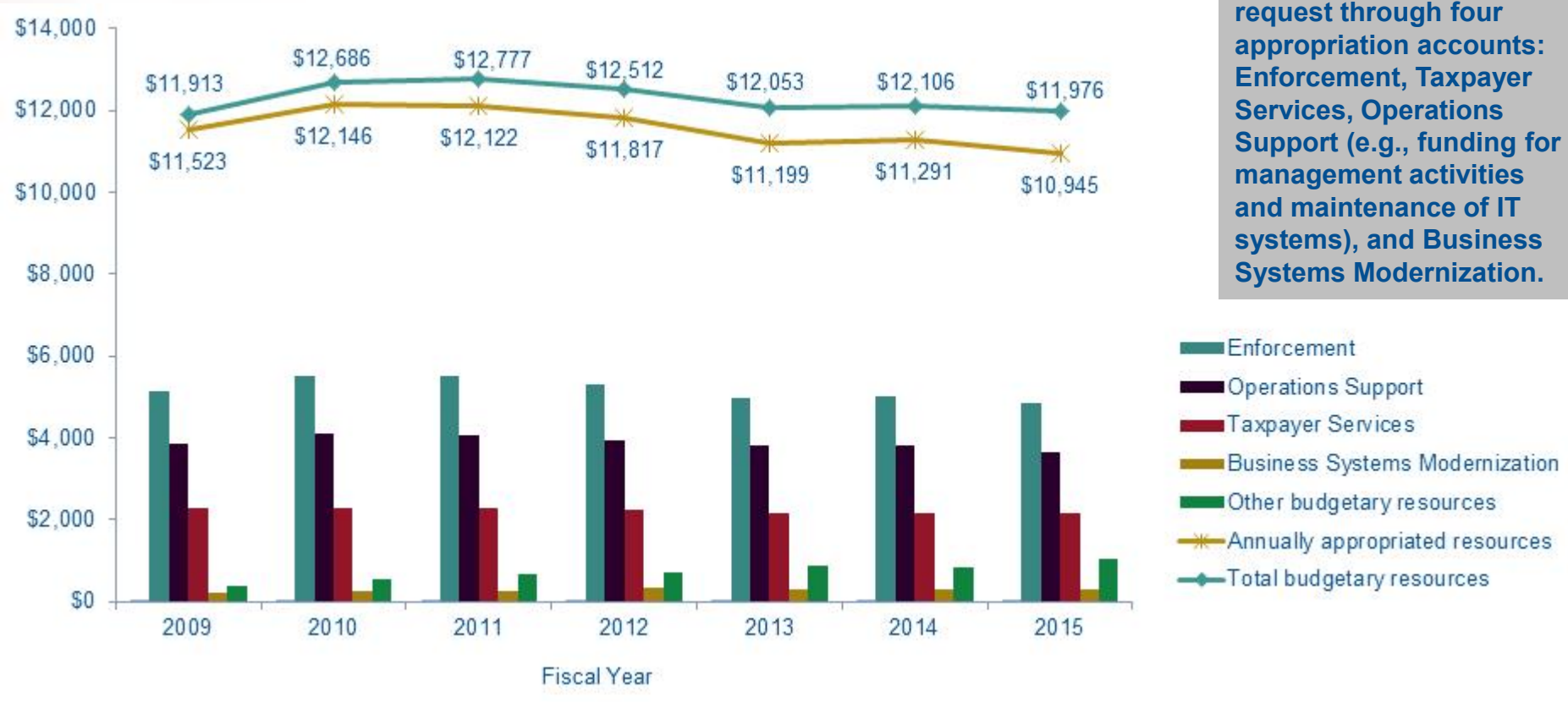
Source: GAO analysis of Congressional Research Service reports for fiscal years 2000 through 2004, Internal Revenue Service congressional justifications for fiscal years 2005 through 2014, and Consolidated and Further Continuing Appropriations Act, 2015, Pub. L. No. 113-235 (Dec. 16, 2014). | GAO-15-420R
Note: Inflation adjustments were made using Bureau of Economic Analysis data and CBO projections of the fiscal year chain weighted GDP price index.

Data Table for Figure 1: IRS Appropriations Nominal and Inflation Adjusted (2014 dollars), from Fiscal Year 2000 through Fiscal Year 2015 (amounts in millions of dollars)

Fiscal year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
IRS appropriations	8,216	8,889	9,475	9,835	10,245	10,236	10,574	10,597	10,892	11,523
IRS inflation adjusted budget	10,907	11,524	12,089	12,313	12,516	12,124	12,130	11,834	11,917	12,462

Funding Trends: IRS's Total Funding Declined to Fiscal Year 2009 Level

Figure 2: IRS Funding, Fiscal Years 2009 through 2015 (dollars in millions)



IRS presents its budget request through four appropriation accounts: Enforcement, Taxpayer Services, Operations Support (e.g., funding for management activities and maintenance of IT systems), and Business Systems Modernization.

Source: Congressional justifications for IRS, fiscal years 2011 through 2016. | GAO-15-420R
Notes: Total budgetary resources includes funds such as user fees and reimbursables. Dollars are nominal and not adjusted for inflation. See appendix I for additional detail.

Data Table for Figure 2: IRS Funding, Fiscal Years 2009 through 2015 (dollars in millions)

2009	2010	2011	2012	2013	2014	2015	FY 2016 requested	Dollar change FY 2015 enacted compared to FY 2016 requested	Percent change FY 2015 enacted compared to FY 2016 requested
$5,117,267	$5,504,000	$5,492,992	$5,299,367	$4,949,178	$5,022,178	$4,860,000	$5,399,832	$539,832	11.11%
$3,867,011	$4,083,884	$4,056,716	$3,947,416	$3,800,943	$3,798,942	$3,638,446	$4,743,258	$1,104,812	30.36%
$2,293,000	$2,278,830	$2,293,272	$2,239,703	$2,135,553	$2,156,554	$2,156,554	$2,408,803	$252,249	11.70%
$229,914	$263,897	$263,369	$330,210	$312,938	$312,938	$290,000	$379,178	$89,178	30.75%
$15,406	$15,512	$15,481							
$11,522,598	$12,146,123	$12,121,830	$11,816,696	$11,198,612	$11,290,612	$10,945,000	$12,931,071	$1,986,071	18.15%
$390,248	$539,382	$654,774	$695,396	$854,624	$814,946	$1,030,947	$991,198	-$39,749	-3.86%
$11,912,846	$12,685,505	$12,776,604	$12,512,092	$12,053,236	$12,105,558	$11,975,947	$13,922,269	$1,946,322	16.25%
$11,522,598	$12,146,123	$12,121,830	$11,816,696	$11,198,612	$11,290,612	$10,945,000	$12,931,071	na	na
$11,912,846	$12,685,505	$12,776,604	$12,512,092	$12,053,236	$12,105,558	$11,975,947	$13,922,269	na	na

Funding Trends: IRS Total FTEs Reduced by 11,166 (12 percent) since Fiscal Year 2009

Figure 3: IRS Full-Time Equivalents (FTE), Fiscal Years 2009 through 2014 Actual and Fiscal Year 2015 Enacted

Notes: Total actual and total enacted full-time equivalents include FTEs funded with other budgetary resources, such as user fees. See appendix II for additional detail.

Data Table for Figure 3: IRS Full-Time Equivalents (FTE), Fiscal Years 2009 through 2014 Actual and Fiscal Year 2015 Enacted

Appropriation account	2009 actual	2010 actual	2011 actual	2012 actual	2013 actual	2014 actual	2015 enacted	Fiscal year 2016 requested	FTE change FY 2015 enacted compared to FY 2016 requested	Percent change FY 2015 enacted compared to FY 2016 requested
Enforcement	47,361	50,400	49,920	47,189	44,174	42,119	40,564	44,800	4,236	10.4
Operations support	12,101	12,262	12,103	11,499	11,610	11,652	12,043	13,863	1,820	15.1
Taxpayer services	32,422	31,607	31,574	30,236	29646	28,535	28,274	31,285	3,011	10.7
Business Systems Modernization	322	337	309	562	451	337	398	576	178	44.7
HITCAa	10	12	0	0	0	0	0	0	0	0
Subtotal actual full-time equivalents	92,216	94,618	93,906	89,486	85,881	82,643	81,279	90,524	9,245	11.4
FTEs funded with other budgetary resources	1,153	752	1,003	2,185	1,884	2,118	924	962	38	4.1
Total actual full-time equivalents	93,369	95,370	94,909	91,671	87,765	84,761	82,203	91,486	9,283	11.3

Funding Trends: Budget Reductions Realized through Multiple Efforts

Figure 4: IRS Savings, Reductions, and Efficiencies, Fiscal Years 2010 through 2013

Fiscal year	Total amount of savings (in millions)	Examples of savings, reductions and efficiencies
2010	$176	• IT contract reductions including renegotiated and restructured contracts: $62 million • Stimulus funding reductions from repurposing dedicated toll free line: $68 million • Increased E-filing savings: $10 million
2011	$277	• IT reductions including decreased and renegotiated contracts: $165 million • Increased E-filing savings: $42 million • Reductions in direct mailing of tax forms: $25 million
2012	$426	• Attrition including hiring freezes and targeted buyouts: $206 million • Reduced IT infrastructure: $79 million • Reduced training and travel: $54 million
2013	$566	• Attrition and furlough reductions including a hiring freeze: $311 million • Contract reductions including decreasing and renegotiating contracts: $64 million • Travel reductions: $56 million

Source: Congressional justifications for IRS, fiscal years 2012 through 2015. | GAO-15-420R

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Funding Trends: IRS Plans to Further Reduce Staffing Costs in Fiscal Year 2015

For fiscal year 2015, IRS is reviewing travel, training and contracting for further cuts, but the agency has determined it will need to cut labor costs, which account for about 76 percent of its budget.

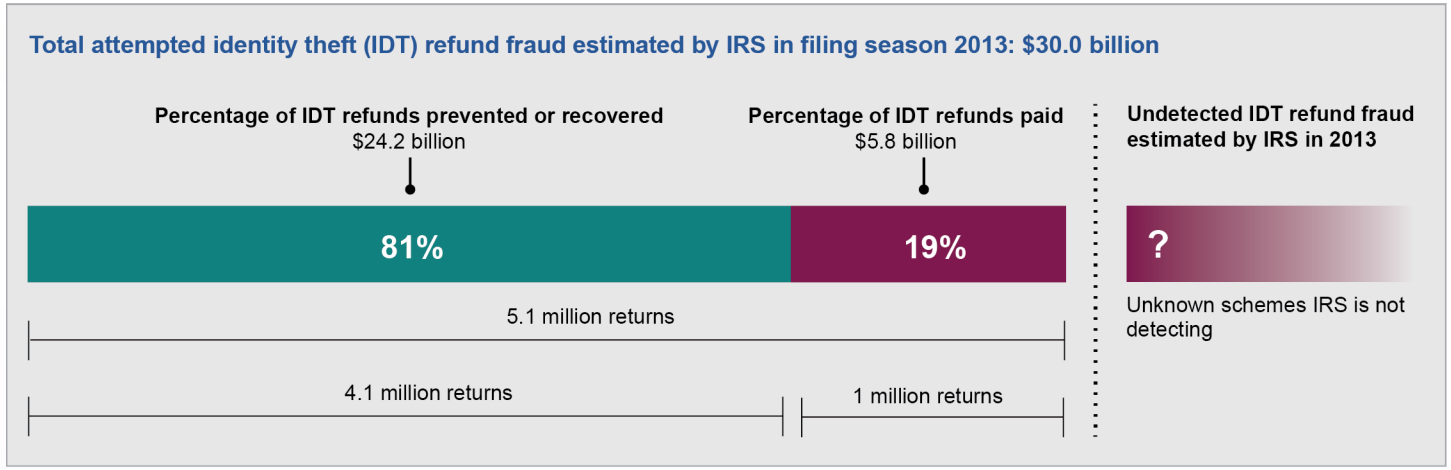
In response to the budget cuts, IRS has taken action to reduce staffing costs and other expenses through the following efforts:

- extending its hiring freeze through fiscal year 2015 and reducing staffing through attrition;
- eliminating most overtime taken by IRS staff;
- planning to limit the number of months it uses seasonal staff for answering telephones and responding to correspondence during and after the 2015 filing season; and
- considering whether to furlough all IRS employees for 2 days later in the fiscal year.

Workload Trends: IRS Increased FTEs Working on Refund Fraud and Identity Theft (IDT) Issues

- IRS increased FTEs allocated towards refund fraud (including IDT) from 1,018 in fiscal year 2011 to 3,993 in fiscal year 2014 (an increase of about 292 percent).
- IRS estimated that $30 billion in IDT refund fraud was attempted in filing season 2013, with about $24.2 billion (81 percent) prevented or recovered and $5.8 billion (19 percent) paid.[1] The full extent is unknown.

Figure 5: Estimated Identity Theft-Related Refund Fraud in Filing Season 2013



Source: GAO analysis of IRS data. | GAO-15-420R

- IRS has taken important steps to prevent IDT refund fraud, including instituting IDT filters. However, IDT refund fraud takes advantage of IRS's "look-back" compliance model. Under this model, rather than holding refunds until completing all compliance checks, IRS issues refunds after conducting selected reviews.

[1]See GAO, *Identity Theft and Tax Fraud: Enhanced Authentication Could Combat Refund Fraud, but IRS Lacks an Estimate of Costs, Benefits and Risks*, GAO-15-119 (Washington, D.C.: Jan. 20, 2015).

Workload Trends: IRS Increased FTEs to Implement PPACA with Funds from Multiple Accounts

Table 1: Patient Protection and Affordable Care Act Spending by Account, Fiscal Years 2010 to 2015 (dollars in millions)

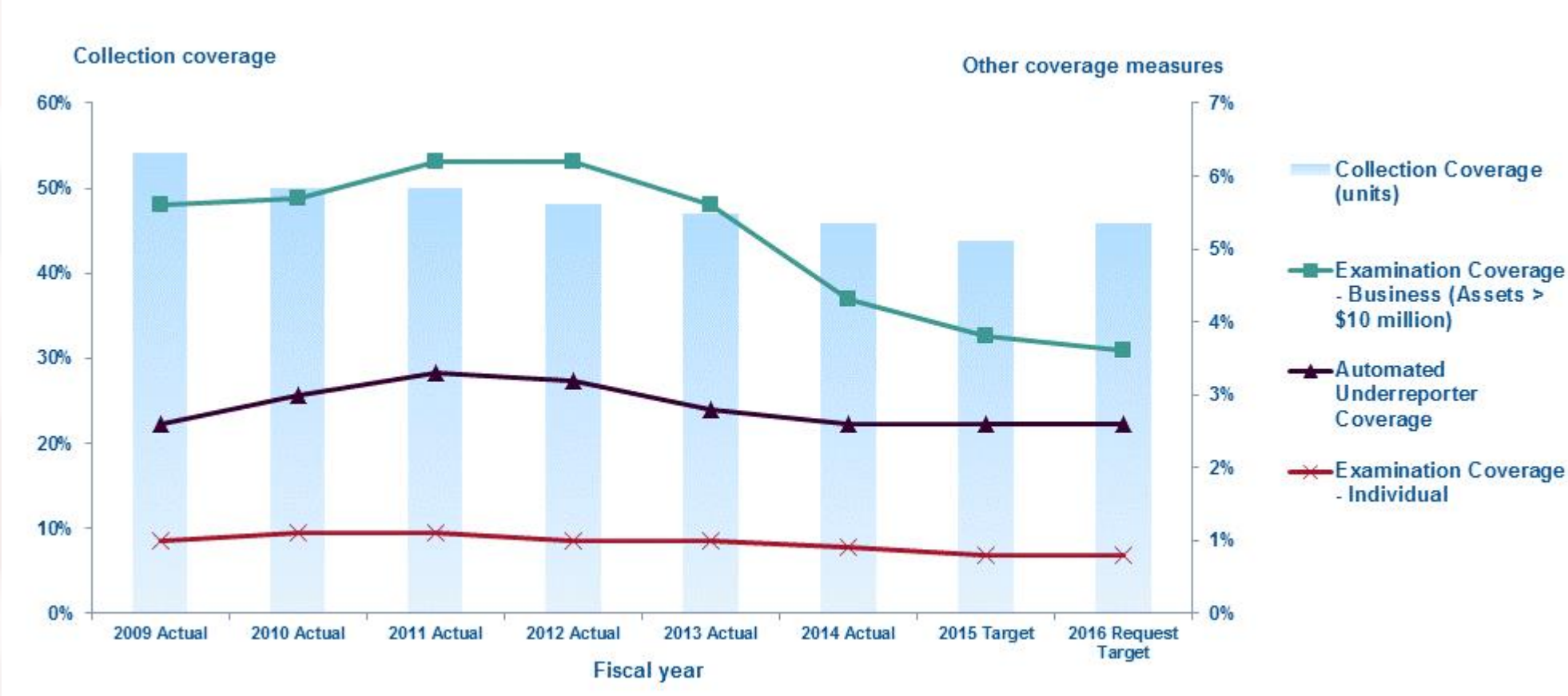
Appropriations account	2010	2011	2012	2013	2014	Total
Department of Health and Human Services, Health Insurance Reform Implementation Fund	$20.7	$168.2	$299.2	-	$49.9	**$538.0**
Taxpayer Services	-	-	-	4.3	12.1	**16.4**
Enforcement	-	-	-	19.3	16.6	**35.9**
Operations Support	-	-	-	190.7	122.3	**313.0**
User Fees	-	-	-	69.7	185.7	**255.4**
Total	**$20.7**	**$168.2**	**$299.2**	**$284.0**	**$386.6**	**$1,158.7**

IRS increased FTEs dedicated to PPACA from approximately 30 in fiscal year 2010 to over 1,200 in fiscal year 2015.

Source: IRS. | GAO-15-420R

Workload Trends: Return Examination and Collection Coverage Measures Show Decline

Figure 6: IRS Exam and Collection Coverage Measures, Fiscal Years 2009 through 2014 Actual and Fiscal Year 2015 and 2016 Targets



Source: GAO analysis of the congressional budget justification for IRS, fiscal year 2016. | GAO-15-420R

Data Table for Figure 6: IRS Exam and Collection Coverage Measures, Fiscal Years 2009 through 2014 Actual and Fiscal Year 2015 and 2016 Targets

Measure	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Target	2016 Request Target
Collection Coverage (units)	54.2%	50.1%	50.0%	48.1%	47.0%	45.9%	43.8%	45.9%
Examination Coverage - Business (Assets > $10 million)	5.6%	5.7%	6.2%	6.2%	5.6%	4.3%	3.8%	3.6%
Automated Underreporter Coverage	2.6%	3.0%	3.3%	3.2%	2.8%	2.6%	2.6%	2.6%
Examination Coverage - Individual	1.0%	1.1%	1.1%	1.0%	1.0%	0.9%	0.8%	0.8%

Filing Season Trends: IRS Anticipates Challenges with Returns That Include Premium Tax Credit (PTC) Claims

- As of February 6, IRS has processed about 27 million individual income tax returns and 20 million refunds totaling $66 billion have been issued.
- Some states discovered attempts to file fraudulent tax returns and stopped accepting or processing returns, but IRS officials said federal returns were not affected.
- IRS officials reported they have not processed many returns claiming the PTC,[2] reporting information required by the Foreign Account Tax Compliance Act (FATCA), or involving the previously expired provisions which Congress renewed at the end of 2014, such as the deduction of mortgage insurance premiums.
- However, IRS officials anticipate challenges with returns that include PTC claims because (1) IRS must reconcile PTC amounts reported by the taxpayer with information reported by marketplaces, and (2) for those taxpayers who received an advance payment of the credit based on the income reported at time of enrollment, IRS must reconcile the income reported at enrollment with income claimed on the tax return, which may result in differences that affect the amount of the taxpayer's refund.

[2]The PTC is 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.

Filing Season Trends: IRS Anticipates Challenges with Returns That Include Premium Tax Credit (PTC) Claims (Cont.)

- Third parties (i.e., the marketplaces) had until February 2 to provide taxpayers with Form 1095-A, *Health Insurance Marketplace Statement*, which taxpayers need to compute the amount of their PTC.
- In addition, IRS does not yet have complete marketplace data from all 50 states and the District of Columbia to proceed with pre-refund matching for PTC claims. As a result, IRS is holding some returns pending receipt of these data.
- IRS does not have Math Error Authority (to quickly correct errors without the need for an audit) specifically for PTC claims. In February 2010, we suggested that Congress provide IRS with broader authority to correct errors.[3] Treasury has also proposed that Congress provide IRS with this authority. Without this authority, IRS must write to the taxpayer to resolve discrepancies, which delays any potential refund. Congress has not taken action on this suggestion.

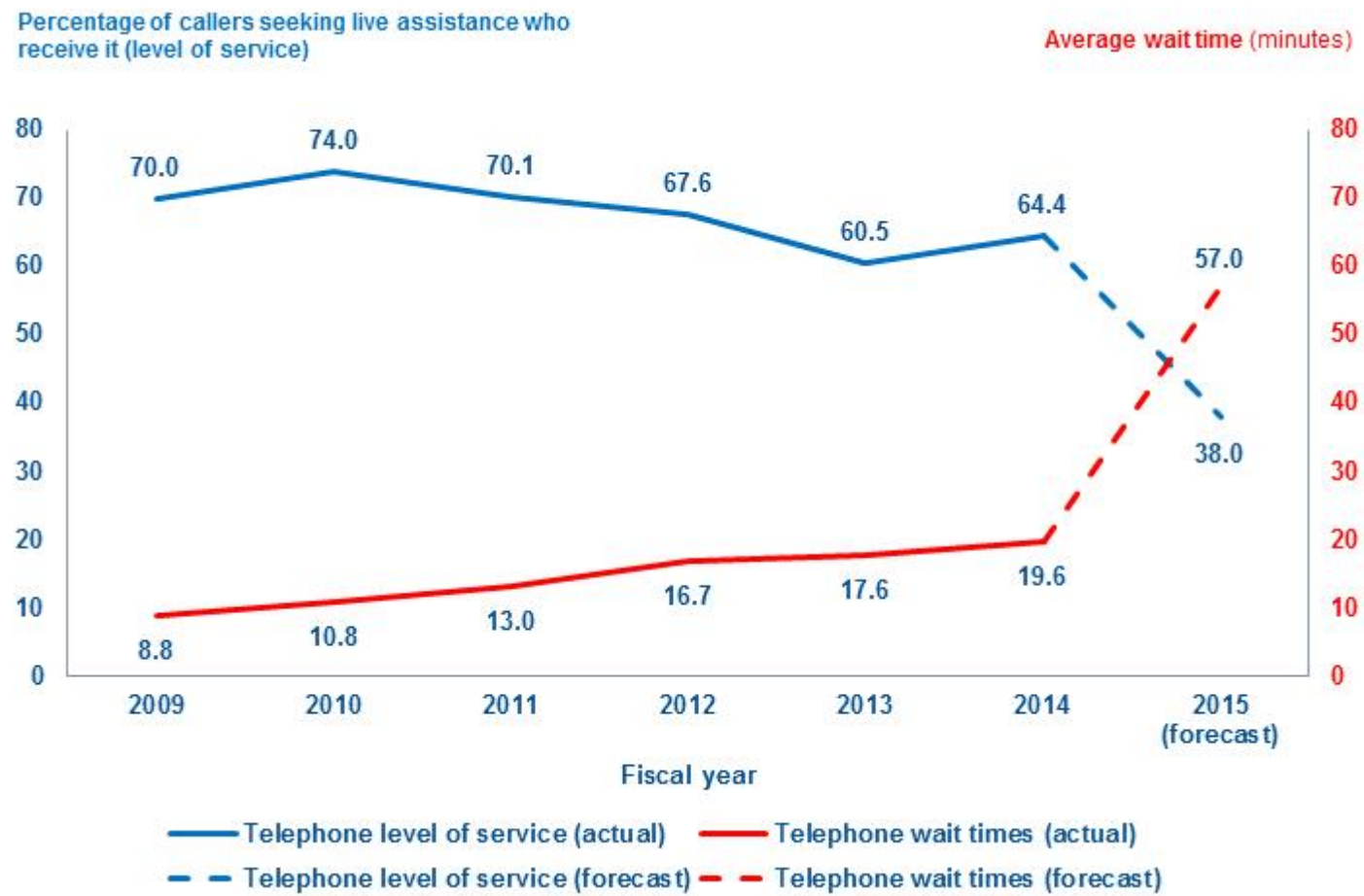
[3]See GAO, *Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed*, GAO-10-349 (Washington, D.C.: February 10, 2010).

Filing Season Trends: IRS Expects Telephone Service to Decline Based on Resource Limitations and Increased Demand for Assistors

- In fiscal year 2015, IRS received approximately the same appropriated funding for taxpayer services as it did in fiscal year 2014. However, IRS is confronted with absorbing other costs that typically occur on an annual basis, such as salary adjustments and increases for inflation.
- IRS expects demand for assistors to increase about 20 percent from fiscal year 2014 (from 39.9 to 48 million) in part due to PPACA-related questions, and expects assistors to answer about 27 percent fewer calls (from about 23.1 to 16.8 million).
- IRS is shifting additional staff to work correspondence earlier in the filing season than in the past. Since IRS uses the same staff to work correspondence and answer telephones, this shift contributed to the expected decrease in telephone level of service (LOS). Further, IRS provides limited interactive services for taxpayers on its website. Therefore, taxpayers with questions about their accounts who do not successfully receive service from the website or an IRS assistor on the phone may have little choice but to send correspondence to IRS or visit a walk-in site, potentially increasing IRS's costs.

Filing Season Trends: IRS Projects Significant Declines in Telephone Service and Average Wait Times of Almost an Hour

Figure 7: IRS Telephone Level of Service and Average Telephone Wait Times, Fiscal Years 2009 through 2014 and Fiscal Year 2015 Forecast



From fiscal years 2014 to 2015, through the first week of February:

- telephone level of service (LOS) decreased from 64.1 to 48.6 percent;
- wait times increased from about 18.7 to 34.4 minutes;
- demand for assistors increased from about 11.3 to 11.6 million calls; and
- assistor-answered calls decreased from about 6.6 to 5.3 million calls.

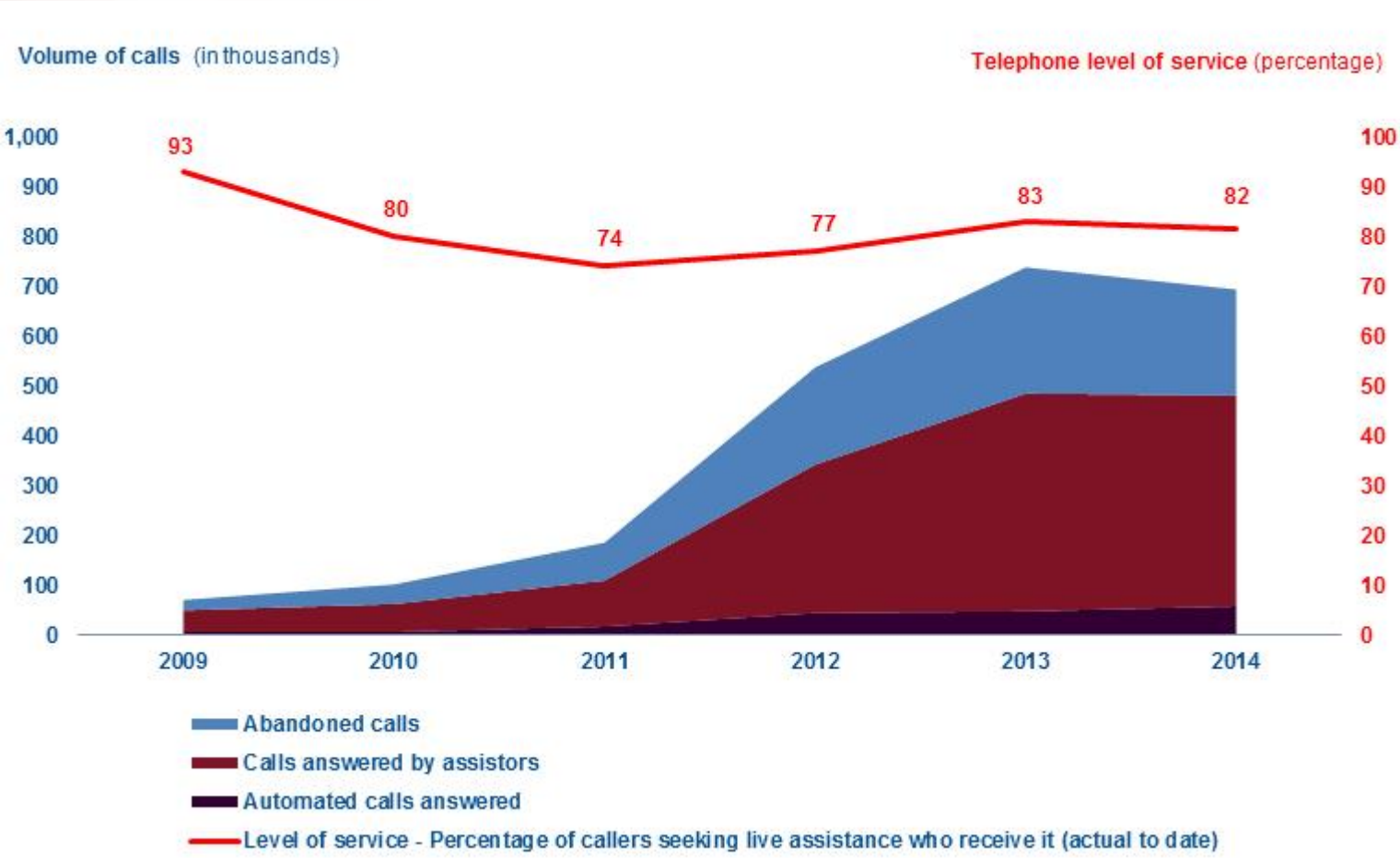
Source: GAO analysis of IRS data. | GAO-15-420R

Data Table for Figure 7: IRS Telephone Level of Service and Average Telephone Wait Times, Fiscal Years 2009 through 2014 and Fiscal Year 2015 Forecast

Category	2009	2010	2011	2012	2013	2014	2015 (forecast)	Percentage change from FY 2014 to FY 2015
Level of service - Percentage of callers seeking live assistance who receive it	70.0	74.0	70.1	67.6	60.5	64.4	57.0	-41.0%
Average wait time (minutes)	8.8	10.8	13.0	16.7	17.6	19.6	38.0	190.8%

Filing Season Trends: IDT Calls During the Filing Season Have Increased Significantly in Recent Years

Figure 8: IRS Identity Theft Call Volume and Performance from January 1 through Late March or Early April, 2009 through 2014 Filing Seasons



- IRS forecasts telephone LOS for its Identity Protection Specialized Unit to be 43 percent in fiscal year 2015, which is greater than the overall telephone LOS.
- Average wait times to date significantly increased from about 1.1 to 12.6 minutes (or over 1,000 percent) from 2009 to 2014.

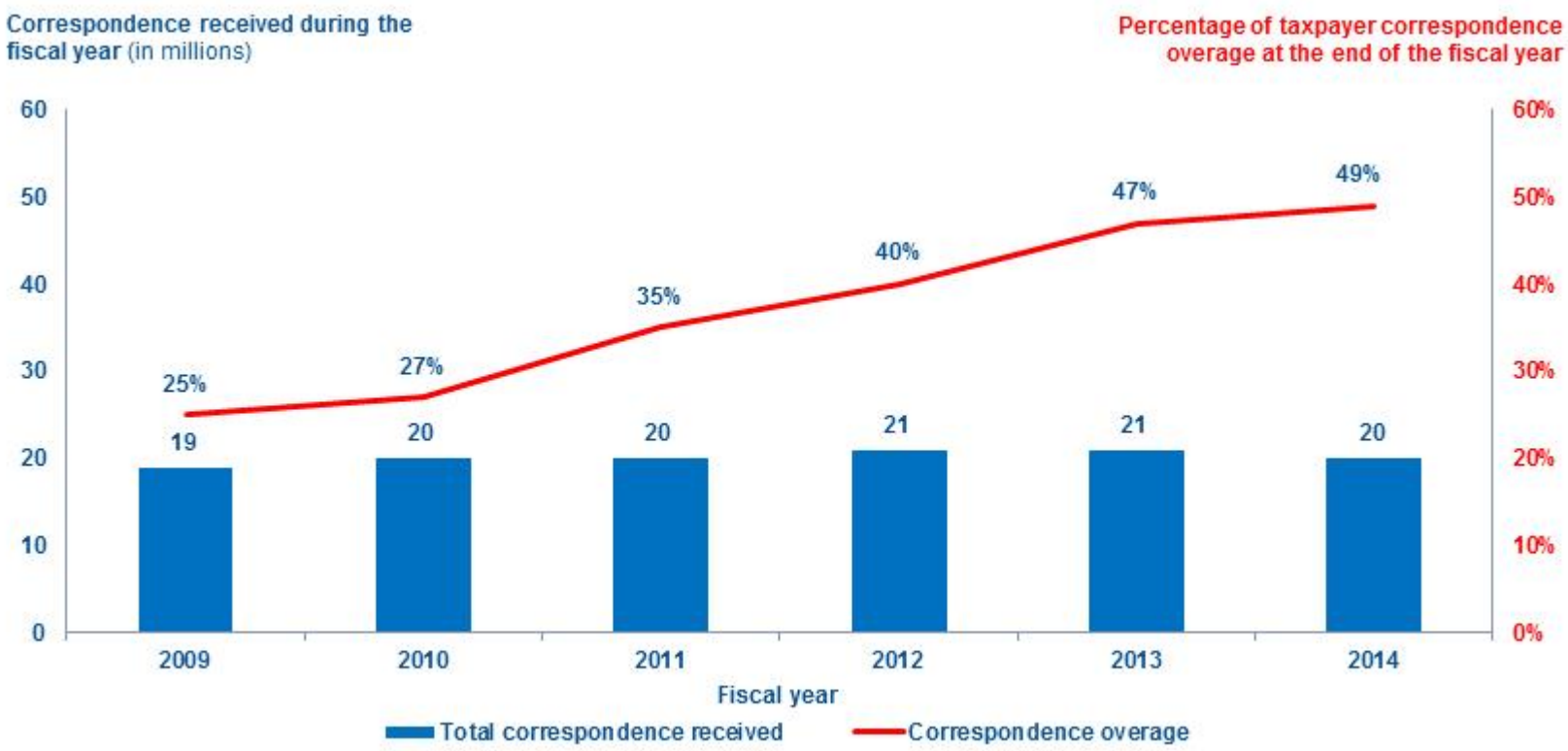
Source: GAO analysis of IRS data. | GAO-15-420R
Note: Dates are cumulative for IRS from January 1 of each year to April 4, 2009; April 3, 2010; April 2, 2011; March 31, 2012; March 30, 2013 and March 29, 2014.

Data Table for Figure 8: IRS Identity Theft Call Volume and Performance from January 1 through Late March or Early April, 2009 through 2014 Filing Seasons

Call volume	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Total calls answered	49,763	62,502	109,713	342,336	484,946	480,882
Automated calls answered	6,216	6,608	17,473	44,590	47,959	58,120
Calls answered by assistors	43,547	55,894	92,240	297,746	436,987	422,762
Abandoned calls	20,797	39,103	75,903	195,000	253,063	212,851
Level of service - Percentage of callers seeking live assistance who receive it (actual to date)	93	80	74	77	83	82
Average wait times (in minutes)	1.1	5.6	10.9	11.0	7.5	12.6

Filing Season Trends: Overage Correspondence Has Almost Doubled Since Fiscal Year 2009

Figure 9: IRS Taxpayer Correspondence Performance, Fiscal Years 2009 through 2014



Overage correspondence is paper correspondence that IRS has not responded to within 45 days of receipt.

Source: GAO analysis of IRS data. | GAO-15-420R

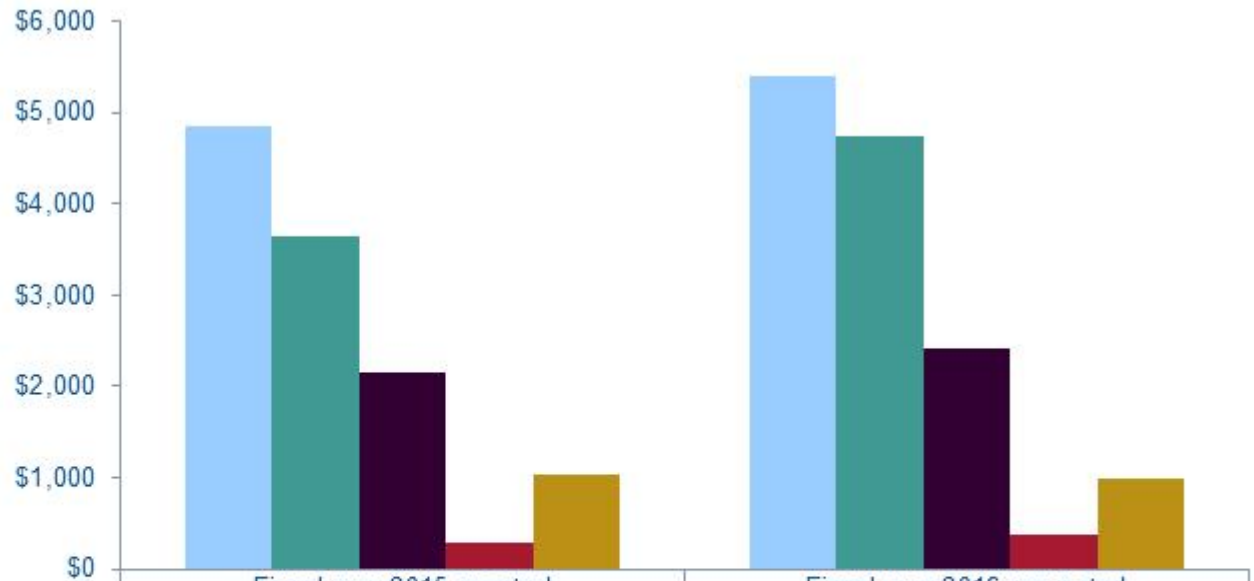
Note: Aggregate data are from two IRS units that jointly handle taxpayer correspondence. The same employees that provide telephone service are also responsible for responding to correspondence. Data cover equivalent periods for each fiscal year with slight variation in the exact dates depending on the year and data source.

Data Table for Figure 9: IRS Taxpayer Correspondence Performance, Fiscal Years 2009 through 2014

Category	2009	2010	2011	2012	2013	2014
Correspondence received during the fiscal year (in millions)	19	20	20	21	21	20
Percentage of taxpayer correspondence overage at the end of the fiscal year	25%	27%	35%	40%	47%	49%

Fiscal Year 2016 Budget Request: The Largest Requested Increase Is $1.1 Billion for Operations Support

Figure 10: Fiscal Year 2015 Funding for IRS Compared to Fiscal Year 2016 Request (dollars in millions)



	Fiscal year 2015 enacted	Fiscal year 2016 requested
Enforcement	$4,860	$5,400
Operations Support	$3,638	$4,743
Taxpayer Services	$2,157	$2,409
Business Systems Modernization	$290	$379
Other budgetary resources	$1,031	$991

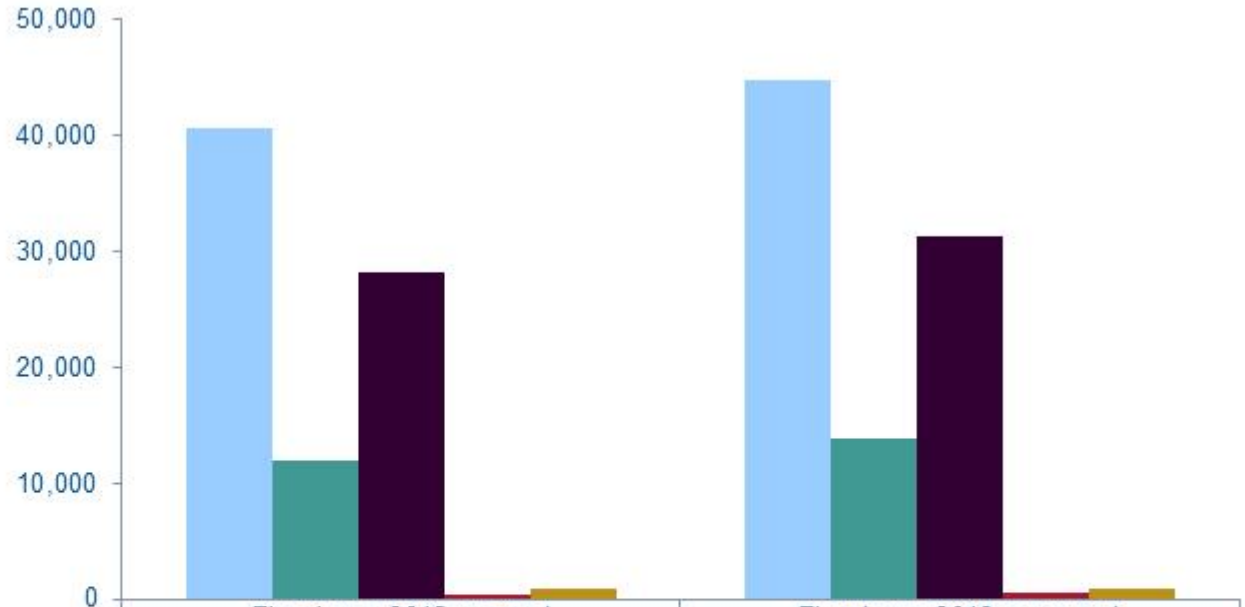
Source: GAO analysis of the Congressional budget justification for IRS, fiscal year 2016. | GAO-15-420R
Note: Other budgetary resources includes funds such as user fees and reimbursables.

Data Table for Figure 10: Fiscal Year 2015 Funding for IRS Compared to Fiscal Year 2016 Request (dollars in millions)

Category	Fiscal year 2015 enacted	Fiscal year 2016 requested	FY16 request - FY15 enacted
Enforcement	$4,860	$5,400	$540
Operations Support	$3,638	$4,743	$1,105
Taxpayer Services	$2,157	$2,409	$252
Business Systems Modernization	$290	$379	$89

Fiscal Year 2016 Budget Request: The Largest FTE Increase Is About 4,000 for Enforcement

Figure 11: Fiscal Year 2015 Enacted Full-Time Equivalents Compared to Fiscal Year 2016 Request



	Fiscal year 2015 enacted	Fiscal year 2016 requested
Enforcement	40,564	44,800
Operations support	12,043	13,863
Taxpayer services	28,274	31,285
Business Systems Modernization	398	576
Other budgetary resources	924	962

Source: GAO analysis of the congressional budget justification for IRS, fiscal year 2016. | GAO-15-420R
Note: Other budgetary resources includes FTEs funded with user fees and reimbursables.

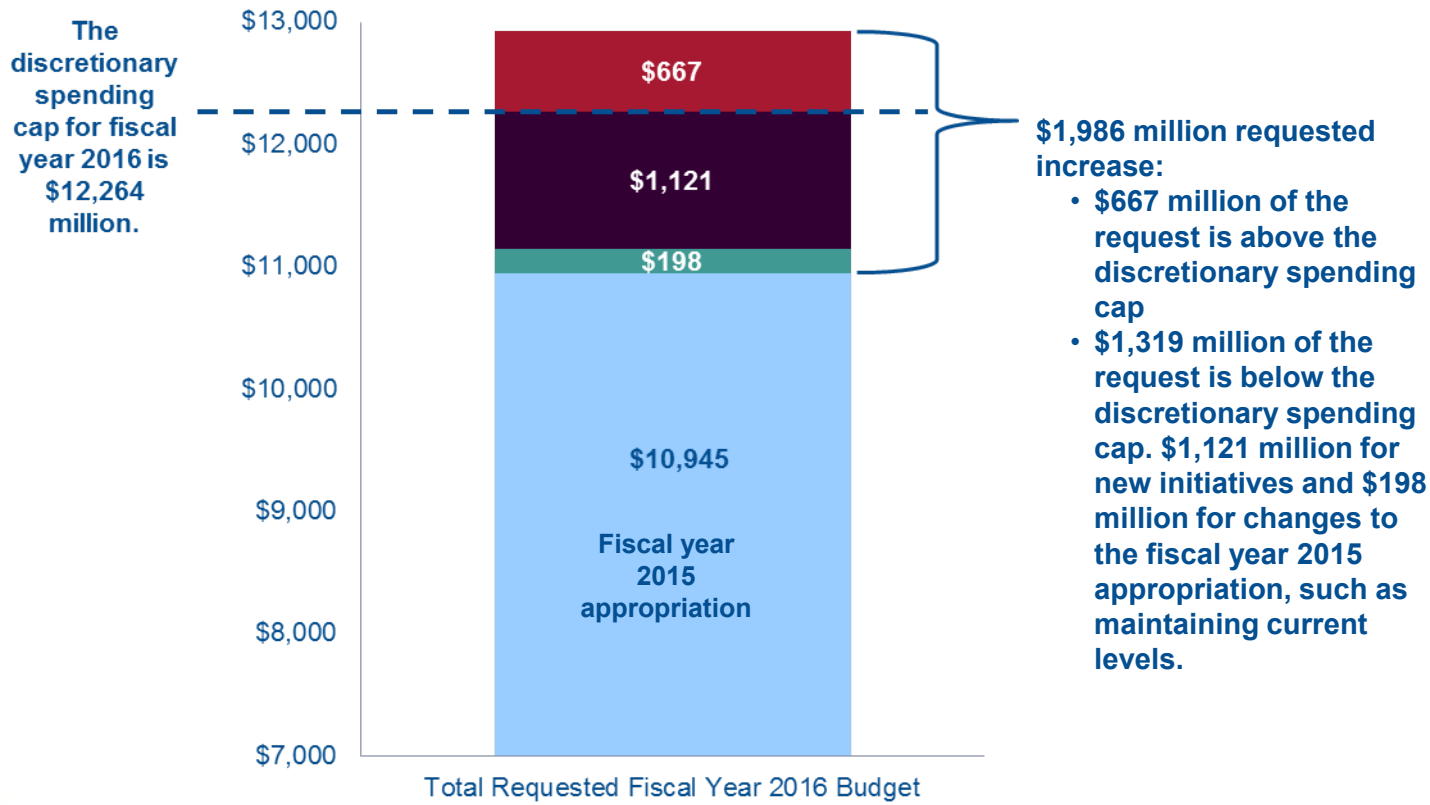
Data Table for Figure 11: Fiscal Year 2015 Enacted Full-Time Equivalents Compared to Fiscal Year 2016 Request

Category	FY 2015 enacted	FY 2016 requested
Enforcement	40,564	44,800
Operations support	12,043	13,863
Taxpayer services	28,274	31,285
Business Systems Modernization	398	576
Other Budgetary resources	924	862

Fiscal Year 2016 Budget Request: Request Is 18 Percent ($2 Billion) Above the Fiscal Year 2015 Appropriation and $667 Million Above the Discretionary Spending Cap

Congress passes program integrity cap adjustments to allow additional funding above discretionary spending limits for certain activities that are expected to generate benefits that exceed cost.

Figure 12: Breakdown of IRS Fiscal Year 2016 Requested Increase (dollars in millions)



Source: GAO analysis of IRS data. | GAO-15-420R
Note: The scale begins at $7,000 million.

Data Table for Figure 12: Breakdown of IRS Fiscal Year 2016 Requested Increase (dollars in millions)

Total Requested Fiscal Year 2016 Budget
$667
$1,121
$198
$10,945

The discretionary spending cap for FY 2016 is $12,264 million .

Fiscal Year 2016 Budget Request: IRS Proposed 14 Enforcement Initiatives

Table 2: Funding Requested for Enforcement Initiatives (dollars in millions)

Description of requested budget increase	FY 2016 Taxpayer services	FY 2016 Enforcement	FY 2016 Operations support	FY 2016 Business Systems Modernization	Total[a]
New enforcement initiatives below the cap	**$0.1**	**$107**	**$66**	**-**	**$172**
Implement Foreign Account Tax Compliance Act	-	34	37	-	71
Address Impact of Affordable Care Act Statutory Requirements	0.1	45	22	-	67
Implement Merchant Card and Basis Matching	-	28	6	-	34
New enforcement initiatives above the cap	**-**	**352**	**203**	**-**	**555**
Prevent Identity Theft and Refund Fraud	-	48	34	-	82
Increase Audit Coverage	-	97	64	-	162
Improve Audit Coverage of Large Partnerships	-	14	3	-	16
Address International and Offshore Compliance Issues	-	35	5	-	41
Enhance Collection Coverage	-	83	40	-	123
Leverage Data to Improve Case Selection	-	5	34	-	39
Address Compliance Risks in the Tax-Exempt Sector	-	16	8	-	23
Pursue Employment Tax and Abusive Tax Schemes	-	9	9	-	17
Enhance Investigations of Transnational Organized Crime	-	37	5	-	43
Ensure Ethical Standards of Conduct for Practitioners	-	3	.9	-	4
Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities	-	5	-	-	5
New non-enforcement initiatives	**218**	**-**	**754**	**88**	**1,060**
Changes to base	**34**	**81**	**82**	**1**	**198**
Total requested increase in appropriations	**$252**	**$540**	**$1,105**	**$89**	**$1,986**

Source: Congressional budget justification for IRS, fiscal year 2016.
Note: [a]Numbers may not add due to rounding.

Fiscal Year 2016 Budget Request: IRS Proposed 12 Non-Enforcement Initiatives

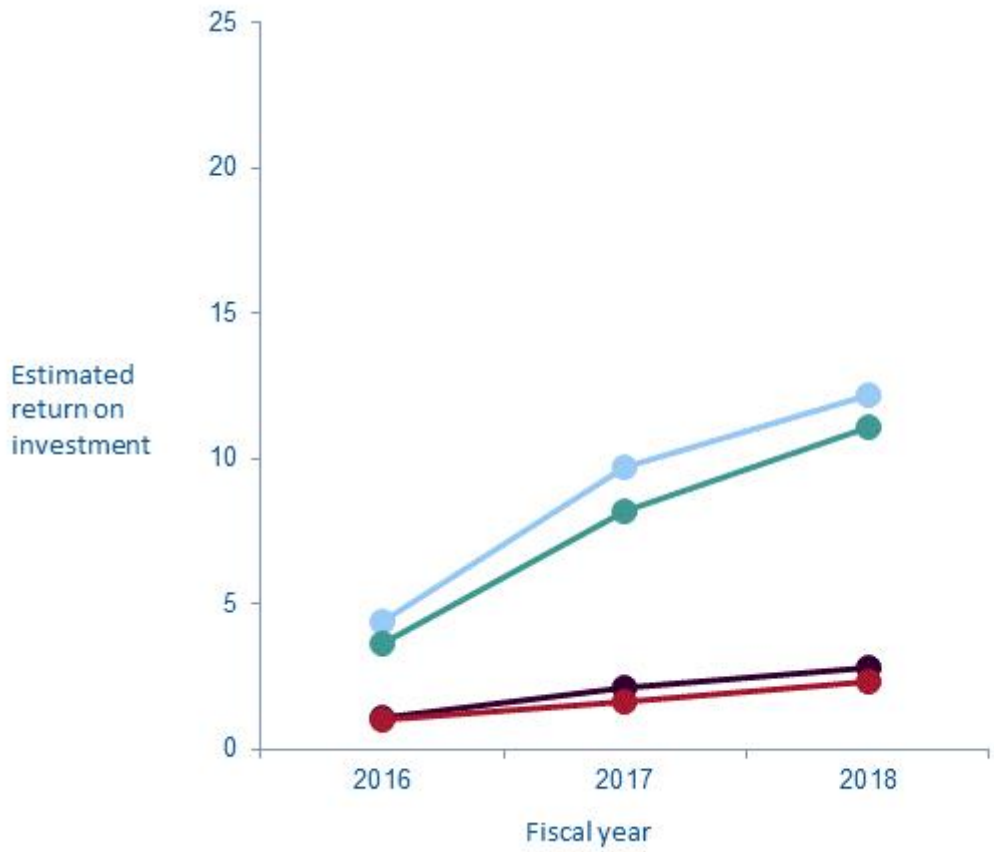
Table 3: Funding Requested for Non-Enforcement Initiatives (dollars in millions)

Description of requested budget increase	FY 2016 Taxpayer services	FY 2016 Enforcement	FY 2016 Operations support	FY 2016 Business Systems Modernization	FY 2016 Total[a]
New non-enforcement initiatives below the cap	**$218**	**-**	**$642**	**$88**	**$948**
Improve Taxpayer Services	183	-	118		302
Leverage New Technologies to Advance the IRS Mission	-	-	4	88	92
Implement Information Technology Changes to Deliver Tax Credits and Other Requirements	-	-	306	-	306
Improve Upfront Identification and Resolution of Identity Theft Returns	16	-	3	-	19
Sustain Critical Information Technology Infrastructure	-	-	189	-	189
Enhance Service Options for Taxpayers	14	-	2	-	16
Restore Staffing for Essential Support Programs	-	-	20	-	20
Increase Service for Low-Income Taxpayers and Taxpayers in Need of Hardship Relief	5	-	.6	-	6
New non-enforcement initiatives above the cap	**-**	**-**	**111**	**-**	**111**
Consolidate and Modernize IRS Facilities	-	-	85	-	85
Maintain Integrity of Revenue Financial Systems	-	-	12	-	12
Implement Agency Wide Shared Services Priorities	-	-	11	-	11
Implement Federal Investigative Standards	-	-	3	-	3
New enforcement initiatives	**0.1**	**459**	**269**	**-**	**728**
Changes to base	**34**	**81**	**82**	**1**	**198**
Total requested increase in appropriations	**$252**	**$540**	**$1,105**	**$89**	**$1,986**

Source: Congressional budget justification for IRS, fiscal year 2016.
Note: [a]Numbers may not add due to rounding.

Fiscal Year 2016 Budget Request: Four Enforcement Initiatives Expected to Produce Revenue Are Under the Discretionary Spending Cap

Figure 13: Estimated Return on Investment for Proposed Enforcement Initiatives Below Discretionary Spending Cap



Name of initiative	Full performance fiscal year 2018 (in millions)
Address Impact of Patient Protection and Affordable Care Act Statutory Requirements (Revenue Protecting)	Cost: $7 Revenue: $89
Implement Merchant Card and Basis Matching	Cost: $29 Revenue: $322
Address Impact of Patient Protection and Affordable Care Act Statutory Requirements (Revenue Producing)	Cost: $65 Revenue: $182
Implement Foreign Account Tax Compliance Act	Cost: $67 Revenue: $155

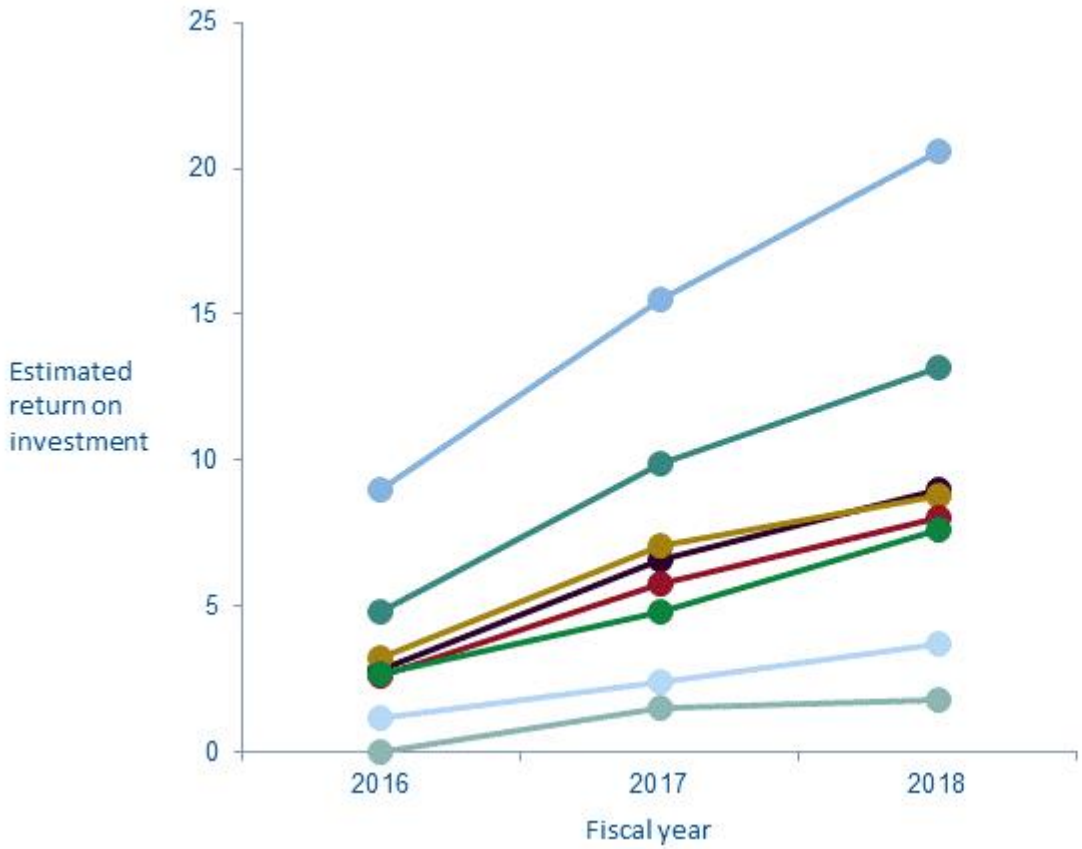
Source: GAO analysis of congressional budget justification for IRS, fiscal year 2016. | GAO-15-420R

Data Table for Figure 13: Estimated Return on Investment for Proposed Enforcement Initiatives Below Discretionary Spending Cap

Name of Initiative	2016	2017	2018
Address Impact of Patient Protection and Affordable Care Act Statutory Requirements (Revenue Protecting)	4.4	9.7	12.2
Implement Merchant Card and Basis Matching	3.6	8.2	11.1
Address Impact of Patient Protection and Affordable Care Act Statutory Requirements (Revenue Producing)	1.1	2.1	2.8
Implement Foreign Account Tax Compliance Act	1	1.6	2.3

Fiscal Year 2016 Budget Request: Eight Enforcement Initiatives With Expected Return on Investment Are Above the Discretionary Spending Cap

Figure 14: Estimated Return on Investment for Proposed Enforcement Initiatives Above Discretionary Spending Cap



Name of initiative	Full performance fiscal year 2018 (in millions)
Prevent Identity Theft and Refund Fraud (Revenue Producing)	Cost: $3 Revenue: $64
Prevent Identity Theft and Refund Fraud (Revenue Protecting)	Cost: $78 Revenue: $1,031
Enhance Collection Coverage	Cost: $131 Revenue: $1,180
Increase Audit Coverage (Revenue Protecting)	Cost: $13 Revenue: $112
Increase Audit Coverage (Revenue Producing)	Cost: $159 Revenue: $1,267
Improve Audit Coverage of Large Partnerships	Cost: $17 Revenue: $129
Address International and Offshore Compliance Issues	Cost: $43 Revenue: $160
Leverage Data to Improve Case Selection (Revenue Enhancing)	Cost: $41 Revenue: $75

Source: GAO analysis of congressional budget justification for IRS, fiscal year 2016. | GAO-15-420R

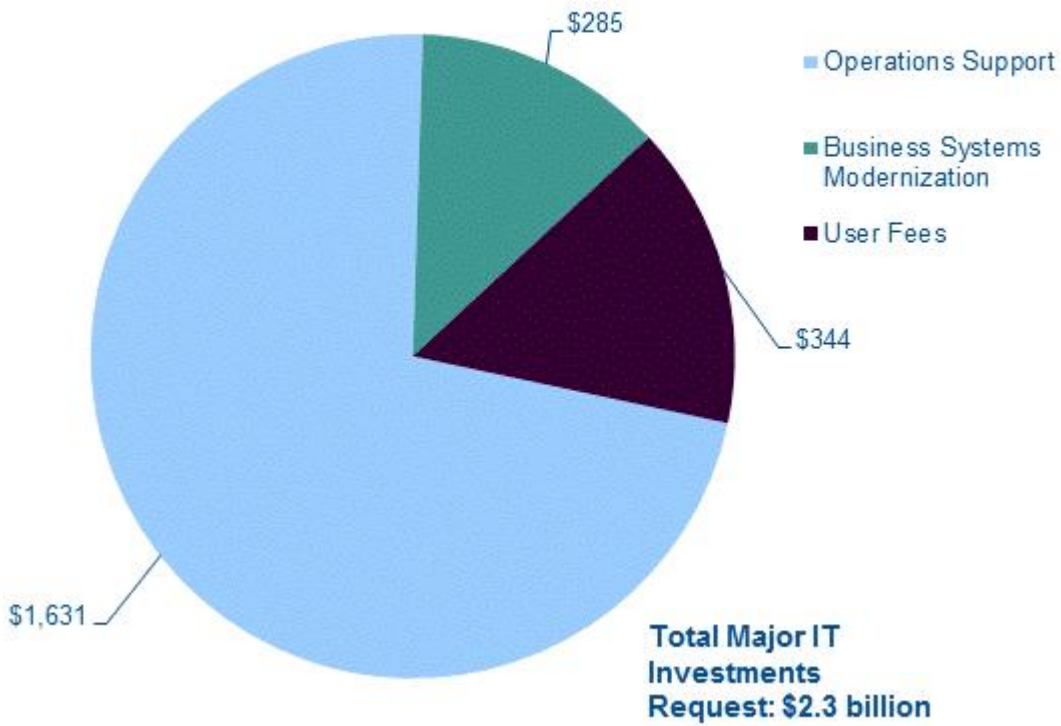
Data Table for Figure 14: Estimated Return on Investment for Proposed Enforcement Initiatives Above Discretionary Spending Cap

Initiative	ROI FY 2016 (percentage)	ROI FY 2017 (percentage)	ROI FY 2018 (percentage)	Cost FY 2016 (millions)	Cost FY 2017 (millions)	Cost FY 2018 (millions)
Prevent Identity Theft and Refund Fraud (Revenue Producing)	9	15.5	20.6	3	3	3
Prevent Identity Theft and Refund Fraud (Revenue Protecting)	4.8	9.9	13.2	79	78	78
Enhance Collection Coverage	2.8	6.6	9	123	133	131
Increase Audit Coverage (Revenue Producing)	2.6	5.8	8	151	163	159
Increase Audit Coverage (Revenue Protecting)	3.2	7.1	8.8	11	13	13
Improve Audit Coverage of Large Partnerships	2.7	4.8	7.6	16	18	17
Address International and Offshore Compliance Issues	1.2	2.4	3.7	41	45	43
Leverage Data to Improve Case Selection (Revenue Enhancing)	0	1.5	1.8	39	41	41

Fiscal Year 2016 Budget Request: $3.2 Billion Requested for Information Technology

Of the $3.2 billion requested,

- $2.3 billion is planned to fund 20 major IT investments.[4] The requested funding for major IT investments would come from multiple sources, as shown in the figure to the right.
  - This includes $24 million for Web Applications, a major IT investment initiated in fiscal year 2015 to meet continued growth in demand for customer service from taxpayers across all channels.
- $976 million is planned to fund non-major IT investments.



[4]According to IRS, major investments are defined by Treasury as those that cost $10 million in either the current year or budget year, or $50 million over the 5-year period extending from the prior year through budget year +2.

Fiscal Year 2016 Budget Request: $490 Million and 2,539 FTEs Proposed to Implement PPACA in Fiscal Year 2016

Table 4: Fiscal Year 2016 Patient Protection and Affordable Care Act (PPACA) Budget Request (dollars in millions)

Initiatives	Taxpayer services Dollars	Taxpayer services FTEs	Enforcement Dollars	Enforcement FTEs	Operations support Dollars	Operations support FTEs	Total Dollars	Total FTEs
Expand telecom infrastructure to handle increased demand	-	-	-	-	$16.0	-	**$16.0**	**-**
Improve taxpayer services	$78.3	1,231	-	-	$23.2	7	**$101.5**	**1,238**
Address impact of PPACA statutory requirements	$0.1	1	$44.8	432	$22.3	50	**$67.2**	**483**
Implement information technology changes to deliver tax credits and other requirements	-	-	-	-	$305.6	818	**$305.6**	**818**
Total fiscal year 2016 PPACA budget request	**$78.5**	**1,232**	**$44.8**	**432**	**$367.1**	**875**	**$490.4**	**2,539**

Legend: FTE = Full time equivalent.
Source: Congressional budget justification for IRS, fiscal year 2016. | GAO-15-420R
Note: Some numbers do not add due to rounding.

Fiscal Year 2016 Budget Request: Selected GAO Analyses Related to Legislative Proposals

Table 5: Selected Legislative Proposals Related to Prior GAO Work (dollars in millions)

Selected IRS legislative proposals related to prior GAO work	Projected revenues over 10 years (in millions)	Projected costs over 3 years (in millions)	Related GAO reports
Modify reporting of tuition expenses and scholarships of Form 1098-T, Tuition Statement.	$618	$0.2	GAO-10-225
Authorize the Department of Treasury to require additional information to be included in electronically filed Form 5500 annual reports and electronic filing of certain other employee benefit plan reports.	10[a]	11.2	GAO-05-491
Increase certainty with respect to worker classification.	10,170	1.9	GAO-09-717
Require taxpayers who prepare their returns electronically, but file their returns on paper, to print their returns with a scannable code.	10[a]	14.6	GAO-12-33
Allow IRS to absorb credit and debit card processing fees for certain tax payments.	20	9.6	GAO-10-11
Provide IRS with greater flexibility to address correctable errors.	639	1.4	GAO-15-163, GAO-11-481, GAO-10-349
Improve whistleblower program.	Negligible revenue effect	0	GAO-11-683
Explicitly provide that the Department of Treasury and IRS have authority to regulate all paid return preparers.	427	Not available	GAO-14-467T, GAO-08-781
Rationalize tax return filing due dates so they are staggered.	1630	1.0	GAO-13-515
Combat tax-related identity theft.	Negligible revenue effect	2.7	GAO-15-119, GAO-14-633, GAO-13-132T

Source: GAO analysis based on congressional budget justification for IRS, fiscal year 2016 and Department of the Treasury, *General Explanations of the Administration's Fiscal Year 2016 Revenue Proposals* (Washington, D.C.: February 2015).
Note: [a]Department of Treasury includes this legislative proposal under "Enhance Electronic Filing of Returns" and provides a single projected revenue for this proposal, as well as several others.

Strategic Management: IRS Created a New Office in 2014 to Better Coordinate Strategic Long-Term Planning Decisions

- Responding in part to a June 2014 GAO recommendation,[5] IRS established the Planning, Programming, and Audit Oversight office (PPAO) in 2014 to improve coordination of (1) current and completed audits, and (2) resource decision making and strategic planning.
- PPAO is to facilitate coordination among business units and operating divisions to improve resource allocation and planning.
- PPAO is to drive long-term planning for resource allocation to be seen first in the fiscal year 2017 budget.
- The new strategic approach is to include consideration of short-term trade-offs with long-term investments, allocation of finite resources, and post-evaluation of investments.

[5]See GAO, *IRS 2015 Budget: Long-Term Strategy and Return on Investment Data Needed to Better Manage Budget Uncertainty and Set Priorities*, GAO-14-605 (Washington, D.C.: June 12, 2014), in which we recommended that IRS develop a long-term strategy to address operations amidst an uncertain budget environment.

Strategic Management: IRS Is Implementing Taxpayer Service Initiatives for the 2015 Filing Season

IRS is implementing service initiatives, with the goal of serving the maximum number of taxpayers possible more effectively and efficiently, by

- redesigning notices, in part to inform taxpayers about online resources and self service tools as an alternative to calling or writing to IRS;
- expanding use of IRS's Oral Statement Authority tool to accept verbal requests for penalty relief; and
- directing qualified taxpayers to apply and set up installment payment agreements online or through self-service kiosks instead of calling or visiting IRS.

We previously reported that shifting taxpayers to self-service tools reduces the need for taxpayers to speak with IRS assistors, which in turn reduces IRS's costs while improving taxpayer services.[6]

[6]See GAO, *Tax Filing Season: 2014 Performance Highlights the Need to Better Manage Taxpayer Service and Future Risks*, GAO-15-163 (Washington, D.C.: Dec. 16, 2014).

Strategic Management: IRS's Service on Demand Initiative Is Intended to Improve Taxpayer Experience

- IRS is developing a 6-year strategy known as Service on Demand, which is intended to better meet taxpayers' needs and preferences for interacting with the IRS. The overall goal is to provide secure self-service options for taxpayers and to improve taxpayer service.
- IRS has ranked 71 projects that are designed to improve taxpayer services and is exploring how to implement the top 20, which are grouped into 6 programs:
    - developing an online account,
    - streamlining digital self-service options,
    - expanding third party services,
    - analyzing taxpayer behaviors to reduce errors,
    - accepting mobile payments, and
    - upgrading all IRS forms, publications, and instructions to a web-friendly format written in plain language.
- In fiscal year 2015, IRS anticipates piloting an online web-based secure communications portal that is expected to improve taxpayer services, for example, by enabling IRS and taxpayers to communicate by sending both one-way and two-way secure messages.

Strategic Management: Open GAO Recommendations Highlight Opportunities for IRS to Improve Operations, Manage More Strategically, and Improve Revenue Collection

For example:

- IRS 2015 Budget (GAO-14-605)
  - Develop a long-term strategy to address operations amidst an uncertain budget environment
  - Calculate actual return on investment for implemented initiatives and use that information to inform resource allocation decisions
- IRS Website (GAO-13-435)
  - Develop a long-term strategy to improve web services to taxpayers, including business cases for new services to prioritize projects
- Large Partnerships (GAO-14-732)
  - Multiple recommendations to improve overall audit efficiency
- Correspondence Audits (GAO-14-479)
  - Recommendations to establish formal program objectives and ensure that the program measures reflect those objectives

Concluding Observations

IRS has absorbed $1.2 billion in cuts to its annual appropriation since fiscal year 2010. Meanwhile, the agency has assumed additional responsibilities related to identify theft refund fraud and the implementation of PPACA. A reduced budget and increased workload has contributed to performance declines across the agency, including serious concerns about service to taxpayers during filing season. However, additional funding is not the only solution. 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 established its PPAO office in 2014 to improve coordination and long-term planning, in part based on our recommendation. We have other open recommendations and suggestions for Congress that, if fully implemented, would help IRS strategically manage operations and generate additional revenue.

Appendix I: Dollars by Appropriations Account, Fiscal Years 2009 to 2016

Table 6: Fiscal Years 2009 through 2015 Enacted and Fiscal Year 2016 Budget Request for IRS (dollars in millions)

Appropriations account	Fiscal year 2009 enacted	Fiscal year 2010 enacted	Fiscal year 2011 enacted	Fiscal year 2012 enacted	Fiscal year 2013 enacted[a]	Fiscal year 2014 enacted	Fiscal year 2015 enacted	Fiscal year 2016 requested	Dollar change fiscal year 2015 enacted compared to fiscal year 2016 requested	Percent change fiscal year 2015 enacted compared to fiscal year 2016 requested
Enforcement	$5,117	$5,504	$5,493	$5,299	$4,949	$5,022	$4,860	$5,400	$540	11.11%
Operations support	3,867	4,084	4,057	3,947	3,801	3,799	3,638	4,743	1,105	30.36%
Taxpayer services	2,293	2,279	2,293	2,240	2,136	2,157	2,157	2,409	252	11.70%
Business Systems Modernization	230	264	263	330	313	313	290	379	89	30.75%
Health Insurance Tax Credit Administration (HITCA)[b]	15	16	15	0	0	0	0	0		
Subtotal	**11,523**	**12,146**	**12,122**	**11,817**	**11,199**	**11,291**	**10,945**	**12,931**	1,986	18.15%
Other resources, such as user fees	390	539	655	695	855	815	1,031	991	-40	-3.86%
Total funding available for obligations	**$11,913**	**$12,686**	**$12,777**	**$12,512**	**$12,053**	**$12,106**	**$11,976**	**$13,922**	$1,946	16.25%

Source: Congressional budget justifications for IRS, fiscal years 2011 through 2016. | GAO-15-420R

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

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

[b]In fiscal year 2012 and thereafter, amounts appropriated for HITCA, which had been a separate account, were moved to the Taxpayer Services appropriation.

Appendix II: Staffing by Appropriations Account, Fiscal Years 2009 through 2016

Table 7: Fiscal Years 2009 through 2014 Actual, 2015 Enacted, and 2016 Requested Full-time Equivalents

Appropriations account	Fiscal year 2009 actual	Fiscal year 2010 actual	Fiscal year 2011 actual	Fiscal year 2012 actual	Fiscal year 2013 actual	Fiscal year 2014 actual	Fiscal year 2015 enacted	Fiscal year 2016 requested	FTE change fiscal year 2015 enacted compared to fiscal year 2016 requested	Percent change fiscal year 2015 enacted compared to fiscal year 2016 requested
Enforcement	47,361	50,400	49,920	47,189	44,174	42,119	40,564	44,800	4,236	10.4
Operations support	12,101	12,262	12,103	11,499	11,610	11,652	12,043	13,863	1,820	15.1
Taxpayer services	32,422	31,607	31,574	30,236	29,646	28,535	28,274	31,285	3,011	10.7
Business Systems Modernization	322	337	309	562	451	337	398	576	178	44.7
Health Insurance Tax Credit Administration (HITCA)[a]	10	12	0	0	0	0	0	0	0	0
Subtotal	**92,216**	**94,618**	**93,906**	**89,486**	**85,881**	**82,643**	**81,279**	**90,524**	**9,245**	**11.4**
Other resources, such as user fees	1,153	752	1,003	2,185	1,884	2,118	924	962	38	4.1
Total	**93,369**	**95,370**	**94,909**	**91,671**	**87,765**	**84,761**	**82,203**	**91,486**	**9,283**	11.3

Source: Congressional budget justifications for IRS, fiscal years 2011 through 2016. | GAO-15-420R

Note: [a]The administrative resources for HITCA were moved to the Taxpayer Services appropriation.