

Internal Revenue Service

Program Summary by Appropriations Account and Budget Activity

(Dollars in thousands)

| Appropriation | FY 2010 Enacted | FY 2011 Annualized CR Level | FY 2012 Request | FY 2010 to FY 2012 \$ Change | % Change |
|---|---------------------|-----------------------------------|---------------------|---------------------------------|--------------|
| Taxpayer Services | \$2,278,830 | \$2,278,830 | \$2,345,133 | \$66,303 | 2.9% |
| Pre-Filing Taxpayer Assistance and Education | 679,924 | 679,924 | 701,035 | 21,111 | 3.1% |
| Filing and Account Services | 1,598,906 | 1,598,906 | 1,644,098 | 45,192 | 2.8% |
| Enforcement | \$5,504,000 | \$5,504,000 | \$5,966,619 | \$462,619 | 8.4% |
| Investigations | 639,363 | 639,363 | 678,849 | 39,486 | 6.2% |
| Exam and Collections | 4,700,345 | 4,700,345 | 5,103,420 | 403,075 | 8.6% |
| Regulatory | 164,292 | 164,292 | 184,350 | 20,058 | 12.2% |
| Operations Support | \$4,083,884 | \$4,083,884 | \$4,620,526 | \$536,642 | 13.1% |
| Infrastructure | 895,202 | 895,202 | 986,045 | 90,843 | 10.1% |
| Shared Services and Support | 1,311,127 | 1,311,127 | 1,313,050 | 1,923 | 0.1% |
| Information Services | 1,877,555 | 1,877,555 | 2,321,431 | 443,876 | 23.6% |
| Business Systems Modernization | \$263,897 | \$263,897 | \$333,600 | \$69,703 | 26.4% |
| Health Insurance Tax Credit Administration | \$15,512 | \$15,512 | \$18,029 | \$2,517 | 16.2% |
| Subtotal, Internal Revenue Service | \$12,146,123 | \$12,146,123 | \$13,283,907 | \$1,137,784 | 9.4% |
| Offsetting Collections - Reimbursable | 137,758 | 137,279 | 138,272 | 993 | 0.7% |
| Mandatory Appropriation - User Fees | 175,529 | 204,428 | 204,428 | 0 | - |
| Total Program Operating Level | \$12,459,410 | \$12,487,830 | \$13,626,607 | \$1,138,777 | 9.1% |
| Direct FTE | 94,766 | 94,766 | 99,878 | 5,112 | 5.4% |
| Reimbursable FTE | 659 | 659 | 659 | - | - |
| User Fees FTE | 93 | - | - | - | - |
| Total FTE | 95,518 | 95,425 | 100,537 | 5,112 | 5.4% |

FY 2010 Enacted represents the approved FY 2010 Operating Plan.

Summary

The Internal Revenue Service (IRS) collects the revenue that funds the government and administers the nation's tax laws. The IRS collected \$2.345 trillion in taxes (gross receipts before tax refunds) in FY 2010, 93 percent of federal government receipts. To protect the flow of revenue to the government, the IRS pursues a robust service and enforcement agenda. The service agenda supports and protects the trillions in revenue that come into the Treasury each year voluntarily from taxpayers. The enforcement agenda vigorously pursues those who evade their responsibility to pay the taxes they owe.

Total resources to support the IRS activities for FY 2012 are \$13,626,607,000, including \$13,283,907,000 from direct appropriations, an estimated \$138,272,000 from reimbursable programs, and an estimated \$204,428,000 from user fees. The direct appropriation is \$1,137,784,000, 9.37 percent, more than the FY 2010 enacted level of \$12,146,123,000.

The *IRS Strategic Plan 2009-2013* guides program and budget decisions and supports the Department of the Treasury Strategic Plan and High Priority Performance Goals.

Helping taxpayers understand their obligations under the tax law is critical to improving

compliance and addressing the tax gap, the difference between taxes owed and taxes paid on time. Therefore, the IRS remains committed to a balanced program of assisting taxpayers to understand the tax law and remit the proper amount of tax.

The IRS Strategic Plan goals and objectives are:

Improve Service to Make Voluntary Compliance Easier

Enforce the Law to Ensure Everyone Meets Their Obligation to Pay Taxes

To improve service and make voluntary compliance easier, the IRS must:

- Incorporate taxpayer perspectives to improve all service interactions;
- Expedite and improve issue resolution across all interactions with taxpayers, making it easier to navigate the IRS;
- Provide taxpayers with targeted, timely guidance and outreach; and
- Strengthen partnerships with tax practitioners, tax preparers, and other third parties to ensure effective tax administration.

To enforce the law to ensure everyone meets their obligations to pay taxes, the IRS must:

- Enforce the law proactively in a timely manner while respecting taxpayer rights and minimizing taxpayer burden;
- Expand enforcement approaches and tools;
- Meet the challenges of international tax administration;
- Allocate compliance resources using a data-driven approach to target existing and emerging high-risk areas;

- Continue focused oversight of the tax-exempt sector; and
- Ensure that all tax practitioners, tax preparers, and other third parties in the tax system adhere to professional standards and follow the law.

To achieve the service and enforcement goals, the IRS must:

- Make the IRS the best place to work in government;
- Build and deploy advanced information technology systems, processes, and tools to improve IRS efficiency and productivity;
- Use data and research across the organization to make informed decisions and appropriately allocate resources; and
- Ensure the privacy and security of data and safety and security of employees.

The IRS Budget Request supports the following Department of the Treasury High Priority Performance Goals:

Increase voluntary tax compliance

Significantly increase the number of paperless transactions with the public

Enforcement Program: The FY 2012 request provides funding to implement enacted legislation; handle new information reporting requirements; increase compliance by addressing offshore tax evasion; expand enforcement efforts on noncompliance among corporate and high-wealth taxpayers; and enforce return preparer compliance.

Increased resources for the IRS compliance programs yield direct, measurable results through high return on investment activities.

The new enforcement personnel will generate more than \$1.3 billion in additional annual enforcement revenue once the new hires reach full potential in FY 2014. Vigorous enforcement also encourages voluntary compliance, further increasing revenue. The return on investment (ROI) estimate does not include the revenue effect of the deterrence value of these investments and other IRS enforcement programs, which is conservatively estimated to be at least three times the direct revenue impact.

The tax law is complex and even sophisticated taxpayers can make honest mistakes on their tax returns. Accordingly, helping taxpayers understand their obligations under the tax law is critical to improving compliance. To this end, the IRS remains committed to a balanced program of assisting taxpayers to both understand the tax law and remit the proper amount of tax.

Taxpayer Service Program: The FY 2012 request, partially funded in the Operations Support account, provides funding to improve telephone level of service, increasing the level of service performance target to 80 percent from the planned target of 71 percent in FY 2010.

Providing quality taxpayer service is especially important to help taxpayers avoid making unintentional errors. Assisting taxpayers with their questions before they file their returns prevents inadvertent noncompliance and reduces burdensome post-filing notices and other correspondence from the IRS. To continue the effort to move taxpayer service to the internet, and to support the Treasury effort to increase paperless transactions, an additional \$33 million in Operations Support will be invested in a multi-year effort to improve the IRS.gov website to meet taxpayer needs and the growing demand for more electronic services. The technology

enhancements to IRS.gov and the continued investments in electronic filing under the Business Systems Modernization (BSM) program will allow more taxpayers to reach the IRS through the internet. In 2010, there were more than 304.8 million visits to www.irs.gov, and more than 66.9 million taxpayers checked their refund status by accessing *Where's My Refund?* in English or in Spanish on the IRS website. Taxpayers also can use automated features found at 1-800-829-1040. In FY 2012, the IRS will complete the implementation of the electronic filing application for Form 1040, *U.S. Individual Income Tax Return*, and supporting forms and schedules, and continue adding new forms and schedules to the electronic business portfolio to further increase web use.

Business Systems Modernization: The FY 2012 request provides funding to continue the migration of applications to the core taxpayer account database, CADE 2, and the expansion of Modernized e-File. The CADE 2 program is the cornerstone of modernization and is a prerequisite to the development of the next generation of IRS service and enforcement initiatives. It will position the IRS to have quicker and better access to data for service and compliance.

The Affordable Care Act (ACA): The FY 2012 request includes funding for ACA (Public Law 111-148) to administer a premium credit to subsidize the cost of health insurance for Americans who do not have access to affordable coverage; a small business tax credit to encourage employers to provide health insurance coverage for their employees; new information reporting and sharing requirements; an excise tax on tanning services; a new aggregate annual fee on businesses engaged in manufacturing and importing branded prescription drugs sold to specified government programs; new reporting requirements for tax-exempt hospitals; and, an

individual coverage requirement for employees who can afford health insurance, but fail to obtain minimum essential coverage. These and other provisions of the ACA will require resources to build new IT systems; modify existing tax processing systems; provide taxpayer outreach and assistance services; make enhancements to notices, collections, and case management systems to

address and resolve taxpayer issues timely and accurately; and conduct focused examinations to encourage compliance. While these activities are spread across the three primary IRS appropriations, the vast majority of the funding request is in the Operations Support account that funds information technology and infrastructure.

IRS FY 2012 Budget Highlights
(Dollars in thousands)

| Appropriation | Taxpayer Services | Enforcement | Operations Support | Business Systems Modernization | Health Insurance Tax Credit Administration | Total |
|--|--------------------|--------------------|--------------------|--------------------------------|--|---------------------|
| FY 2010 Enacted Budget | \$2,278,830 | \$5,504,000 | \$4,083,884 | \$263,897 | \$15,512 | \$12,146,123 |
| FY 2011 Annualized CR Level | \$2,278,830 | \$5,504,000 | \$4,083,884 | \$263,897 | \$15,512 | \$12,146,123 |
| Changes to Base | | | | | | |
| Adjustment to Reach FY 2011 President's Policy Level | \$23,254 | \$242,275 | \$10,128 | \$122,561 | \$3,447 | \$401,665 |
| Maintaining Current Levels (MCLs) | \$12,908 | \$30,691 | \$41,755 | \$168 | \$232 | \$85,754 |
| Efficiencies/Savings | (\$41,333) | (\$21,996) | (\$124,440) | (\$1,026) | (\$1,162) | (\$189,957) |
| Non-Recur Savings | | | (22,090) | | | (22,090) |
| Increase e-File Savings | (21,404) | | (1,040) | | | (22,444) |
| Reduce IT Infrastructure | | | (75,000) | | | (75,000) |
| Reduce Contracts | (4,522) | (325) | (15,907) | | | (20,754) |
| Reduce Administrative Expenses | (5,557) | (8,271) | (503) | | | (14,331) |
| Eliminate Lockbox Fees | | (4,000) | | | | (4,000) |
| Reduce Certain Mailings | | | (4,000) | | | (4,000) |
| Reduce Training, Travel and Programs | (9,850) | (9,400) | (5,900) | (1,026) | (1,162) | (27,338) |
| Base Reinvestment | 1,486 | | | | | 1,486 |
| Consolidate Submission Processing Site (Atlanta) | 1,486 | | | | | 1,486 |
| Subtotal FY 2012 Changes to the Base | (\$3,685) | \$250,970 | (\$72,557) | \$121,703 | \$2,517 | \$298,948 |
| FY 2012 Base | \$2,275,145 | \$5,754,970 | \$4,011,327 | \$385,600 | \$18,029 | 12,445,071 |
| Program Changes | | | | | | |
| Program Increases: | | | | | | |
| Taxpayer Service Initiatives | \$44,078 | | \$70,229 | | | \$114,307 |
| Improve Taxpayer Service | 44,078 | | 37,229 | | | 81,307 |
| Expand Online Options through IRS.gov Improvements | | | 33,000 | | | 33,000 |
| Enforcement Initiatives | \$25,910 | \$209,668 | \$370,093 | | | \$605,671 |
| Increase International Service and Enforcement | | 48,363 | 24,233 | | | 72,596 |
| Increase Collector Coverage | 2,201 | 30,275 | 19,524 | | | 52,000 |
| Implement Merchant Card and Basis Reporting | 10,475 | 17,495 | 7,760 | | | 35,730 |
| Increase Coverage to Address Tax Law Changes and Other Compliance Issues | 7,229 | 33,936 | 55,553 | | | 96,718 |
| Ensure Accurate Delivery of Tax Credits | 4,946 | 49,083 | 206,264 | | | 260,293 |
| Administer New Statutory Reporting Requirements | 1,059 | 5,061 | 52,385 | | | 58,505 |
| Leverage Return Preparer Program to Reduce Noncompliance | | 14,240 | 2,360 | | | 16,600 |
| Address Appeals Workload Growth | | 7,450 | 1,650 | | | 9,100 |
| Implement Uncertain Tax Position Reporting Requirements | | 3,765 | 364 | | | 4,129 |
| Infrastructure Initiatives | | \$1,981 | \$116,877 | | | \$118,858 |
| Enhance Security and Disaster Recovery Systems Capability | | | 12,000 | | | 12,000 |
| Update Integrated Financial System (IFS) | | | 27,500 | | | 27,500 |
| Leveraging Data to Improve Compliance | | | 1,400 | | | 1,400 |
| Enhance Physical Security for Federal Employees | | 1,981 | 13,500 | | | 15,481 |
| Implement Individual Coverage Requirement and Employer Responsibility Payments | | | 62,477 | | | 62,477 |
| Business Systems Modernization (BSM) Initiative | | | \$52,000 | (\$52,000) | | |
| Continue Migration from Aging Tax Administration System | | | 52,000 | (52,000) | | |
| Subtotal FY 2012 Program Changes | \$69,988 | \$211,649 | \$609,199 | (\$52,000) | | \$838,836 |
| Total FY 2012 President's Budget Request | \$2,345,133 | \$5,966,619 | \$4,620,526 | \$333,600 | \$18,029 | \$13,283,907 |

FY 2012 Budget Adjustments

FY 2011 Annualized CR Level

The FY 2011 Annualized CR Level for IRS is \$12, 146,123.

Adjustment to Reach Policy Level

Adjustment to Reach Policy Level
+\$401,665,000 / +1,653 FTE

Adjustment from the FY 2011 Annualized Continuing Resolution (CR) Rate to reach the FY 2011 President's Policy Level. The President's Policy Level is equal to the FY 2011 President's Budget as adjusted for the proposed pay freeze.

Base Realignment

Technical FTE Adjustments +\$0 / +501 FTE

This adjustment reflects permanent changes made to ensure FTE levels are fully funded in the base budget.

Base Reinvestment

Consolidate Submission Processing Site (Atlanta) +\$1,486,000 / +0 FTE

Increased use of e-File has led to consolidation of the individual return processing sites. A portion of the Increased e-File Savings will be reinvested to fund the one-time separation costs associated with the September 30, 2011 closure of the Atlanta submission processing site. As the Atlanta consolidation approaches, the IRS will assist employees to find employment either in or outside the organization.

Maintaining Current Levels (MCLs)

Maintaining Current Levels (MCLs)
+\$85,754,000 / +0 FTE

Funds are requested for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies and equipment and health benefits and the increase in Federal Employee Retirement System participation. No inflation adjustment is requested for pay in FY 2012.

Efficiencies, Savings & Base Reductions

Non-Recur Savings -\$22,090,000 / +0 FTE

This is the net of reductions of non-recurring, one-time costs associated with the IRS FY 2011 enforcement initiatives (e.g., IT equipment and training).

Increase e-File Savings -\$22,444,000 / -416 FTE

This decrease is a result of savings from increased electronic filing (e-File). Savings are based on e-File projected growth, modernization, and the completion of the phased implementation of the Worker, Homeowner, and Business Assistance Act of 2009 (Public Law 111-92), which requires electronic filing by tax return preparers.

Reduce IT Infrastructure -\$75,000,000 / +0 FTE

The IRS will reduce the unit costs of infrastructure through use of the Capability Maturity Model (i.e., a process improvement approach that yields efficiencies in software engineering); the Information Technology Infrastructure Library (ITIL) that will allow the IRS to improve the quality of IT services; and the further consolidation of security activities in the Cybersecurity organization to leverage security best practices.

Reduce Contracts -\$20,754,000 / +0 FTE

In accordance with Presidential guidance on controlling contracting costs, the IRS will achieve targeted savings through reduced contracting expenses.

Reduce Administrative Expenses -\$14,331,000 / -66 FTE

The IRS will reduce administrative expenses, including targeted attrition through hiring freezes.

Eliminate Lockbox Fees -\$4,000,000 / +0 FTE
The IRS will eliminate lockbox fees that now will be paid by taxpayers in installment agreements.

Reduce Certain Mailings -\$4,000,000 / +0 FTE

The IRS will eliminate printing and mailing of certain forms and publications and reduce the number of inserts in mailings.

Reduce Training, Travel and Programs - \$27,338,000 / -41 FTE

The IRS will reduce agency-wide non-technical training, non-case related travel, and the taxpayer communication and education program.

Program Increases

Improve Taxpayer Service +\$81,307,000 / +519 FTE

Funding for this initiative and the \$25.9 million increase from the FY 2011 President's Policy level will provide staffing to address rising demand and increase the Customer Service Representative Level of Service (LOS) from the planned target of 71 percent in FY 2010 to 80 percent in FY 2012 while maintaining a 93 percent customer satisfaction rate for toll-free telephone services. This initiative also includes funding to help taxpayers understand the new tax law provisions and to make related call center and infrastructure changes to handle anticipated inquiries, including ACA-related service questions.

Expand Online Options through IRS.gov Improvements +\$33,000,000 / +15 FTE

This initiative will continue the multi-year effort to replace the outdated web portal environment and provide additional online services to taxpayers. The Taxpayer Assistance Blueprint, Phase 2, targeted migration to the electronic channel and services as one of the five areas for

improvement of IRS service delivery. IRS will achieve efficiencies by moving high-volume transactions to IRS.gov, improving taxpayer self-service, reducing taxpayer burden, increasing compliance, reducing costs, improving security, and these improvements will position IRS.gov as the preferred delivery channel of choice for taxpayer service.

Increase International Service and Enforcement +\$72,596,000 / +377 FTE

This initiative will implement changes required by enactment of the Foreign Account Tax Compliance Act (FATCA) included in The Hiring Incentives to Restore Employment (HIRE) Act of 2010 (Public Law 111-147). The IRS will implement the reporting, disclosure and withholding requirements and expand coverage of international filings, conduct more in-depth international compliance work, strengthen compliance efforts related to offshore activity and grow the Global High-Wealth compliance group. This initiative will increase examinations of employment tax specialty program audits; individual audits; business audits; and criminal investigation case closures.

Increase Collection Coverage +\$52,000,000 / +413 FTE

This initiative will expand work on the collection inventory and improve collection processes to bring taxpayers who fail to pay their tax debt into compliance. This funding will expand the Automated Collection Systems (ACS) program, address the increased workload for the Offers in Compromise (OIC) program due to program improvements and to more taxpayers experiencing economic hardship, and improve efficiency through innovative approaches to inventory selection. The additional staff will resolve an additional 144,300 tax delinquency accounts (TDA) (i.e., balance due accounts where returns were filed, but the taxes have not been paid) and 25,200 tax delinquency investigations (TDI) (i.e.,

investigations of taxpayers with unfiled returns who have not responded to a notice).

Implement Merchant Card and Basis Reporting +\$35,730,000 / +415 FTE

This initiative will staff programs to implement information reporting on merchant payment card and third party reimbursements enacted in the Housing and Economic Recovery Act of 2008 (Public Law 110-289) and basis reporting on security sales enacted in the Emergency Economic Stabilization Act of 2008 (Public Law 110-343).

Increase Coverage to Address Tax Law Changes and Other Compliance Issues +\$96,718,000 / +497 FTE

This initiative addresses compliance issues and new responsibilities arising from recent tax law changes included in major legislation such as the American Recovery and Reinvestment Act (Recovery Act) and the ACA. This initiative will fund compliance programs needed for new provisions such as direct-pay bonds, new requirements on tax-exempt hospitals, a new fee on manufacturers and importers of branded prescription drugs, the excise tax on indoor tanning, and will also increase the number of specialty program (i.e., employment tax, excise tax, and estate and gift tax) audits.

Ensure Accurate Delivery of Tax Credits +\$260,293,000 / +834 FTE

This initiative recognizes the important role IRS plays in delivering economic incentives through tax credits by improving the delivery of existing credits through a combination of improved technology tools and increased enforcement staffing. The initiative also funds the information technology and other systems required to implement the new ACA premium assistance tax credit, which becomes effective in 2014. IRS must build new systems to support eligibility determination based on household income, and modify existing tax

processing systems to support reconciliation of advance payments of the credit. The initiative also funds the appropriate compliance resources for the small employer tax credit, which came into effect in 2010.

Administer New Statutory Reporting Requirements +\$58,505,000 / +187 FTE

Recent legislation established significant new information reporting and sharing requirements from third parties (such as employers, health insurance providers), and the exchanges to administer the ACA's premium assistance tax credit, the individual coverage requirement, and the employer responsibility payment. Effective implementation will require significant enhancements to existing information returns systems to handle the additional volumes and new information reporting categories. This initiative also includes resources to implement provisions that allow the IRS to share tax data with state and federal entities for the purpose of determining eligibility for the advance premium credit. The ACA also amends Section 6041 of the Internal Revenue Code expanding in 2012 the 1099 information reporting requirement for businesses to report all aggregate purchases of services or property greater than \$600. A portion of this initiative (\$23.3 million) is allocated to implement this provision, although it should be noted that the Administration has proposed to repeal this provision based on the burden it places on small businesses. Should this provision be repealed, the IRS would adjust its initiative needs accordingly.

Leverage Return Preparer Program to Reduce Noncompliance +\$16,600,000 / +108 FTE

The IRS is increasing tax return preparer oversight to ensure that tax return preparers are competent and to help ensure that the IRS collects the right amount of taxes. This initiative will ensure uniform and high ethical

standards of conduct for tax return preparers by enforcing preparer compliance with IRS rules, increasing preparer examinations, and pursuing preparers engaged in fraudulent activities. This initiative is core to the IRS's tax gap strategy and will increase government revenue.

Address Appeals Workload Growth
+\$9,100,000 / +66 FTE

This initiative will allow the IRS to increase Appeals staffing. Despite improvements in cycle time and increased efficiency in working cases, Appeals continues to experience rising inventories, and because of the nature of Appeals work, the cases must be processed manually. The funding in this initiative will reduce the stress put on the appeals process because of increased caseload. In addition, Appeals settlements lead to revenue to the government, so this initiative will increase revenues.

Implement Uncertain Tax Position Reporting Requirements +\$4,129,000 / +20 FTE

This initiative will allow the IRS to provide guidance and certainty on tax positions and meet increasing taxpayer demands for this service. This increased workload is expected as a result of changes IRS has proposed for certain large business taxpayers to report information about their uncertain tax positions. It is a critical part of IRS's work to gain greater transparency into large corporate tax returns.

Enhance Security and Disaster Recovery Systems Capability +\$12,000,000 / +5 FTE

This initiative is part of a multi-year improvement strategy to support the continued deployment of critical disaster recovery capabilities. It supports two critical business processes: Processing Remittances and Processing Tax Returns by reducing the recovery time dramatically for the critical applications supporting these processes.

Update Integrated Financial System (IFS)
+\$27,500,000 / +5 FTE

This initiative provides funds to complete the first phase of an initiative to update IFS. This request will ensure IRS compliance with future federal accounting requirements and allow implementation of standard interfaces and communication with other federal systems. The IRS current financial system is more than ten years old and SAP no longer provides updates or changes to accommodate new legislative or other federal accounting requirements. Without a system that will allow implementation of new federal accounting requirements, the IRS compliance with federal financial management standards will be jeopardized.

Leveraging Data to Improve Compliance
+\$1,400,000 / +5 FTE

The IRS is focused on using a data-driven approach to continually innovate and improve its programs. This investment will capitalize on the significant increase in data reported to the IRS, with the goal of increasing compliance. Funding will increase compliance through leveraging such data and/or evaluating the effectiveness of tax-related programs.

Enhance Physical Security for Federal Employees +\$15,481,000 / +10 FTE

The February 2010 attack against the IRS in Austin, Texas, killed one IRS employee and injured several others. This initiative will provide investments needed to update and/or upgrade the physical security of IRS facilities. The investments will enhance the overall security of IRS employees in the work place, while maintaining open access for the taxpayers that they serve.

Implement Individual Coverage Requirement and Employer Responsibility Payments
+\$62,477,000 / +65 FTE

This initiative will fund the development of the information technology, infrastructure, and

systems to implement the provisions of Subtitle F of Title I of the ACA that establish shared responsibility payments for both individuals and employers. Beginning in 2014, the ACA requires individuals who are able to afford health insurance to obtain minimum essential coverage or pay a penalty,

and large employers - those with 50 or more full-time employees - to make a shared responsibility payment if they do not provide affordable coverage to their employees, and at least one of their employees benefits from the premium assistance tax credit.

Return on Investment for Enforcement Initiatives

| Dollars in Millions | | | | | | |
|---|----------------------|----------------|------------|----------------------------|------------------|------------|
| | First Year (FY 2012) | | | Full Performance (FY 2014) | | |
| | Cost | Revenue | ROI | Cost | Revenue | ROI |
| FY 2012 Enforcement Investment | | | | | | |
| All Enforcement Initiatives | \$339.3 | \$646.2 | 1.9 | \$296.4 | \$1,332.1 | 4.5 |
| Direct Revenue Producing Program Integrity Initiatives | \$243.8 | \$646.2 | 2.7 | \$207.8 | \$1,332.1 | 6.4 |
| Increase International Service and Enforcement | 72.6 | 234.0 | 3.2 | 57.1 | 467.1 | 8.2 |
| Increase Collection Coverage | 52.0 | 177.3 | 3.4 | 45.2 | 398.3 | 8.8 |
| Implement Merchant Card and Basis Reporting | 35.8 | 72.4 | 2.0 | 30.8 | 185.7 | 6.0 |
| Implement Coverage to Address Tax Law Changes and Other Compliance Issues | 29.8 | 42.7 | 1.4 | 27.3 | 80.8 | 3.0 |
| Ensure Accurate Delivery of Tax Credits | 51.0 | 110.2 | 2.2 | 45.0 | 183.3 | 4.1 |
| Administer New Statutory Reporting Requirements | 2.6 | 9.6 | 3.7 | 2.4 | 16.9 | 7.0 |
| Other Enforcement Initiatives | \$95.5 | \$0.0 | 0.0 | \$88.6 | \$0.0 | 0.0 |
| Implement Coverage to Address Tax Law Changes and Other Compliance Issues | 24.5 | 0.0 | 0.0 | 23.2 | 0.0 | 0.0 |
| Ensure Accurate Delivery of Tax Credits | 33.6 | 0.0 | 0.0 | 33.5 | 0.0 | 0.0 |
| Administer New Statutory Reporting Requirements | 7.6 | 0.0 | 0.0 | 7.5 | 0.0 | 0.0 |
| Leverage Return Preparer Program to Reduce Noncompliance | 16.6 | 0.0 | 0.0 | 12.6 | 0.0 | 0.0 |
| Address Appeals Workload Growth | 9.1 | 0.0 | 0.0 | 7.9 | 0.0 | 0.0 |
| Implement Uncertain Tax Position Reporting Requirements | 4.1 | 0.0 | 0.0 | 3.9 | 0.0 | 0.0 |

Explanation of Budget Activities

Taxpayer Services

The FY 2012 President's Budget request is \$2,345,133,000 in direct appropriations, an estimated \$22,924,000 from reimbursable programs, and an estimated \$130,962,000 from user fees, for a total operating level of \$2,499,019,000. This appropriation funds the following budget activities.

Pre-Filing Taxpayer Assistance and Education (\$701,035,000 from direct appropriations, and an estimated \$863,000 from reimbursable programs) This budget activity funds services to assist with tax return preparation, including tax law interpretation, publication, production, and advocate services. In addition, funding for

these programs continues to emphasize taxpayer education, outreach, increased volunteer support time and locations, and enhancing pre-filing taxpayer support through electronic media.

Filing and Account Services (\$1,644,098,000 from direct appropriations, an estimated \$22,061,000 from reimbursable programs, and an estimated \$130,962,000 from user fees)

This budget activity funds programs that provide filing and account services to taxpayers, process paper and electronically-submitted tax returns, issue refunds, and maintain taxpayer accounts. The IRS continues to make progress in decreasing paper returns and increasing the use of electronic filing and payment methods.

Enforcement

The FY 2012 President's Budget request is \$5,966,619,000 in direct appropriations and an estimated \$75,902,000 from reimbursable programs for a total operating level of \$6,042,521,000. The total direct appropriations level includes an additional appropriation for tax enforcement and compliance activities funded through a program integrity allocation adjustment totaling \$1,257,000,000, of which \$936,000,000 will be funded from the Enforcement account. This appropriation funds the following budget activities.

Investigations (\$678,849,000 from direct appropriations, and an estimated \$66,567,000 from reimbursable programs) This budget activity funds the criminal investigations programs that uncover criminal violations of the internal revenue tax laws and other financial crimes, enforce criminal statutes relating to these violations, and recommend prosecution as warranted. These programs identify and document the movement of both legal and illegal sources of income to identify and document cases of suspected intent to defraud. It provides resources for international investigations involving U.S. citizens residing abroad, non-resident aliens and expatriates and includes investigation and prosecution of tax and money-laundering violations associated with narcotics organizations.

Exam and Collections (\$5,103,420,000 from direct appropriations, and an estimated \$8,761,000 from reimbursable programs) This budget activity funds programs that enforce the tax laws and increase compliance through examination and collection programs that ensure proper payment and tax reporting. It also includes programs such as specialty program examinations (employment tax, excise tax and estate and gift exams), international collections and international examinations. The budget activity also

supports appeals and litigation activities associated with exam and collection.

Regulatory (\$184,350,000 from direct appropriations, and an estimated \$574,000 from reimbursable programs) This budget activity funds the development and printing of published IRS guidance materials; interpretation of tax laws; advice on general legal servicing, ruling and agreements; enforcement of regulatory rules, laws, and approved business practices; and supporting taxpayers in the areas of pre-filing agreements, determination letters, and advance pricing agreements. The Return Preparer Strategy initiative is funded within this activity in addition to the Office of Professional Responsibility who is responsible for identifying, communicating, and enforcing the Treasury Circular 230 standards of competence, integrity, and conduct of professionals representing taxpayers before the IRS.

Operations Support

The FY 2012 President's Budget request is \$4,620,526,000 in direct appropriations, an estimated \$39,446,000 from reimbursable programs, and an estimated \$73,466,000 from user fees, for a total operating level of \$4,733,438,000. The direct appropriations level includes an additional appropriation for tax enforcement and compliance activities funded through a program integrity allocation adjustment totaling \$1,257,000,000, of which \$312,000,000 will be funded from the Operations Support account. This appropriation funds the following budget activities.

Infrastructure (\$986,045,000 from direct appropriations, an estimated \$516,000 from reimbursable programs, and an estimated \$22,095,000 from user fees) This budget activity funds administrative services related to space and housing, rent and space

alterations, building services, maintenance, guard services, and non-IT equipment.

Shared Services and Support (\$1,313,050,000 from direct appropriations, and an estimated \$20,577,000 from reimbursable programs)

This budget activity funds policy management, IRS-wide support for research, strategic planning, communications and liaison, finance, human resources, and equal employment opportunity and diversity services and programs. It also funds printing and postage, business systems planning, security, corporate training, legal services, procurement, and specific employee benefits programs.

Information Services (\$2,321,431,000 from direct appropriations, an estimated \$18,353,000 from reimbursable programs, and an estimated \$51,371,000 from user fees)

This budget activity funds staffing, equipment, and related costs to manage, maintain and operate the information systems critical to the support of tax administration programs. This includes the design and operation of security controls and disaster recovery planning. This budget activity funds the development and maintenance of the millions of lines of programming code that support all aspects and phases of tax processing and the operation and administration of the mainframes, servers, personal computers, networks, and a variety of management information systems.

Business Systems Modernization

The FY 2012 President's Budget request is \$333,600,000 in direct appropriations. This appropriation funds the following budget activity.

Business Systems Modernization (\$333,600,000 from direct appropriations)

This budget activity funds the planning and capital asset acquisition of information technology (IT) to continue the modernization of IT systems, including labor and related

contractual costs. The completion of the core taxpayer account database, CADE 2, is the cornerstone of modernization and is a prerequisite to the development of the next generation of IRS service and enforcement initiatives. The integration strategy includes a particular focus on enhanced information technology security practices and robust accounting and financial management controls. This activity also funds the ongoing development of the Modernized e-File platform for filing tax returns electronically.

Health Insurance Tax Credit Administration

The FY 2011 President's Budget request is \$18,029,000 in direct appropriations. This appropriation funds the following budget activity.

Health Insurance Tax Credit Administration (\$18,029,000 from direct appropriations)

This budget activity funds costs to administer a refundable tax credit for health insurance to qualified individuals, which was enacted as part of the Trade Adjustment Assistance Reform Act of 2002.

Legislative Proposals

The FY 2012 President's Budget includes a number of legislative proposals intended to improve tax compliance with minimum taxpayer burden. These proposals will specifically target the tax gap and generate more than \$10 billion over the next ten years. The implementation cost for the proposals included in the FY 2011 President's Budget, is estimated to be \$50.4 million over three years and includes the initial startup, processing and compliance operational costs. Among other proposals, the Administration proposes to expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties.

IRS Performance by Program

| Program | Performance Measure | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 |
|-------------------|---|---------|---------|---------|---------|---------|
| | | Actual | Actual | Actual | Target | Target |
| Taxpayer Services | Customer Contacts Resolved Per Staff Year (E) | 12,634 | 12,918 | 10,744 | 12,074 | 12,061 |
| Taxpayer Services | Customer Service Representative (CSR) Level of Service (%) (Oe) | 52.8 | 70.0 | 74.0 | 71.0 | 80.0 |
| Taxpayer Services | Percent of Individual Returns Processed Electronically (%) (Oe) | 57.6 | 65.9 | 69.3 | 74.0 | 76.0 |
| Enforcement | Automated Collection System (ACS) Accuracy (%) (Oe) | 95.3 | 94.3 | 95.9 | 94.0 | 94.0 |
| Enforcement | Automated Underreporter Coverage (%) (E) | 2.6 | 2.6 | 3.0 | 3.3 | 4.0 |
| Enforcement | Examination Efficiency - Individual (1040 form) (E) | 138 | 138 | 140 | 134 | 126 |

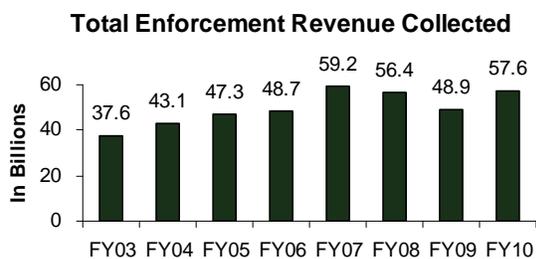
Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, M - Management/Cust. Satisfaction, DISC - Discontinued, and B - Baseline

Description of Performance

In FY 2010, IRS continued to provide excellent service to taxpayers and enforced the laws in a balanced manner. The following is a summary of significant program performance improvements.

Enforcement

In FY 2010, revenue from all enforcement sources reached \$57.6 billion, 18 percent more than in FY 2009.



This increase in enforcement revenue demonstrates that the investment in the IRS over the past two years is producing significant return. The IRS expanded its

enforcement presence in the international field, continued to pursue high-wealth/high-income, noncompliant taxpayers, and audited more charities and other tax-exempt organizations. As a result, the IRS made improvements over FY 2009 in these key areas:

- Examined more than 1.58 million individual returns, an increase of 11 percent, reaching the highest rate in the past decade;
- Increased high-income/high-wealth audits on taxpayers with income greater than \$200,000 by 5.5 percent and audits for those with income greater than \$1 million by more than 8 percent;
- Increased automated underreporter contact closures by 19.8 percent, surpassing the four million mark for the first time, with more than 4.3 million;
- Increased collection case closures by 6.3 percent and criminal investigations by 12.4 percent;

- Increased large corporate audits by 8.1 percent, a significant achievement given the size (assets greater than \$10 million) and complexity of these corporate entities and audits of foreign corporations by almost 48 percent; and
- Increased tax exempt and government entity compliance contacts by approximately 20 percent.

As part of an overall strategy to improve offshore compliance, in FY 2010, the IRS continued to take aggressive steps to track tax evaders that hide their wealth by engaging in offshore tax evasion schemes. The IRS more than doubled its offshore presence by opening new offices in Asia and Central America, placed additional law enforcement personnel at its existing offices throughout the world, and expanded its interaction with key international organizations involved in tax and financial law compliance. All of these steps are designed to develop new leads in ongoing criminal tax and financial crime investigations.

The IRS voluntary disclosure program (VDP) provides information on banks and professionals, including foreign professionals, who facilitate tax evasion. More than 15,000 Americans with offshore accounts, some holding hundreds of millions of dollars, came forward during a voluntary disclosure period that ended in October 2009 to disclose information bringing them back into the U.S. tax system. An additional 3,000 Americans came forward with accounts at various banks since October 2009, with the total disclosures over the period expected to reach 20,000. In FY 2010, the IRS began reviewing the information from program participants to identify financial institutions, advisors, and others who promoted or otherwise helped Americans hide assets and income offshore.

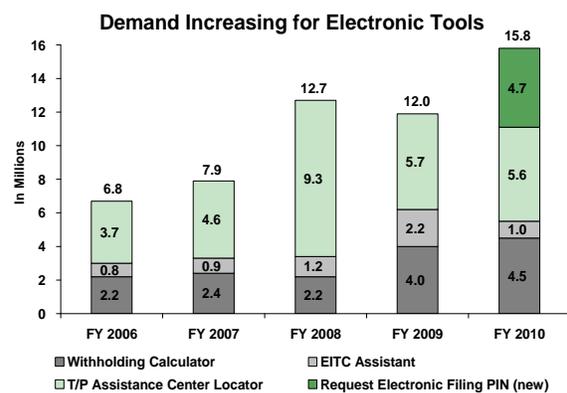
The IRS continues to ensure the largest corporate taxpayers are in compliance using

strategies that are less time and resource intensive. The Compliance Assurance Process (CAP) program resolves issues early and ensures the filing of accurate returns. The IRS plans to make the CAP program permanent and is incorporating a number of program improvements.

Taxpayer Service

The IRS website has become the preferred source of information for millions of taxpayers to get answers to their tax questions, to questions about economic recovery legislation, and to prepare and file a federal tax return accurately and on time. IRS.gov/Español offers many of the same services and information in Spanish.

To improve service to taxpayers during the 2010 filing season, the IRS enhanced IRS.gov by providing a rotating spotlight feature on the front page. The spotlight, which changes every few seconds, highlights important taxpayer information by identifying how tax law changes such as *Making Work Pay Credit* and *First-Time Homebuyer Credit* can benefit different types of taxpayers; and how to access online applications such as *Where's My Refund*, an online tool for taxpayers to check on the status of their refund, and *What If?*, a list of questions and answers to assist taxpayers who are having difficult times financially handle various scenarios related to payment of taxes and other financial problems.



As shown in the chart, taxpayer demand for electronic tools has significantly increased and the IRS will continue to improve the speed, accessibility, and accuracy of on-line information as well as develop new applications to reach even more taxpayers.

The IRS also is committed to continuing efforts to redesign IRS correspondence to improve clarity, accuracy, and effectiveness. In FY 2010, the IRS:

- Completed the redesign of 115 notices (25 in Spanish) to provide clear and simple explanations of the notice purpose and required taxpayer actions;
- Redesigned the area of IRS.gov that provides information on locating specific notices and an explanation of the redesign process; and
- Released the first group of nine new notices. These notices account for approximately two million pieces of correspondence with individuals, businesses and exempt organizations.

The IRS completed a successful 2010 filing season, rising to challenges posed by the implementation of provisions in the American Reinvestment and Recovery Act of 2009 (Recovery Act), the Worker, Homeownership, and Business Assistance Act of 2009 (WHBAA), and increased telephone demand for Economic Recovery Payment inquiries. The IRS received more than 141.9 million individual returns, of which 69.3 percent were e-filed. More than 34.6 million taxpayers prepared their own e-file return, 32.2 percent more than in 2009.

The IRS issued 109.5 million refunds to individual taxpayers totaling \$366 billion. The average dollar refund was \$3,048 compared to \$2,682 in 2009, an increase of almost 14 percent. IRS also direct-deposited more than 73 million refunds compared to 72.4 million in

2009. Beginning in the 2010 filing season, taxpayers could purchase up to \$5,000 of Series I U.S. Savings Bonds using their federal tax refund. More than 22,300 taxpayers took advantage of this opportunity, requesting more than 98,000 bonds totaling approximately \$11.1 million.

In FY 2010, the IRS expanded outreach and educational services to improve information, news, and taxpayer interactions through social media networks (Facebook, Twitter, YouTube, etc). For the first time, the IRS produced a number of podcasts that were available on IRS.gov and iTunes. In addition, the IRS created more than a dozen YouTube Videos on a variety of subjects including the *Education Tax Credit*, *Making Work Pay*, and the *New Homebuyer Credit*. These videos attracted more than 963,800 upload views and were available in English, American Sign Language, and Spanish.

As always, providing high-quality, toll-free telephone service is important in helping taxpayers navigate the complex tax code. The IRS telephone assistors answered 36.7 million calls, 6.3 percent fewer than in 2009 while at the same time the IRS received 35.1 million automated calls, 21 percent more than in 2009, reflecting the growing taxpayer demand for self-service options. Telephone level of service (LOS) increased to 74 percent from the FY 2009 LOS of 70 percent. This reflects the success rate of taxpayers who call the IRS for live telephone assistance on the 1-800 help lines. In 2010, the IRS added an estimated wait time feature so taxpayers could make informed choices on whether to wait for a live assistor or use another service channel (i.e., self-assisted automated telephone services or IRS.gov) to answer their questions. Accuracy rates for both customer tax law and account questions remain above 92 percent.

The IRS also provides in-person service at its Taxpayer Assistance Centers (TACs), for

taxpayers resolving tax issues and needing help to prepare their tax returns. Approximately 6.4 million taxpayers visited a TAC, three percent more than in 2009. Walk-in service remains popular among elderly taxpayers, those with limited English and computer proficiency, and taxpayers without internet access.

Business System Modernization

IRS modernization efforts continue to focus on core tax administration systems designed to provide more sophisticated tools to taxpayers and to IRS employees. The following highlights IRS accomplishments:

- Customer Account Data Engine (CADE) posted more than 41.2 million returns, generated more than 35.8

million refunds and, for the first time, accepted more than seven million payments submitted with taxpayer returns. In FY 2010, the IRS revised its CADE strategy to implement a new taxpayer account database for the 2012 filing season. This new database will accelerate the refund processing time for most taxpayers.

- Modernized e-File (MeF) deployed an additional release that allowed for the acceptance of Form 1040 and 22 supporting forms and schedules. This new functionality is designed to reach 61 percent of the e-File population, or approximately 55.1 million filers.