



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

April 21, 2014

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

The Honorable Tom Udall
Chairman
The Honorable Mike Johanns
Ranking Member
Subcommittee on Financial Services and General Government
Committee on Appropriations
United States Senate

The Honorable Charles W. Boustany, Jr.
Chairman
The Honorable John Lewis
Ranking Member
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Internal Revenue Service: Absorbing Budget Cuts Has Resulted in Significant Staffing Declines and Uneven Performance

This letter transmits briefing slides based on our work to date in response to your requests for information on our ongoing reviews of the 2014 tax filing season and fiscal year 2015 budget request for the Internal Revenue Service (IRS). See the enclosed briefing slides that include the information used to brief your staff on April 10, 2014. We subsequently updated the briefing slides to reflect more current information.

Our briefing objectives were to (1) analyze IRS funding, staffing, and performance trends for fiscal years 2009 through 2014, including an assessment of IRS's 2014 filing season to date; (2) describe IRS's fiscal year 2015 budget request and workload; and (3) describe IRS's actions to absorb budget cuts and cite opportunities that could help IRS more strategically manage operations.

To conduct this work, we analyzed funding, staffing, and performance trends, including the 2014 filing season to date, and summarized the President's budget requests for IRS from fiscal years 2009 through 2014. We analyzed the fiscal year 2015 justification and other IRS data, including performance data for key IRS operations and full-time equivalents (FTE) for priority programs. We reviewed our prior work and interviewed IRS officials in the Office of the Chief Financial

Officer and the Information Technology organization, the National Taxpayer Advocate, and representatives from tax preparation firms.

We conducted this performance audit from January to April 2014 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. We interviewed IRS officials and determined that the data presented in this report were sufficiently reliable for our purposes.

In summary, we found:

- IRS's appropriations have declined to below fiscal year 2009 levels and FTEs have been reduced by about 8,000 since fiscal year 2009. Planned performance in enforcement and taxpayer service has decreased or fluctuated; for example, in the fiscal year 2014 congressional justification the audit coverage target for individual examinations was 1.0 percent for fiscal year 2014, however, the target was lowered to 0.8 percent in the fiscal year 2015 congressional justification. Amidst lower demand, IRS's telephone level of service performance (the percentage of callers seeking live assistance and receiving it) was 73 percent from January 1 through March 15, 2014 compared to 69 percent during the same period last year. However, between fiscal years 2009 and 2013, IRS's telephone level of service fluctuated between 61 percent and 74 percent. Average wait times have almost doubled since fiscal year 2009—from 8.8 minutes to 16.8 minutes as of mid-March 2014.
- Not including other budgetary resources such as user fees, the fiscal year 2015 budget request for IRS is \$12.5 billion, which is an increase of 10.5 percent (\$1.2 billion) in funding and 8.3 percent in staffing (6,998 FTEs) over fiscal year 2014. According to the President's budget, of the requested \$1.2 billion, \$480 million is predicated on a cap adjustment—funding above the discretionary spending limit—and largely covers enforcement and infrastructure initiatives. IRS's workload has increased as a result of legislative mandates and priority programs, such as work related to the Patient Protection and Affordable Care Act and identity theft.
- IRS has absorbed approximately \$900 million in budget cuts since fiscal year 2010 through savings and efficiencies and by reducing, delaying, or eliminating services. For example, IRS delayed two information technology projects (Information Reporting and Document Matching and Return Review Program) and substantially reduced employee training. To help improve operations, the President requested a large budget increase for IRS in fiscal year 2015. However, additional funding is not the only solution. We have open recommendations on IRS's operations that may help it achieve efficiencies over time, such as developing a long-term plan to improve web services.

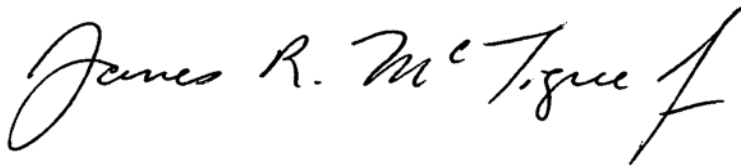
Agency Comments

On April 16, 2014, IRS provided technical comments on our findings, which we have incorporated where appropriate.

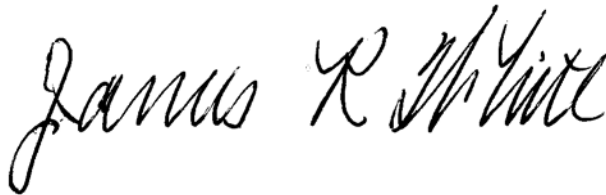
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We plan to send copies of this report to the Chairman and Ranking Members of other Senate and House committees and subcommittees that have appropriation, authorization, and oversight responsibilities for IRS. We are also sending copies to the Commissioner of Internal Revenue, the Secretary of the Treasury, and the Chairman of the IRS Oversight Board. The report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact us at (202) 512-9110 or mctiguej@gao.gov or whitej@gao.gov. Contact points for our offices of Congressional Relations and Public Affairs are on the last page of this report. GAO staff members who made major contributions to this report were Libby Mixon, Assistant Director, and Joanna Stamatiades, Assistant Director, and Jehan Chase, Pawnee A. Davis, Mary Evans, Charles Fox, Suzanne Heimbach, LaKeshia Allen Horner, Natalie Maddox, Paul Middleton, Ed Nannenhorn, Sabine Paul, Amy Radovich, Mark Ryan, Erinn L. Sauer, Cynthia Saunders, and Tamara Stenzel.



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



James R. White
Director, Tax Issues
Strategic Issues

Enclosure – 1

Enclosure: Briefing Slides



INTERNAL REVENUE SERVICE: Absorbing Budget Cuts Has Resulted in Significant Staffing Declines and Uneven Performance

Prepared for Congressional Committees

April 10, 2014

(Updated April 18, 2014)

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Objectives

Our objectives are to provide interim information on the Internal Revenue Service's (IRS) fiscal year 2015 budget request and its 2014 filing season performance. This briefing:

- analyzes IRS funding, staffing, and performance trends for fiscal years 2009 through 2014, including an assessment of IRS's 2014 filing season to date;
- describes IRS's fiscal year 2015 budget request and workload; and
- describes IRS's actions to absorb budget cuts and cites opportunities that could help IRS more strategically manage operations.

Scope and Methodology

- To analyze funding, staffing, and performance trends, including the 2014 filing season, we summarized the President's budgets and IRS's congressional justifications (CJ) from fiscal years 2009 through 2014, and interviewed IRS officials in the Office of the Chief Financial Officer (CFO); analyzed IRS data including full-time equivalents (FTE) and performance data for key IRS operations; and interviewed IRS officials and other stakeholders such as representatives from tax preparation firms on filing season performance and challenges.
- To describe IRS's fiscal year 2015 budget request and workloads, we reviewed the fiscal year 2015 CJ and other budget documents; analyzed FTE data on IRS identified priority programs; and interviewed officials from IRS's Offices of Corporate Budget and the National Taxpayer Advocate.
- To describe IRS's actions to absorb budget cuts and cite opportunities for IRS to more strategically manage operations, we reviewed Office of Management and Budget (OMB) and Department of Treasury guidance on sequestration; interviewed officials from IRS's Office of the CFO and Information Technology organization; and reviewed our prior work.

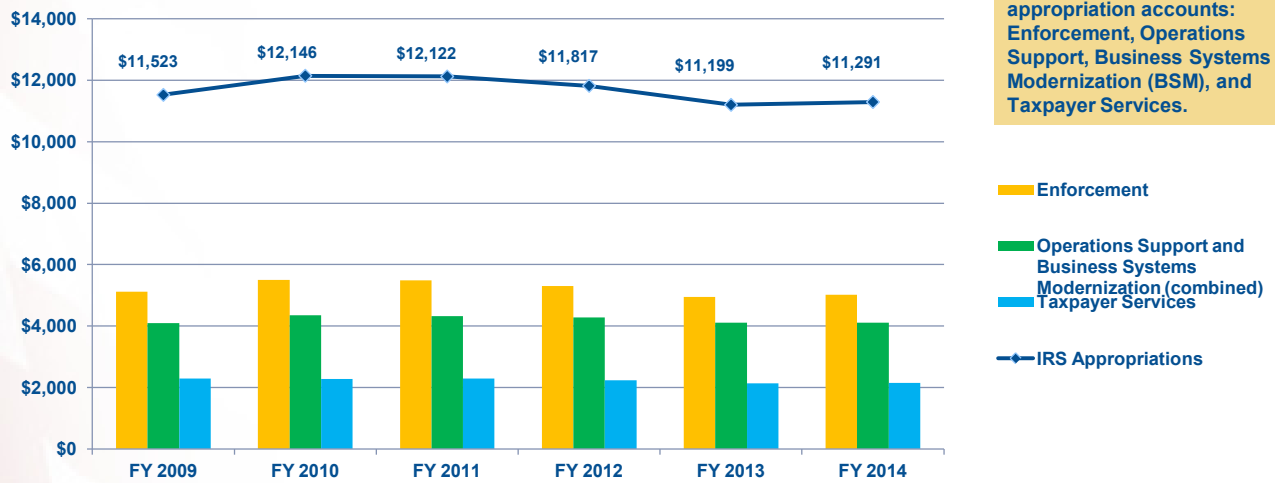
We conducted this performance audit from January to April 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We interviewed IRS officials and determined that the data presented in this briefing were sufficiently reliable for our purposes.

Results in Brief

- IRS's appropriations have declined to below fiscal year 2009 levels. IRS FTEs have been reduced by about 8,000 FTEs since fiscal year 2009. Performance in enforcement and taxpayer service has decreased or fluctuated. IRS is providing a better level of telephone service in 2014 amidst lower demand.
- Not including other budgetary resources such as user fees, the fiscal year 2015 budget request for IRS is \$12.5 billion, which is an increase of 10.5 percent (\$1.2 billion) in funding and 8.3 percent in staffing (6,998 FTEs) over fiscal year 2014. IRS's workload is dedicated to legislative mandates and priority programs.
- IRS has absorbed budget cuts through savings and efficiencies and by reducing, delaying, and eliminating some services. To improve operations, IRS has requested a large budget increase for 2015. However, additional funding is not the only solution for IRS. We have open recommendations that may help IRS to more effectively manage its operations and achieve some savings over time.

Funding Trends: IRS's Appropriations Have Declined to Below Fiscal Year 2009 Levels

Figure 1: IRS's Appropriations, Fiscal Years 2009 through 2014 (Dollars in Millions)



IRS presents its budget request through four appropriation accounts: Enforcement, Operations Support, Business Systems Modernization (BSM), and Taxpayer Services.

Legend: FY = fiscal year.

Source: Fiscal years 2009 through 2014 congressional justifications for IRS.

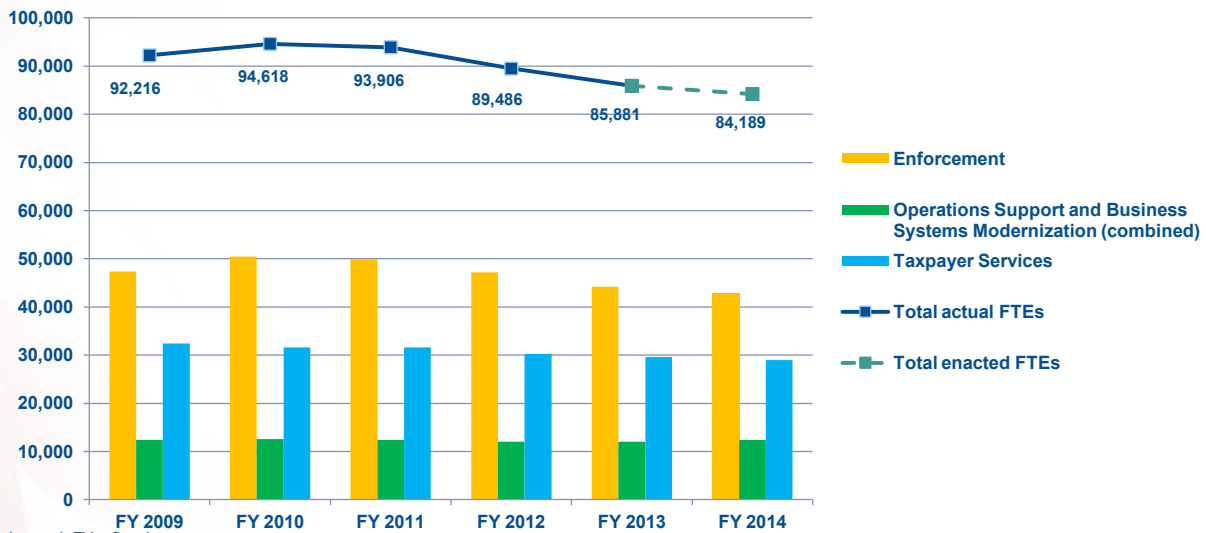
Notes: The fiscal year 2013 levels represent an across the board rescission and reductions required by sequestration. In fiscal year 2014, IRS received \$92 million for the improvement of services to taxpayers, refund fraud and identity theft, and international and offshore compliance issues. The operating plan, which has not been approved as of April 11, 2014, proposes allocating \$34 million to Taxpayer Services and \$58 million to Operations Support. In addition, IRS has proposed to transfer \$69.2 million from Enforcement to Operations Support for information technology infrastructure (\$40

million) and a program reclassification (\$29.2 million). Amounts shown do not include other budgetary resources, such as user fees.

See appendix I for more information on IRS budget trends, including other budgetary resources.

Staffing Trends: IRS Has Reduced FTEs by about 8,000 (9 percent) since Fiscal Year 2009

Figure 2: IRS Full-Time Equivalents (FTE) Funded through Appropriations, Fiscal Years 2009 through 2013 Actual and Fiscal Year 2014 Enacted



Legend: FY = fiscal year.

Source: Fiscal years 2009 through 2014 congressional justifications for IRS.

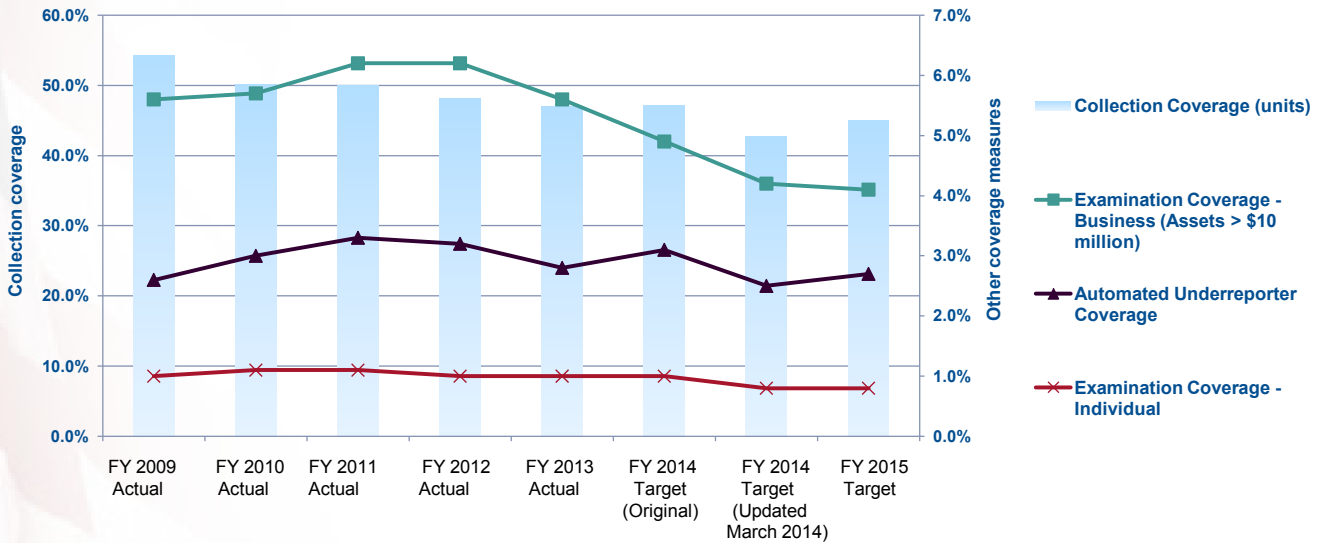
Notes: The fiscal year 2013 level represents an across-the-board rescission and reductions required by sequestration. In fiscal year 2014, IRS received \$92 million for the improvement of services to taxpayers, refund fraud and identity theft, and international and offshore compliance issues. The operating plan, which has not been approved as of April 11, 2014, proposes allocating \$34 million to Taxpayer Services and \$58 million to Operations Support. In addition, IRS has proposed to transfer \$69.2 million from Enforcement to Operations Support for information technology infrastructure (\$40 million) and a program reclassification (\$29.2 million).

Amounts shown do not include FTEs funded with other budgetary resources, such as user fees.

See appendix II for more information on IRS budget trends, including other budgetary resources.

Performance Trends: Return Examination and Collection Coverage Measures Show Decline

Figure 3: IRS Return Examination and Collection Coverage Measures, Fiscal Years 2009 through 2013 Actual and Fiscal Year 2014 and 2015 Targets



Source: GAO analysis of fiscal years 2009 through 2014 congressional justifications for IRS.

For more information on coverage measures, see appendix III.



Performance Trends: Electronic Filing Continues to Increase in 2014

Table 1: Tax Returns Processed, 2009 through 2014 Filing Seasons (in Thousands)

	2009	2010	2011	2012	2013	2014	Percentage change from 2013 to 2014
Number of individual tax returns processed	89,215	85,210	87,595	96,556	93,103	98,170	5.4
Electronic	70,705	71,153	76,664	85,904	84,443	90,333	7
Paper	18,510	14,057	10,932	10,653	8,660	7,837	-9.5
Percentage electronically filed ^a	79.3	83.5	87.5	89.0	90.7	92.0	n/a
Free File ^b	2,416	2,498	2,344	2,431	2,337	2,573	10.1
Number of refunds issued (millions)	77.7	74.1	75.2	80.4	77.8	78.8	1.2
Amount of refunds (billions)	\$210.2	\$219.4	\$219.8	\$224.7	\$214.5	\$219.9	2.5

Legend: n/a = not applicable.

Source: GAO analysis of IRS data.

Notes: Unless otherwise noted, data are from January 1 of each year through April 3, 2009; April 2, 2010; April 1, 2011; April 6, 2012; April 5, 2013; and April 4, 2014. Numbers may not add due to rounding.

^aThe percentage of returns filed electronically early in the filing season is likely to decline before the filing season is over. Taxpayers filed about 84 percent of all individual returns electronically in 2013. The numbers for electronic filing that we are reporting are for returns processed versus returns received.

^bIRS offers Free File software for eligible taxpayers to prepare and e-file their federal tax returns online for free at IRS.gov. Free File 2013 and 2014 data are from January 1 through April 8, 2013 and April 7, 2014.



Performance Trends: IRS Is Providing Better Telephone Service in 2014 Amidst Lower Demand Which IRS Attributes in Part to Fewer Tax Law Changes

Table 2: Interim IRS Call Volume, Level of Service, and Average Wait Times, 2009 through 2014 Filing Seasons

	Interim Filing Season ^a					Truncated Interim Filing Season		
	2009	2010	2011	2012	2013	2013 (March 16)	2014 (March 15)	Percent change from March 2013 to March 2014 ^b
Call volume (in millions)								
Total calls to IRS ^c	52.4	48.7	53.3	65.1	59.0	51.1	39.6	-23
Automated calls answered	19.6	23.1	26.8	36.4	32.4	28.7	21.5	-25
Assistor answered calls	14.9	12.6	12.8	10.6	11.2	9.3	6.7	-28
Abandoned, busies, and disconnects	17.9	13.0	13.7	18.1	15.4	13.1	11.5	-13
Access measures								
Level of Service (LOS) – Percentage of callers seeking live assistance who receive it	64	75	75	68	69	69	73	7
Average wait time (in minutes)	8.8	9.9	9.7	15.9	13.8	13.7	12.4	-9

Source: GAO analysis of IRS data.

^a Unless otherwise noted, data for filing season to date are cumulative for IRS from January 1 of each year to April 4, 2009; April 3, 2010; April 2, 2011; March 31, 2012; and March 30, 2013. Because of time lags in data reporting, to compare this year to last, we used data from January 1 of each year to March 16, 2013, and March 15, 2014, for the truncated interim filing season column.

^b The numbers in the table are rounded, but the percent change was calculated using exact values.

^c The numbers in the table include the total automated, assistor answered, abandoned, busy and disconnected account calls, taxpayer account-related and tax law calls, but do not reflect the total number of attempted calls to IRS, nor do they represent total call volume to all IRS functions such as enforcement.



Performance Trends: IRS Is Providing Better Telephone Service in 2014 Amidst Lower Demand Which IRS Attributes in Part to Fewer Tax Law Changes (Continued)

Table 3: IRS Key Telephone Actual Performance Compared to its Goals, Fiscal Years 2009 through 2014

		Fiscal Year (October 1 through September 30) ^a					
		2009	2010	2011	2012	2013	2014
Level of Service (LOS) – Percentage of callers seeking live assistance who receive it	Goal	77 ^b	71	71	61	70	61
	Actual	70	74	70	68	61	67 ^c
Average wait time (in minutes)	Goal	10.4	11.6	11.6	19	14.6	22.0
	Actual	8.8	10.8	13.0	16.7	17.6	16.8 ^c

Source: GAO analysis of IRS data.

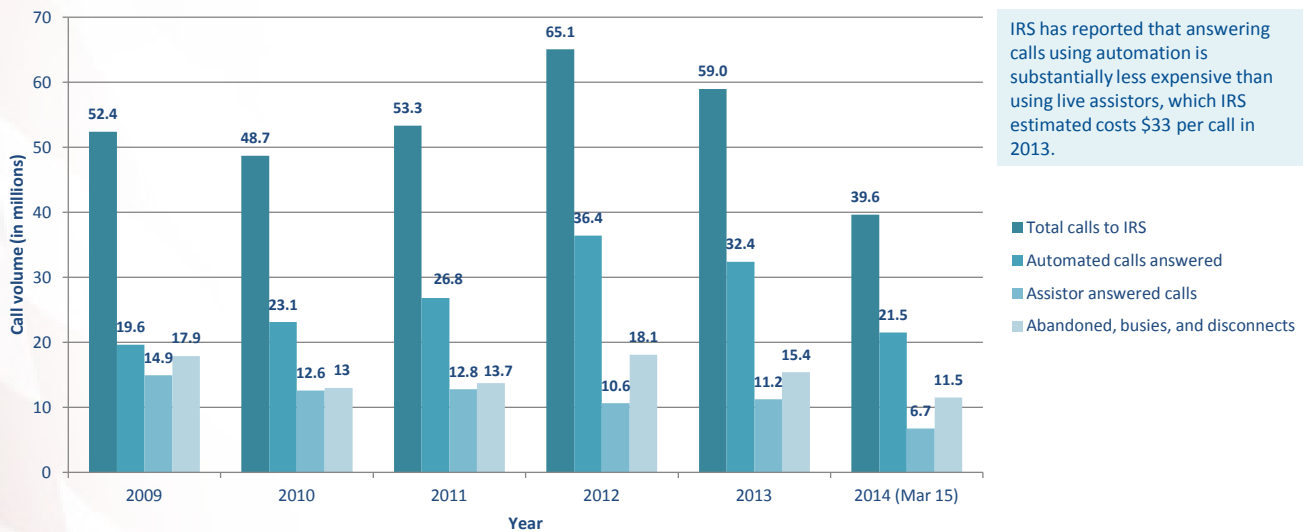
^a Unless otherwise noted, the goals listed are for the entire fiscal year.

^b IRS revised its original fiscal year goal of 77 percent down to 70 percent because of high call volume from taxpayers requesting electronic filing authentication information and asking stimulus-related questions.

^c Unlike the level of service and wait time information reported in Table 2 for 2014, which is from January 1 through March 15, 2014, the corresponding data shown for 2014 in this table are fiscal year to date—October 1, 2013, through March 15, 2014.

Performance Trends: IRS Continues to Answer More Automated than Assistor Answered Calls in 2014

Figure 4: IRS Call Volume, 2009 through 2014 Filing Seasons



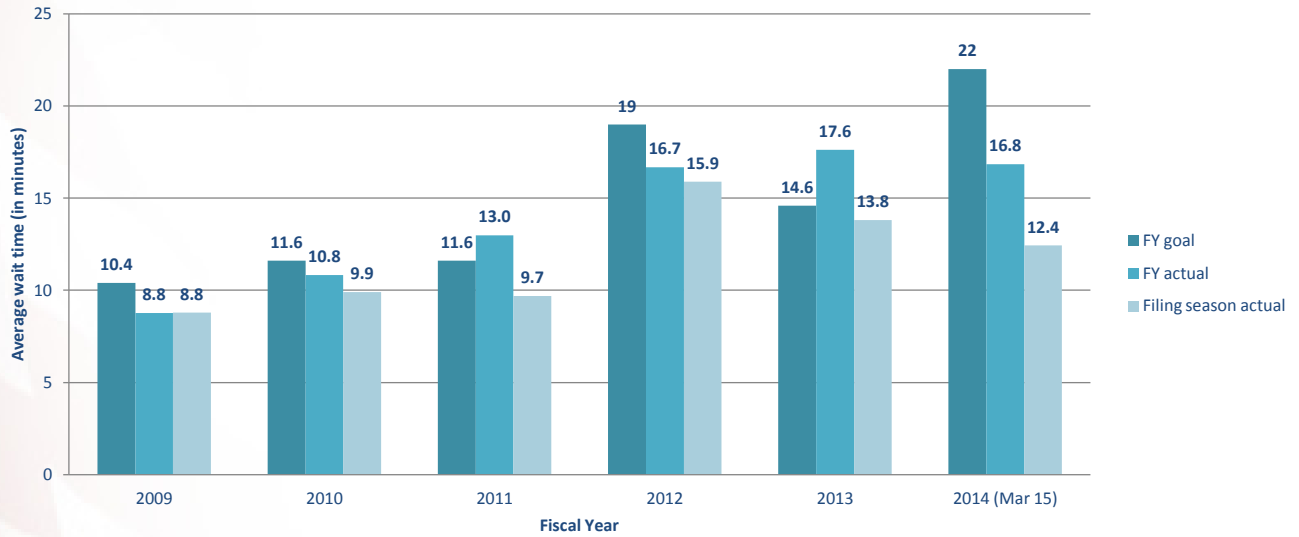
IRS has reported that answering calls using automation is substantially less expensive than using live assistants, which IRS estimated costs \$33 per call in 2013.

Source: GAO analysis of IRS data.

Notes: Unless otherwise noted, data are cumulative for IRS from January 1 of each year to April 4, 2009; April 3, 2010; April 2, 2011; March 31, 2012; and March 30, 2013. For 2014, data are from January 1 through March 15, 2014. The numbers in the graphic include the total automated, assistor answered, abandoned, busy and disconnected taxpayer account-related and tax law calls, but do not reflect the total number of attempted calls to IRS, nor do they represent total call volume to all IRS functions such as enforcement.

Performance Trends: Average Wait Times Have Generally Increased since 2009

Figure 5: Average Wait Time (in minutes), Fiscal Years 2009 through 2014

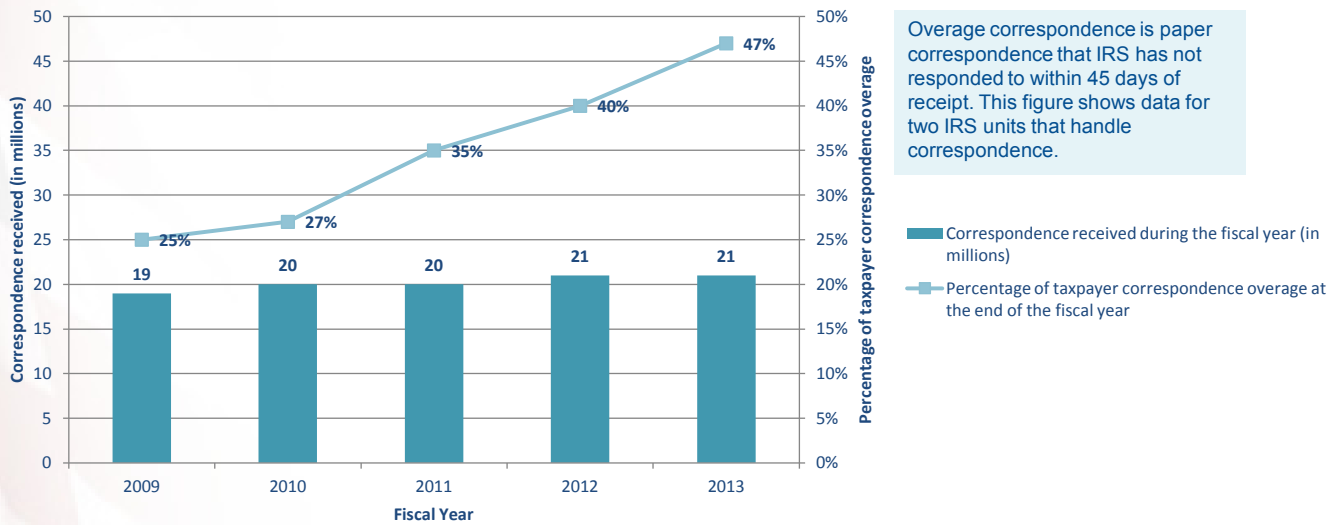


Legend: FY = fiscal year.
Source: GAO analysis of IRS data.

Notes: Unless otherwise noted, data are cumulative for IRS from January 1 of each year to April 4, 2009; April 3, 2010; April 2, 2011; March 31, 2012; and March 30, 2013. For 2014, data are from January 1 through March 15, 2014.

Performance Trends: Overage Correspondence Has Increased Significantly since 2009

Figure 6: IRS Taxpayer Correspondence Performance, Fiscal Years 2009 through 2013



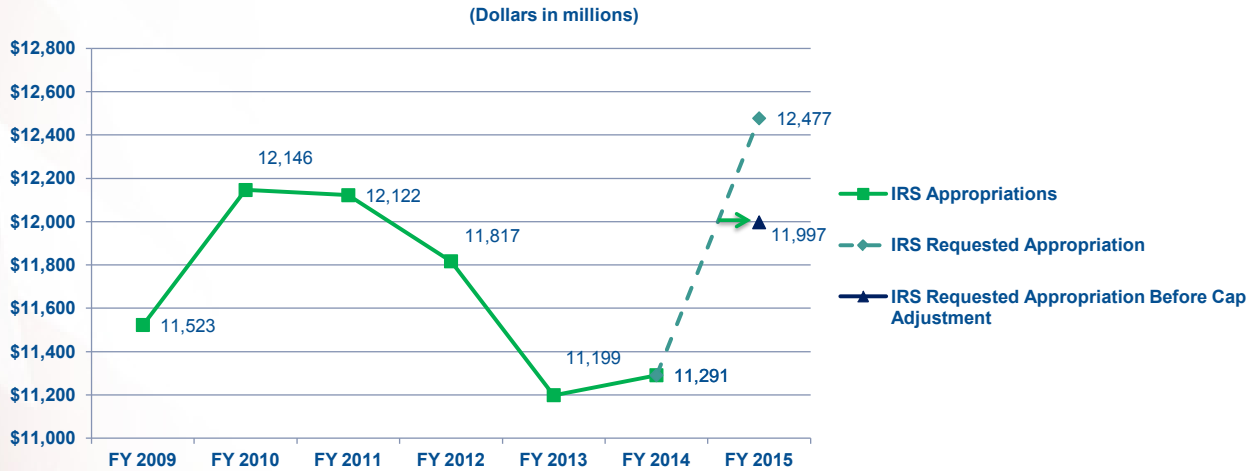
Source: GAO analysis of IRS data.

Notes: 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 from taxpayers. Data cover equivalent periods for each fiscal year with slight variation in the exact dates depending on the year and data source.



Fiscal Year 2015 Request: IRS Is Requesting \$12.5 Billion in Appropriations, an Increase of 10.5 percent (\$1.2 Billion) over Fiscal Year 2014

Figure 7: IRS Enacted Appropriations, Fiscal Year 2009 through 2014, and Fiscal Year 2015 Request



Legend: FY = fiscal year.

Source: Fiscal years 2009 through 2015 congressional justifications for IRS.

Notes: Fiscal year 2013 levels represent an across-the-board rescission and reductions required by sequestration. In fiscal year 2014, IRS received \$92 million for the improvement of services to taxpayers, refund fraud and identity theft, and international and offshore compliance issues. The operating plan, which has not been approved as of April 11, 2014, proposes allocating \$34 million to Taxpayer Services and \$58 million to Operations Support. In addition, IRS has proposed to transfer \$69.2 million from Enforcement to Operations Support for information technology infrastructure (\$40 million) and a program reclassification (\$29.2 million). Amounts shown do not include other budgetary resources, such as user fees.

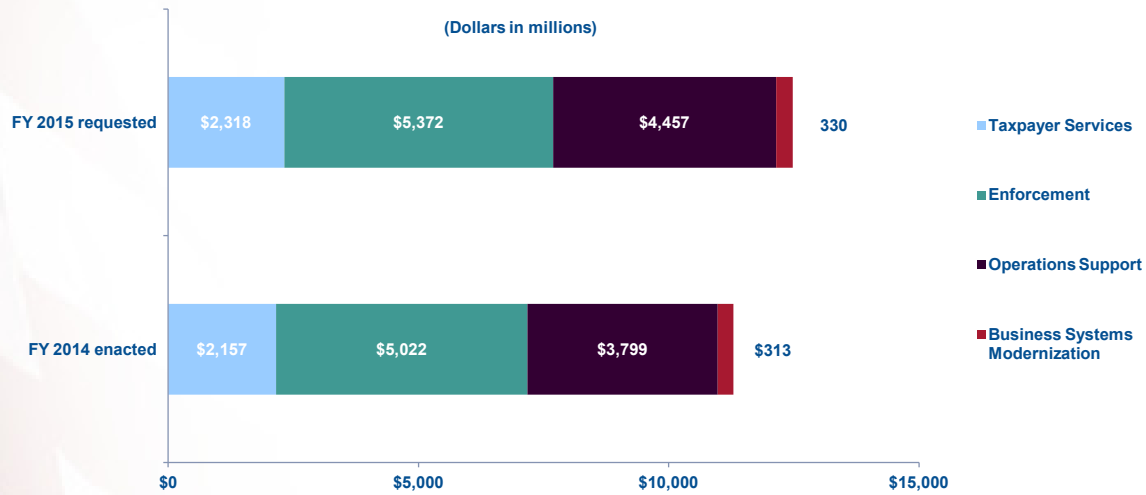
See appendix I for more information on the fiscal year 2015 budget request for IRS, including other budgetary resources.

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Fiscal Year 2015 Request: IRS's Largest Requested Increase Is \$658 Million for Operations Support¹

Figure 8: Fiscal Year 2015 Budget Request by Appropriation Compared to Fiscal Year 2014 Enacted Appropriation for IRS



Legend: FY = fiscal year.

Source: Fiscal years 2014 through 2015 congressional justifications for IRS.

Notes: Request includes 22 program initiatives totaling more than \$1.1 billion (see appendixes IV through VIII). Amounts shown do not include other budgetary resources, such as user fees.

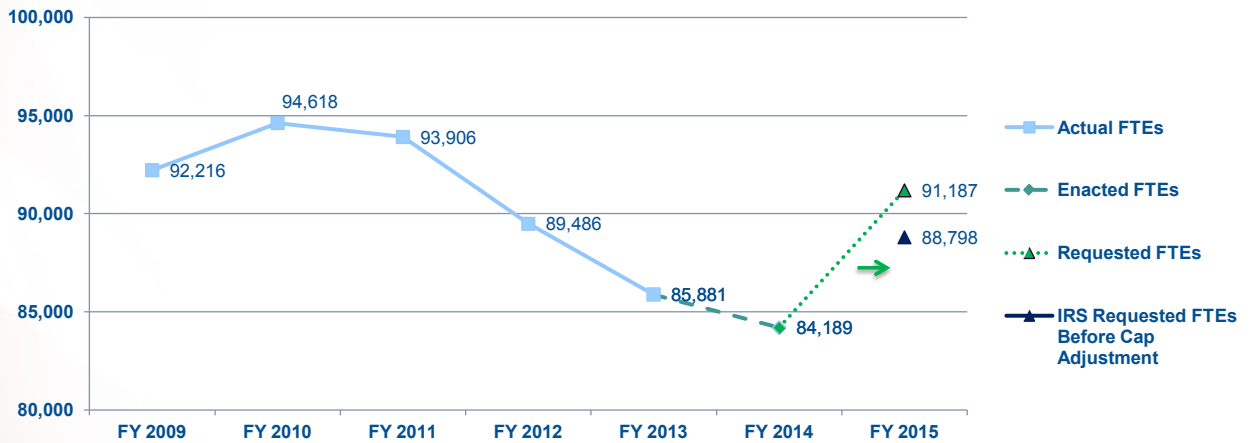
¹Operations Support includes IRS's information systems and overall planning, direction, and support for the IRS.

See appendix I for more information on IRS budget trends, including other budgetary resources.

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Fiscal Year 2015 Request: IRS Proposed Increasing Staffing to about Fiscal Year 2012 Levels

Figure 9: IRS Full-Time Equivalents Funded through Appropriations, Fiscal Years 2009 through 2013 Actual, 2014 Enacted, and 2015 Request



Legend: FY = fiscal year. FTE = full-time equivalent.

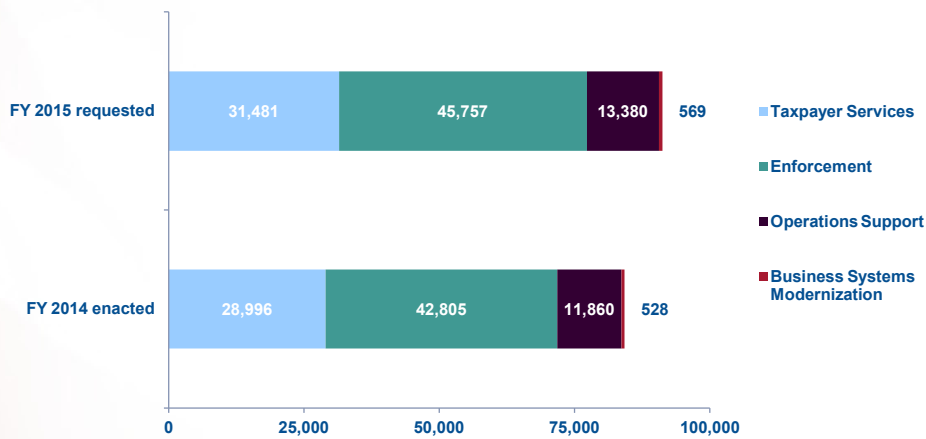
Source: Fiscal years 2009 through 2015 congressional justification for IRS.

Notes: Fiscal year 2013 levels represent the across-the-board rescission and reductions required by sequestration. In fiscal year 2014, IRS received \$92 million for the improvement of services to taxpayers, refund fraud and identity theft, and international and offshore compliance issues. The operating plan, which has not been approved as of April 11, 2014, proposes allocating \$34 million to Taxpayer Services and \$58 million to Operations Support. In addition, IRS has proposed to transfer \$69.2 million from Enforcement to Operations Support for information technology infrastructure (\$40 million) and a program reclassification (\$29.2 million). Amounts shown do not include FTEs funded with other budgetary resources, such as user fees. The FY 2015 initiatives were developed with most FTEs costing assuming a January 1 hire date.

See appendix II for more information on FTEs in the Fiscal Year 2015 budget request for IRS, including other budgetary resources. Page 16

Fiscal Year 2015 Request: The Largest Staffing Increase Is about 3,000 FTEs for Enforcement

Figure 10: Fiscal Year 2015 Full-Time Equivalents, Budget Request by Appropriation Compared to Fiscal Year 2014 Enacted Appropriation for IRS



Legend: FY = fiscal year.

Source: Fiscal year 2015 congressional justification for IRS.

Note: The FY 2015 initiatives were developed with most FTE costing assuming a January 1 hire date.

See appendix II for more information on FTEs in the fiscal year 2015 budget request for IRS, including other budgetary resources.



Workload: Staff Dedicated to Legislative Mandates and Priority Programs

Table 4: Full-Time Equivalents to Implement New Laws and Priority Programs, Fiscal Years 2013 Actual, 2014 Planned, and 2015 Requested

Legislative Mandate/Priority Program	FY 2013 actual	FY 2014 enacted	FY 2015 requested ^a
Refund fraud including identity theft	4,146	4,146	4,603
International and offshore tax administration	2,135	1,819	2,151
Patient Protection and Affordable Care Act ^b	701	1,954 ^c	2,046
Merchant card/cost basis reporting ^{d,e}	90	128	450
Foreign Account Tax Compliance Act ^f	40	50	394
Return Review Program/Electronic Fraud Detection System	104	137	137
Return preparer oversight	167	80	186
Total FTEs	7,383	8,314	9,967

Legend: FY = fiscal year. FTE = full-time equivalent.

Source: IRS Office of Corporate Budget.

Notes: ^aThe FY 2015 initiatives were developed with most FTE costed assuming a January 1 hire date. ^bPPACA, Pub. L. No. 111-148, 124 Stat. 119 (Mar. 23, 2010), as amended by the Health Care and Education Reconciliation Act (HCERA), Pub. L. No. 111-152, 124 Stat. 1029 (Mar. 30, 2010). All references to PPACA include amendments by HCERA.

^cAccording to IRS officials, this reflects the number of FTEs requested in the Fiscal Year 2014 President's Budget.

^dHousing Assistance Tax Act of 2008, Pub. L. No. 110-289, div. C, §3091, 122 Stat. 2654, 2908-2911 (July 30, 2008).

^eEnergy Improvement and Extension Act of 2008, Pub. L. No. 110-343, div. B, §403, 122 Stat. 3765, 3854-3860 (Oct. 3, 2008).

^fHiring Incentives to Restore Employment Act, Pub. L. No. 111-147, Title V, 124 Stat. 71, 97-117 (Mar. 18, 2010).

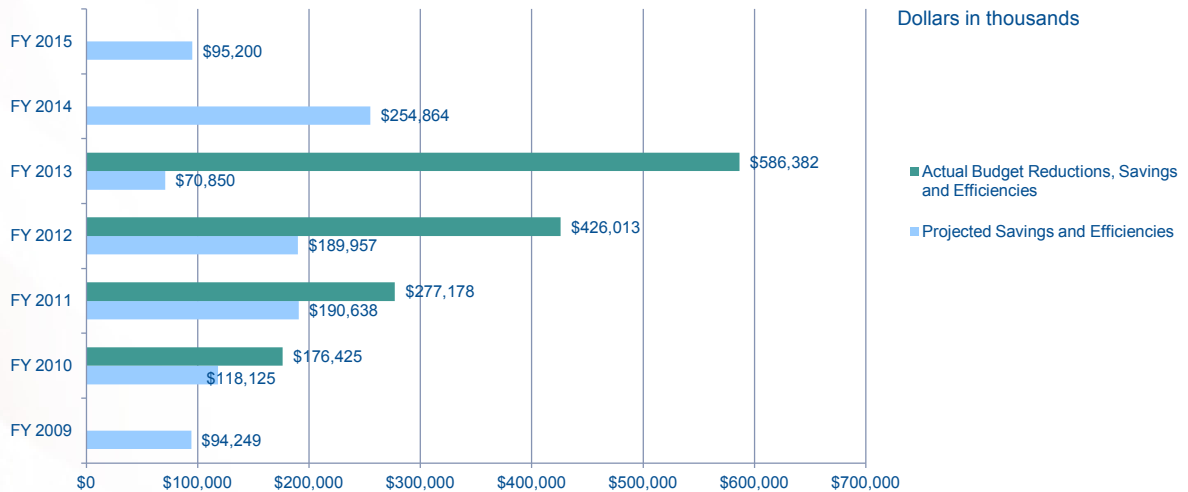
See appendices IX and X for more information on PPACA spending.

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Absorbing Cuts: Reductions to IRS’s Budget Greater than Projected Savings

- IRS has absorbed approximately \$900 million in budget cuts since fiscal year 2010.

Figure 11: IRS Projected and Actual Savings and Efficiencies, Fiscal Year 2009 through 2015^a



Legend: FY = fiscal year.

Source: GAO analysis of fiscal year 2009 through fiscal year 2015 IRS congressional justifications for the IRS.

Note: ^aIRS began calculating actual savings and efficiencies in fiscal year 2012, based on our recommendation.



Absorbing Cuts: IRS Reduced or Eliminated Some Services in 2014

• In 2014, IRS reduced or eliminated services, consistent with our finding in December 2012 that IRS needed to dramatically revise its strategy for providing telephone and correspondence services, and that incremental efficiency gains would not be enough to reverse service declines. IRS:

- limited inquiries to answer only basic tax law questions during the filing season and reassigned assistors to work account-related inquiries;
- launched the “Get Transcript” tool, which allows taxpayers to obtain a viewable and printable transcript on www.irs.gov, and redirected taxpayers to automated tools for additional guidance;
- redirected refund-related inquiries to automated services and did not answer refund inquiries until 21 days after the tax return was filed electronically or 6 weeks after the return was filed by paper (unless the automated service directed the taxpayer to contact IRS);
- limited access to the Practitioner Priority Services line to only those practitioners working tax account issues;
- limited live assistance and redirected requests for domestic employer identification numbers to IRS’s online tool; and
- eliminated free return preparation and reduced other services at IRS’s walk-in sites.



Absorbing Cuts: IRS Has Delayed Two IT Projects In Part Due to Budget Reductions

IRS put two major IT projects, Information Reporting and Document Matching (IRDM) and the Return Review Program (RRP), on hold due to a lack of funding and technical issues (See appendix XI).¹

- During the hold, IRS will determine the best case management tool to use to meet IRDM's program requirements. It plans to leverage an off-the-shelf solution because IRS believes it will be more cost effective than building one.
- IRS initially planned to release all of RRP by March 2015. The first phase, Transition State 1.0 (TS1), was split into two releases: R1.0 and R1.1. Testing of TS1 R1.0 has been ongoing, and will continue for the remainder of the calendar year. IRS put the next two phases, TS1.5 and TS2.0 on hold until it has analyzed and resolved how to design RRP's architecture more efficiently.
- IRS is working to develop a plan to move beyond the hold on RRP, and expects to complete the plan in the summer of 2014, and will initiate the plan after that time. Moving forward, this plan will help inform IRS's funding needs for RRP.

¹Information Reporting and Document Matching (IRDM): IRDM is intended to be used to improve business taxpayer compliance by matching business information (e.g., 1099-K) tax returns with individual tax returns to identify potential income under reporting. Return Review Program (RRP): When RRP is fully deployed it is expected to make use of leading-edge technology to detect, resolve, and prevent fraud.



Absorbing Cuts: IRS Substantially Reduced Employee Training

- According to IRS Commissioner Koskinen, since 2010 IRS has reduced training costs by 83 percent and training-related travel costs by 87 percent by limiting employee travel and training to mission-critical projects.
- For fiscal year 2013, IRS reported a savings of \$56.2 million by reducing agency-wide, non-technical training and non-case related travel.
- In its fiscal year 2013 Report to Congress, the National Taxpayer Advocate lists training cuts as one of IRS's most serious problems. From fiscal years 2009 through 2013, per-employee spending dropped from \$1,450 per full-time equivalent to less than \$250.

Table 5: Percentage of Training Reduction for Selected IRS Divisions, Fiscal Years 2009 through 2013

Division	Percent reduction
Appeals	96
Tax Exempt and Government Entities	96
Small Business/Self-Employed	93
Large Business and International	92
Taxpayer Advocate Service	78
Wage and Investment	74

Source: National Taxpayer Advocate: 2013 Annual Report to Congress, Volume I, (Dec. 31, 2013).



Opportunities Exist to More Strategically Manage Operations

Funding is one component of improving operations. Legislative proposals and our prior work provide options to improve IRS operations (see appendixes XII and XIII). For example, the administration proposes legislative changes such as providing IRS with greater flexibility to address correctable errors (broaden math error authority).

In addition, we recommended that IRS:

- outline a strategy that defines appropriate levels of telephone and correspondence service and wait times and lists specific steps to manage service based on an assessment of time frames, demand, capabilities, and resources (GAO-13-156).¹ IRS did not agree or disagree with this recommendation, stating that it already had an objective of providing taxpayers with access to accurate services while managing demand by improving efficiency. However, in recent years, because IRS has not kept up with the demand for its services we maintain our recommendation is valid; a strategy to reverse the trends may require difficult tradeoffs.
- review disparities in the ratios of direct revenue yield to costs across different enforcement programs and across different groups of cases within programs and determine whether this evidence provides a basis for adjusting IRS's allocation of enforcement resources each year. We noted that the better empirical basis IRS planners have for making such judgments, the more confident they can be that they are allocating their limited resources to the best effect (GAO-13-151).² IRS agreed with our recommendation. Given the time to develop additional key data, IRS is considering how to apply interim methods, findings, or approximations. They are unsure when this work will be completed; we believe our recommendation remains valid.
- develop a long-term strategic plan for its web services. We noted that a long-term strategy could help managers have a common understanding of IRS's plans, and better assist Congress in understanding what it is being asked to fund and holding IRS accountable for progress (GAO-13-435).³ In April 2014, IRS reported that a long-term online strategy for improving web services will be completed in February 2015.

¹GAO, *2012 Tax Filing: IRS Faces Challenges Providing Service to Taxpayers and Could Collect Balances Due More Effectively*, GAO-13-156 (Washington, D.C.: Dec. 18, 2012).

²GAO, *Tax Gap: IRS Could Significantly Increase Revenues by Better Targeting Enforcement Resources*, GAO-13-151 (Washington, D.C.: Dec. 5, 2012).

³GAO, *IRS Website: Long-Term Strategy Needed to Improve Interactive Services*, GAO-13-435 (Washington, D.C.: Apr. 16, 2013).

Concluding Observations

IRS has absorbed budget cuts since fiscal year 2010, and the resulting imbalance between service and demand has adversely affected operations. To address this imbalance, IRS has requested a large budget increase for 2015. However, additional funding is not the only solution for IRS. We have open recommendations that may help IRS to more effectively manage its operations and achieve some savings over time.



Appendix I: Dollars by Appropriation Account, Fiscal Years 2009 through 2015

Table 6: Fiscal Years 2009 through 2014 Enacted and Fiscal Year 2015 Budget Request for IRS by Appropriation Account (Dollars in Millions)

Appropriation account	FY 2009 enacted	FY 2010 enacted	FY 2011 enacted	FY 2012 enacted	FY 2013 enacted ^a	FY 2014 enacted ^b	FY 2015 requested	Dollar change FY 2014 enacted compared to FY 2015 requested	Percent change FY 2014 enacted compared to FY 2015 requested
Enforcement	\$5,117	\$5,504	\$5,493	\$5,299	\$4,949	\$5,022	\$5,372	\$350	7.0
Operations support	3,867	4,084	4,057	3,947	3,801	3,799	4,457	658	17.3
Taxpayer services	2,293	2,279	2,293	2,240	2,136	2,157	2,318	161	7.5
Business Systems Modernization	230	264	263	330	313	313	330	17	5.5
Health Insurance Tax Credit Administration (HITCA) ^c	15	16	15	0	0	0	0	0	0
Subtotal	11,523	12,146	12,122	11,817	11,199	11,291	12,477	1,186	10.5
Other resources, such as user fees	390	539	655	695	855	815	785	-30	-3.7
Total funding available for obligations	\$11,913	\$12,686	\$12,777	\$12,512	\$12,053	\$12,106	\$13,261	\$1,156	9.6

Legend: FY = fiscal year.

Source: Fiscal years 2011 through 2015 congressional justifications for IRS.

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

^aFY 2013 enacted represents the operating level after applying across-the-board rescission and reductions required by sequestration and an interappropriation transfer of \$73 million transferred from the Enforcement appropriation to the Taxpayer Services (\$13 million) and Operations Support (\$60 million) appropriations.

^bIn fiscal year 2014, IRS received \$92 million for the improvement of services to taxpayers, refund fraud and identity theft, and international and offshore compliance issues. The operating plan, which has not been approved as of April 11, 2014, proposes allocating \$34 million to Taxpayer Services and \$58 million to Operations Support. In addition, IRS has proposed to transfer \$69.2 million from Enforcement to Operations Support for information technology infrastructure (\$40 million) and a program reclassification (\$29.2 million).

^cIn FY 2012, administrative resources for HITCA were moved to the Taxpayer Services appropriation under the Consolidated Appropriations Act, 2012, Pub. L. No. 112-74, 125 Stat. 786 (Dec. 23, 2011).



Appendix II: Staffing by Appropriation Account, Fiscal Years 2009 through 2015

Table 7: Fiscal Years 2009 through 2013 Actual, 2014 Enacted, and 2015 Requested Full-time Equivalents by Appropriation Account

Appropriation account	FY 2009 actual	FY 2010 actual	FY 2011 actual	FY 2012 actual	FY 2013 actual ^a	FY 2014 enacted ^b	FY 2015 requested ^c	FTE change FY 2014 enacted compared to FY 2015 requested	Percent change FY 2014 enacted compared to FY 2015 requested
Enforcement	47,361	50,400	49,920	47,189	44,174	42,805	45,757	2,952	6.9
Operations support	12,101	12,262	12,103	11,499	11,610	11,860	13,380	1,520	12.8
Taxpayer services	32,422	31,607	31,574	30,236	29,646	28,996	31,481	2,485	8.6
Business Systems Modernization	322	337	309	562	451	528	569	41	7.8
Health Insurance Tax Credit Administration (HITCA) ^d	10	12	0	0	0	0	0	0	0
Subtotal	92,216	94,618	93,906	89,486	85,881	84,189	91,187	6,998	8.3
Other resources, such as user fees	1,153	752	1,003	2,185	1,884	1,503	1,503	0	0
Total	93,369	95,370	94,909	91,671	87,765	85,692	92,690	6,998	8.2

Legend: FY = fiscal year.

Source: Fiscal years 2011 through 2014 congressional justifications for IRS.

Notes: ^aFY 2013 actual represents the operating level after applying across-the-board rescission and reductions required by sequestration and an interappropriation transfer of \$73 million transferred from the Enforcement appropriation to the Taxpayer Services (\$13 million) and Operations Support (\$60 million) appropriations.

^bIn fiscal year 2014, IRS received \$92 million for the improvement of services to taxpayers, refund fraud and identity theft, and international and offshore compliance issues. The operating plan, which has not been approved as of April 11, 2014, proposes allocating \$34 million to Taxpayer Services and \$58 million to Operations Support. In addition, IRS has proposed to transfer \$69.2 million from Enforcement to Operations Support for information technology infrastructure (\$40 million) and a program reclassification (\$29.2 million).

^cThe FY 2015 initiatives were developed with most FTE costed assuming a January 1 hire date.

^dThe administrative resources for HITCA were moved to the Taxpayer Services appropriation under the Consolidated Appropriations Act, 2012, Pub. L. No. 112-74, 125 Stat. 786 (Dec. 23, 2011).



Appendix III: IRS Adjusted Enforcement Coverage and Efficiency Targets Downward

Table 8: IRS Enforcement Coverage Measures Fiscal Years 2009 through 2013 Actual and 2014 and 2015 Targets

	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Target ^a (Original)	FY 2014 Target (March 2014)	FY 2015 Target ^b
Selected Examination Measures								
Examination Coverage - Individual	1.0%	1.1%	1.1%	1.0%	1.0%	1.0%	0.8%	0.8%
Examination Efficiency - Individual	138	140	139	142	142	145	133	124
Examination Coverage Business (Assets >10mil)	5.6%	5.7%	6.2%	6.2%	5.6%	4.9%	4.2%	4.1%
Automated Underreporter Coverage	2.6%	3.0%	3.3%	3.2%	2.8%	3.1%	2.5%	2.7%
Automated Underreporter Efficiency	1,905	1,924	2,007	2,041	2,025	2,001	1,931	1,950
Selected Collections Measures								
Collection Coverage	54.2%	50.1%	50.0%	48.1%	47.0%	47.1%	42.7%	45.0%
Collection Efficiency	1,845	1,822	1,952	1,997	2,057	2,039	2,007	1,900
Automated Collection System Accuracy	94.3%	95.9%	94.9%	94.7%	94.4%	94.5%	94.0%	94.0%

Source: GAO analysis of fiscal years 2014 and 2015 congressional justifications for IRS.

Notes: Coverage measures generally are the number of closed examinations by the number of filings for the prior year. Efficiency measures are generally the total number of cases closed divided by total full time equivalents used. Automated Collection System Accuracy refers to the percent of taxpayers who received the correct answer to their question.

^aThe FY 2014 target was based on the FY2014 budget request.

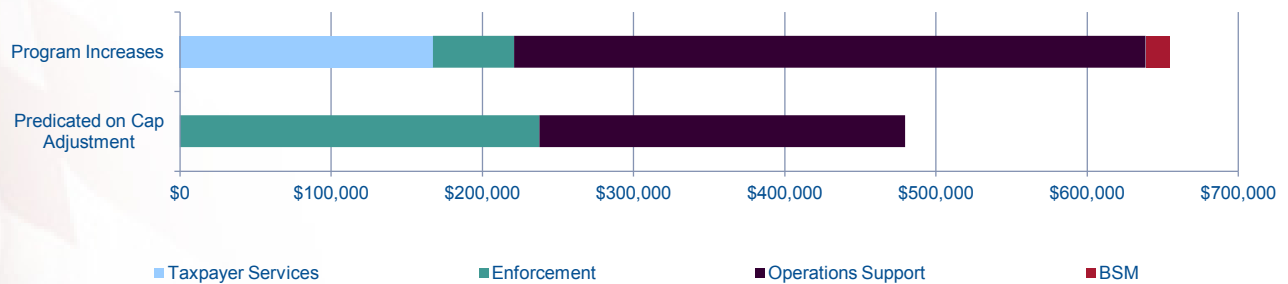
^bThe FY 2015 target was based on the FY2015 budget request.

Appendix IV: Of Requested \$1.2 Billion for Fiscal Year 2015, \$480 Million Predicated on a Cap Adjustment¹

The fiscal year 2015 request includes 22 new program initiatives—17 of which are predicated on a cap adjustment—with total requested funding of more than \$1.1 billion.² This includes:

- 13 for enforcement (\$535 million),
- 6 for Infrastructure (\$376 million),
- 1 for taxpayer service (\$221 million), and
- 1 for BSM (\$17 million).

Figure 12: Funding Requested for New Initiatives Predicated on a Cap Adjustment (Dollars in Thousands)



Source: GAO analysis of fiscal year 2015 congressional justification for IRS.

¹Congress passes cap adjustments to allow for additional funding above discretionary spending lists for certain activities.
²One of the new program initiatives predicated on a cap adjustment is a funding transfer to the Alcohol Tobacco Trade Bureau.



Appendix V: IRS Proposed 17 Initiatives Predicated on a Cap Adjustment Totaling \$480 Million

Table 9: Funding Requested for New Initiatives Predicated on a Cap Adjustment (Dollars in Thousands)

Description of budget adjustments	Fiscal year 2015 funding requested, by appropriation account				Total	Projected Enforcement ROI for fiscal year 2017	Projected Protected Revenue ROI for fiscal year 2017
	Taxpayer services account	Enforcement account	Operations support account	Business Systems Modernization			
Enforcement Initiatives							
Address International and Offshore Compliance Issues	-	49,037	7,773	-	56,810	4.8	-
Expand Coverage of High Wealth Individuals and Enterprises	-	17,684	3,273	-	20,957	11.3	-
Expand Audit Coverage	-	53,581	44,198	-	97,779	7.1	20.5
Enhance Collection Coverage	-	41,692	25,070	-	66,762	8.5	-
Improve Coverage of Partnerships and Flow-Through Entities	-	28,690	7,849	-	36,539	6.8	-
Expand Compliance Coverage in the Tax-Exempt Sector	-	13,364	2,731	-	16,095	-	-
Pursue Fraud Referrals, Employment Tax, and Abusive Tax Schemes	-	9,275	8,537	-	17,812	-	-
Build Out Tax Return Preparer Compliance and Professional Responsibility Activities	-	14,765	2,772	-	17,537	-	-
Implement Information Technology (IT) Changes to Deliver the Foreign Account Tax Compliance Act (FATCA)	-	-	32,223	-	32,223	-	-
Leverage Digital Evidence for Criminal Investigation	-	698	3,674	-	4,372	-	-
Leverage Data to Improve Case Selection	-	4,052	32,741	-	36,793	2.0 ^a	-
Infrastructure Initiatives							
Implement Information Technology (IT) Services	-	-	10,000	-	10,000	-	-
Implement Campus Consolidation and Revitalization Strategy	-	-	10,000	-	10,000	-	-
Implement e-Government and Other Administration Priorities	-	-	31,011	-	31,011	-	-
Maintain Integrity of Revenue Financial Systems	-	-	12,136	-	12,136	-	-
Expand Virtual Service Delivery (VSD)	-	-	7,701	-	7,701	-	-
Alcohol and Tobacco Tax and Trade Bureau Program Integrity Transfer							
Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities	-	5,000	-	-	5,000	-	-
Total Fiscal Year 2015 Cap Adjustment		\$237,838	\$241,689		\$479,527	n/a	-

Legend: n/a = not applicable. Note: Numbers may not add due to rounding.
 Source: Fiscal year 2015 congressional justification for IRS.
 Note:^a IRS considers leveraging data to improve case selection a revenue-enhancing initiative.



Appendix VI: Five Proposed Initiatives for \$654 Million Are Not Predicated on a Cap Adjustment

Table 10: Funding Requested for New Initiatives Not Predicated on a Program Integrity Cap Adjustment (Dollars in Thousands)

Description of budget adjustments	Appropriation Account				Total	Projected enforcement revenue ROI for fiscal year 2017	Projected protected revenue ROI for fiscal year 2017
	Taxpayer services account	Enforcement account	Operations support account	Business Systems Modernization			
New initiatives	\$167,382	\$53,545	\$417,780	\$15,679	\$654,386	n/a	
Improve Taxpayer Services and Return Processing	153,482	-	57,776	-	211,258	-	-
Prevent Identity Theft and Refund Fraud	13,900	16,971	34,005	-	64,876	-	22.4
Continue Migration from Aging Tax Administration Systems – Enhance Online Services	-	-	829	15,679	16,508		
Address Impact of Patient Protection and Affordable Care Act (PPACA) Statutory Requirements	-	36,574	19,525	-	56,099	2.3	14.0
Implement Information Technology (IT) Changes to Deliver Tax Credits and Other Requirements	-	-	305,645	-	305,645		-
Non-Recur FY 2014 Additional Appropriation	-34,000	-	-58,000		-92,000	n/a	-
Maintaining Current Levels	46,483	105,719	69,382	1,593	223,177	n/a	-
Base Adjustment		-29,221	29,221				-
Savings and efficiencies, net reinvestment	-18,786	-18,233	-42,156		-95,200	n/a	-
Total Request Before Cap Adjustment	\$2,317,633	\$5,133,988	\$4,215,169	\$330,210	\$11,997,000	n/a	-

Legend: n/a = not applicable. ROI=return on investment. FY=Fiscal Year
 Source: Fiscal year 2015 congressional justification for IRS.
 Note: Numbers may not add due to rounding.



Appendix VII: IRS Continues to Report Actual Return on Investment (ROI) Data for Three Enforcement Programs

Table 11: Actual Return on Investment (ROI) for Major IRS Enforcement Programs (Dollars in Millions)

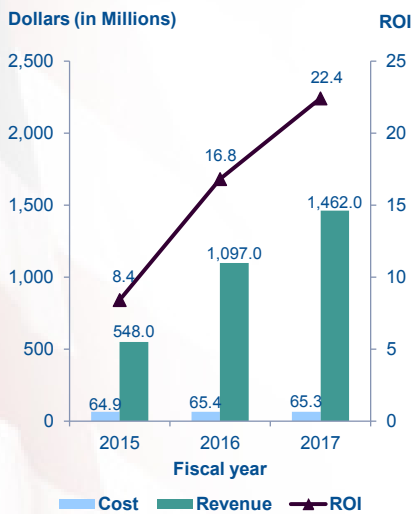
Enforcement program	Fiscal year 2010			Fiscal year 2011			Fiscal year 2012			Fiscal year 2013		
	Cost	Revenue	ROI	Cost	Revenue	ROI	Cost	Revenue	ROI	Cost	Revenue	ROI
Examination	\$4,371	\$23,563	5.4	\$4,333	\$18,924	4.4	\$4,232	\$14,476	3.4	\$3,965	\$16,662	4.2
Collection	1,948	29,105	14.9	1,939	31,060	16.0	1,742	30,442	17.5	1,660	31,396	18.9
Automated Underreporter	262	4,924	18.8	270	5,245	19.4	267	5,269	19.7	258	5,287	20.5
IRS total	\$6,581	\$57,592	8.8	\$6,543	\$55,229	8.4	\$6,242	\$50,187	8.0	\$5,883	\$53,345	9.1

Source: Fiscal year 2015 congressional justification for IRS.
 Note: Numbers may not add due to rounding.

- For the fiscal year 2015 congressional justification, IRS continued to calculate direct actual ROI for the Examination, Collection, and Automated Underreporter programs, but has not completed this calculation for other programs or at lower levels.
- IRS is not yet able to calculate average or marginal direct actual ROI of new enforcement program initiatives, but is in the process of completing a feasibility study to identify steps necessary to measure actual revenue and ROI for new enforcement initiatives.
- IRS will continue to use revenue protection and revenue enhancement ROI projections.

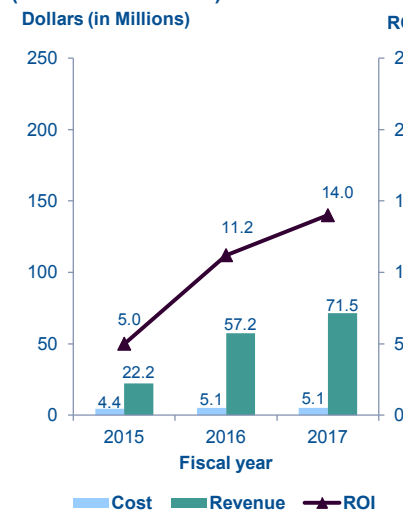
Appendix VIII: IRS Estimated Future ROI for New Enforcement Initiatives

Figure 13: Prevent Identity Theft and Refund Fraud (Protected Revenue)



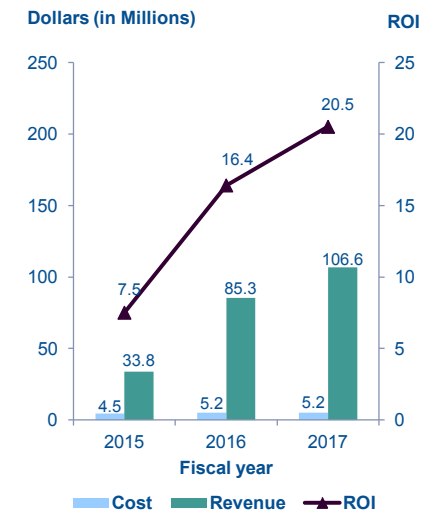
Source: GAO analysis of IRS data.

Figure 14: Address Impact of Affordable Care Act Statutory Requirements (Protected Revenue)



Source: GAO analysis of IRS data.

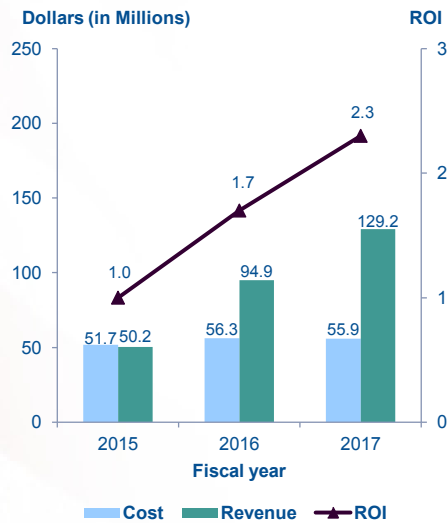
Figure 15: Expand Audit Coverage (Protected Revenue)



Source: GAO analysis of IRS data.

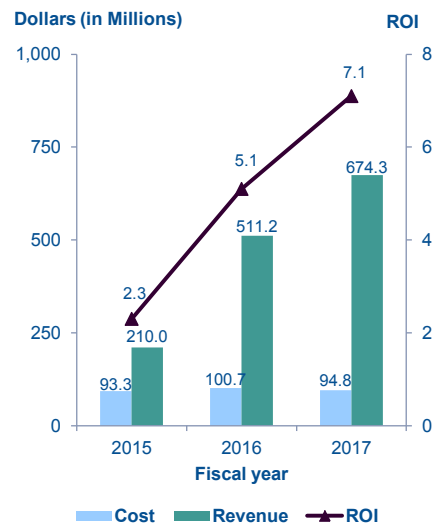
Appendix VIII: IRS Estimated Future ROI for New Enforcement Initiatives (continued)

Figure 16: Address Impact of Affordable Care Act Statutory Requirements (Enforcement Revenue)



Source: GAO analysis of IRS data.

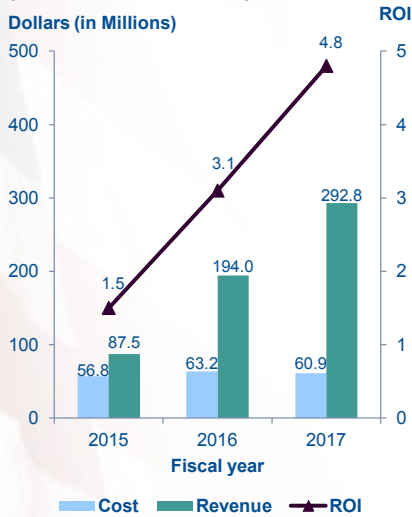
Figure 17: Expand Audit Coverage (Enforcement Revenue)



Source: GAO analysis of IRS data.

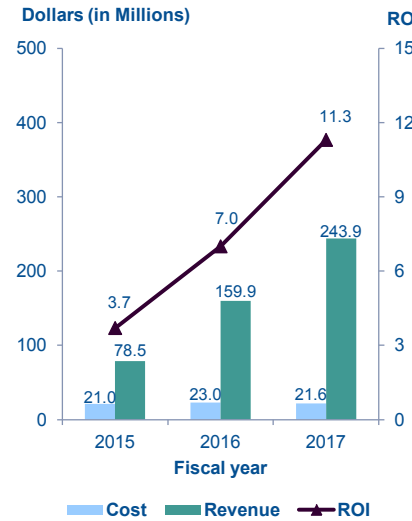
Appendix VIII: IRS Estimated Future ROI for New Enforcement Initiatives (continued)

Figure 18: Address International and Offshore Compliance Issues (Enforcement Revenue)



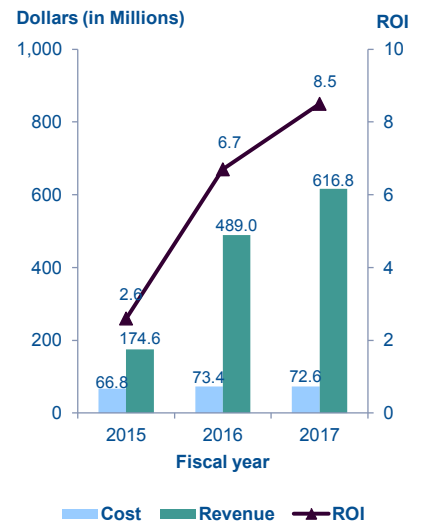
Source: GAO analysis of IRS data.

Figure 19: Expand Coverage of High Wealth Individuals and Enterprises (Enforcement Revenue)



Source: GAO analysis of IRS data.

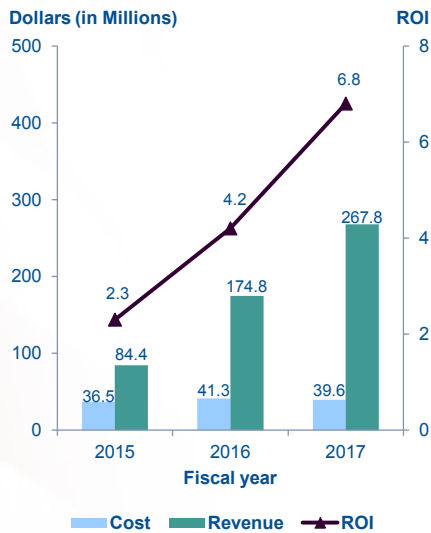
Figure 20: Enhance Collection Coverage (Enforcement Revenue)



Source: GAO analysis of IRS data.

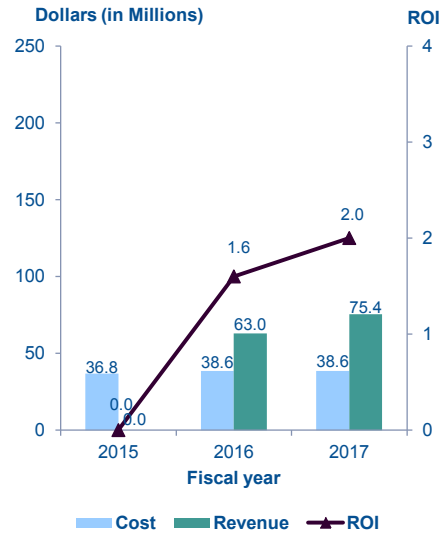
Appendix VIII: IRS Estimated Future ROI for New Enforcement Initiatives (continued)

Figure 21: Improve Coverage of Partnerships and Flow-Through Entities (Enforcement Revenue)



Source: GAO analysis of IRS data.

Figure 22: Leverage Data to Improve Case Selection (Enforcement Revenue)



Source: GAO analysis of IRS data.



Appendix IX: Patient Protection and Affordable Care Act (PPACA)¹ Spending, Fiscal Years 2010 through 2012

Table 12: Patient Protection and Affordable Care Act (PPACA) Spending, Fiscal Years 2010 through 2012 (in Millions)

PPACA Initiatives	FY 2010 actual	FY 2011 actual	FY 2012 actual	Total
Administer new fees on drug manufacturers and health insurers	\$0.3	\$0.7	\$1.1	\$2.1
Strengthen oversight of exempt hospitals	0.4	4.5	4.0	9.0
Promoting compliance with other new provisions	0.8	11.6	8.3	20.8
Program management	0.1	8.4	17.9	26.4
Support of implementation of taxpayer issues (e.g. Counsel, Appeals)	2.4	5.0	5.2	12.5
Customer service support (outreach, phones, and other support)	1.3	6.0	4.7	12.0
Information technology, operations, and support and infrastructure, deliver new tax credits and individual coverage requirement	15.3	131.9	258.0	405.2
Total	\$20.7	\$168.2	\$299.2	\$488.1

Legend: FY = fiscal year.

Source: Fiscal year 2014 congressional justification for IRS.

Notes: PPACA was enacted on March 23, 2010. IRS received funding for PPACA implementation activities from the Department of Health and Human Services' Health Insurance Reform Implementation Fund in fiscal years 2010 to 2012. Numbers may not add to due rounding.

¹PPACA, Pub. L. No. 111-148, 124 Stat. 119 (Mar. 23, 2010), as amended by the Health Care and Education Reconciliation Act (HCERA), Pub. L. No. 111-152, 124 Stat. 1029 (Mar. 30, 2010). All references to PPACA include amendments by HCERA.



Appendix X: PPACA Spending and Request by Account and Initiatives, Fiscal Years 2013 through 2015

Table 13: PPACA Spending and Request by Account and Initiative (in Millions)

PPACA initiatives	Taxpayer Services			Enforcement			Operations Support			Total		
	FY 2013 actual	FY 2014 requested	FY 2015 requested	FY 2013 actual	FY 2014 requested	FY 2015 requested	FY 2013 actual	FY 2014 requested	FY 2015 requested	FY 2013 actual	FY 2014 requested	FY 2015 requested
Improve taxpayer service and meet increased demand (PPACA portion of initiative)	\$3.8	\$70.3	\$58.2	\$0	\$3.2	\$0	\$0	\$16.0	\$15.7	\$3.8	\$89.5	\$73.9
Address impact of PPACA statutory requirements	0.5	1.1	0	19.3	26.1	36.6	11.8	17.2	19.5	31.6	44.4	56.1
Implement IT changes to deliver tax credits and other requirements	0	0	0	0	0	0	248.6	305.6	305.6	248.6	305.6	305.6
Expand telecom infrastructure to handle increased demand	0	0	0	0	0	0	0	0	16.0	0	0	16.0
Total PPACA budget request	\$4.3	\$71.4	\$58.2	\$19.3	\$29.3	\$36.6	\$260.4	\$338.8	\$356.9	\$284	\$439.6*	\$451.7

Source: IRS data on PPACA spending for fiscal year 2013 and fiscal years 2014 and 2015 congressional justifications for IRS.

Notes: IRS did not receive funding for PPACA implementation activities in fiscal years 2013 or 2014. IRS received funding from the Department of Health and Human Services in fiscal years 2010 to 2012. Numbers may not add due to rounding.

*Actual total fiscal year 2014 PPACA spending through February 28, 2014 is \$59.2 million.



Appendix XI: Summary of Major IT Investments

Total funding for all investments from fiscal years 2009 to 2015 is about \$11 billion.

Table 14: Summary of IRS's Major IT Investments (in Millions)

Investment name	Fiscal year 2014 appropriation ^a	Actual obligations to date ^b	Fiscal year 2015 projected life-cycle cost	Projected useful life (year)
Account Management Services (AMS) Enhances customer support by providing applications that enable IRS employees to access, validate, and update individual taxpayer accounts on demand.	\$17	\$11	\$204	2017
Patient Protection and Affordable Care Act (PPACA)^c Encompasses the planning, development, and implementation of IT systems needed to support IRS's tax administration responsibilities associated with the act. ^d	345	651	1,987	2018
Customer Account Data Engine 2 (CADE 2) Provides timely access to authoritative individual taxpayer account information and enhances IRS's ability to address technology, security, financial material weaknesses, and long-term architectural planning and viability.	165	687	1,022	2020
Electronic Fraud Detection System (EFDS) Assists in detecting fraud at the time that tax returns are filed in order to eliminate the issuance of fraudulent tax refunds.	16	111	162	2021
e-Services (e-SVS) Comprises several web-based self-assisted services that are intended to allow authorized individuals to do business with the IRS electronically.	11	173	207	2019
Foreign Account Tax Compliance Act (FATCA) Intended to implement provisions of the Foreign Account Tax Compliance Act regarding financial institutions reporting to IRS information about financial accounts held by U.S. taxpayers, or foreign entities in which U.S. taxpayers hold a substantial ownership interest.	47	17	162	2020
Implement Return Review Program (RRP) (Replaces EFDS) Currently under development, is intended to maximize fraud detection at the time that tax returns are filed to eliminate issuance of questionable refunds.	68	103	253	2020
Individual Master File (IMF) Represents the authoritative data source for individual tax account data. All other IRS information systems that process IMF data depend on output from this source. This investment is a critical component of IRS's ability to process tax returns.	14	82	166	2019
Information Reporting and Document Matching (IRDM) Intended to establish a new business information matching program in order to increase voluntary compliance and accurate income reporting.	23	70	186	2019

Source: GAO's analysis of fiscal year 2015 congressional justification for IRS.

^aFiscal year 2014 appropriation is the amount IRS plans to fund out of its own accounts (e.g., user fees and other budget accounts).

^bActual obligations to date through fiscal year 2013.

^cIRS uses the acronym "ACA" to refer to the Patient Protection and Affordable Care Act in its reports.

^dIn this report, we are not evaluating the healthcare.gov initiative headed by the Centers for Medicare and Medicaid Services.



Appendix XI: Summary of Major IT Investments (continued)

Table 14 (continued): Summary of IRS' Major IT Investment (in Millions)

Investment name	Fiscal year 2014 appropriation	Actual obligations to-date	Fiscal year 2015 projected life-cycle cost	Projected useful life (year)
Integrated Customer Communication Environment (ICCE) Includes several projects that are intended to simplify voluntary compliance using voice response, Internet, and other computer technology such as the Modernized Internet Employee Identification Number, which allows third parties to act on the behalf of taxpayers.	\$15	\$482	\$524	2019
Integrated Data Retrieval System (IDRS) Intended to provide systemic review, improve consistency in case control, alleviate staffing needs, issue notices to taxpayers, and allow taxpayers to see status of refunds. It is a mission-critical system used by 60,000 IRS employees.	18	202	336	2020
Integrated Financial System/CORE Financial System (IFS) Used by IRS for budget, payroll, accounts payable/receivable, general ledger functions, and financial reporting; also used to report on the cost of operations and to manage budgets by fiscal year.	15	414	494	2019
Integrated Submission and Remittance Processing System (ISRP) Processes paper tax returns, and updates tax forms to comply with tax law changes.	10	143	188	2019
IRS End User Systems and Services (EUSS) Supports products and services necessary for daily functions for over 100,000 IRS employees at headquarters and field sites.	182	705	1,933	2019
IRS Main Frames and Servers Services and Support (MSSS) Intended to support the design, development, and deployment of server storage infrastructures, software, databases, and operating systems.	406	4,094	7,317	2019
IRS Telecommunications Systems and Support (TSS) Supports IRS's broad and local network infrastructure such as servers, and switches for voice, data, and video servicing of about 1,000 IRS sites.	302	1,007	2,388	2019
IRS.Gov - Portal Environment Provides web-based services such as tax filing and refund tracking, to internal and external users, such as IRS employees and other government agencies, taxpayers, and business partners.	16	487	651	2017
Modernized e-File (MeF) Provides a secure web-based platform for electronic tax filing of individual and business tax and information returns by registered Electronic Return Originators.	40	376	639	2020
Service Center Recognition/Image Processing System (SCRIPS) Used as a data capture, management, and image storage system using high-speed scanning and digital imaging to convert data from the 940, 941, K-1, and paper returns from Information Returns Processing, into electronic format.	9	157	203	2019

Source: GAO's analysis of fiscal year 2015 congressional justification for IRS.



Appendix XII: GAO Conducted Analyses Related to 12 of 38 Legislative Proposals in the Fiscal Year 2015 Budget Request

Table 15: Legislative Proposals Related to Prior GAO Work (in Millions)

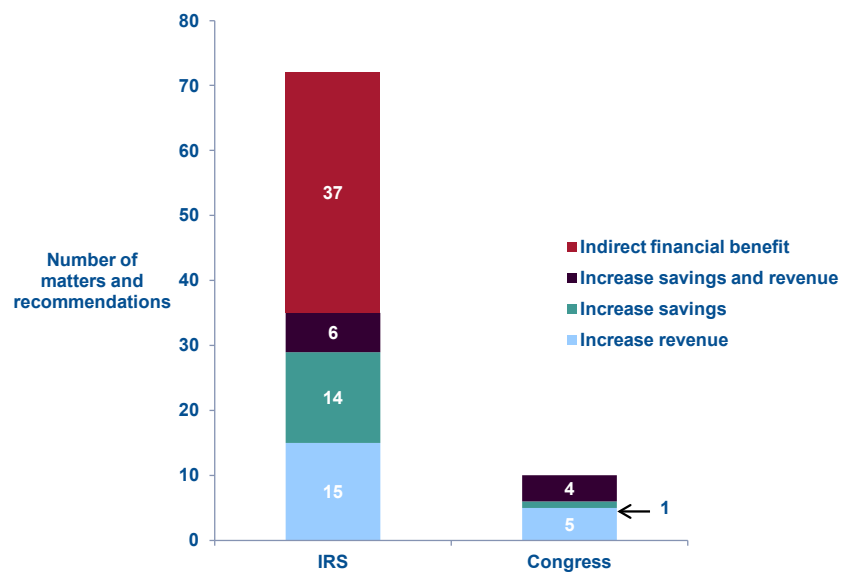
IRS legislative proposals related to prior GAO work	Projected revenues over 10 years	Projected costs over 3 years	Related GAO reports
Modify reporting of tuition expenses and scholarships of Form 1098-T, <i>Tuition Statement</i>	\$606	\$0.2	GAO-10-225
Authorize the Department of Treasury to require additional information to be included in electronically filed Form 5500 annual reports and electronic filing of certain other employee benefit plan reports.	No revenue effect	11.2	GAO-05-491
Increase certainty with respect to worker classification	9,610	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	No revenue effect	14.6	GAO-12-33
Allow IRS to absorb credit card processing fees for certain tax payments	19	9.6	GAO-10-11
Provide IRS with greater flexibility to address correctable errors	173	1.4	GAO-11-481
Provide whistleblowers with protection from retaliation	Negligible revenue effect	0	GAO-11-683
Provide stronger protection from improper disclosure of taxpayer information in whistleblower actions	No revenue effect	0	GAO-11-683
Add tax crimes to the Aggravated Identity Theft statute	Negligible revenue effect	0	GAO-13-132T
Impose a civil penalty on tax identity theft crimes	Negligible revenue effect	2.7	GAO-13-132T
Explicitly provide that the Department of Treasury and IRS have authority to regulate all paid return preparers.	Negligible revenue effect	Not available	GAO-14-467T, GAO-08-781
Rationalize tax return filing due dates so they are staggered.	2,581	Not available	GAO-13-515

Source: GAO analysis based on IRS fiscal year 2015 congressional justification and Department of the Treasury, *General Explanations of the Administration's Fiscal Year 2015 Revenue Proposals* (Washington, D.C.: March 2014).

Appendix XIII: Implementing Open Matters for Congress and Recommendations to IRS Could Result in Financial Benefits

- We highlighted several areas where IRS could achieve cost savings and revenue enhancements in our reports on duplication, overlap, and fragmentation.¹
- As of March 2014, 37 GAO products contain 10 matters for Congress and 72 recommendations to IRS with a potential financial benefit. In addition, we have made multiple recommendations that could improve IRS operations if implemented.
- Since March 2013, 34 recommendations were implemented.

Figure 23: Recommendations to IRS and Open Matters for Congress with a Financial Benefit



Source: GAO analysis of GAO open recommendations.

¹See GAO, GAO, 2014 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits, GAO-14-343SP (Washington, D.C.: Apr. 8, 2014).

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