

# IRS Strategic Plan

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# A Message from the Commissioner

*If we achieve this plan, taxpayers, employees, and the IRS' many other stakeholders will realize major benefits for years to come*

***In the passage of the IRS Restructuring and Reform Act in July 1998 and the many studies and discussions that preceded it, the Congress and the public gave new instructions to the IRS. In essence, we were being told that we must do as well in serving the people who are paying the tax - the American taxpayer - as we do in collecting the tax.***

***In the two years since this act was passed, this new direction has been clearly established at the IRS in the form of a new mission statement, new goals and measurement systems, a new customer-focused organizational structure, and in the implementation of new taxpayer rights. With this foundation in place, we can now focus on improving the way we deliver on this new mission and goals.***

***The purpose of this strategic plan is to show how the IRS can improve dramatically on our service and compliance goals while continuing to shrink in size relative to the economy.***

***If we achieve this plan, taxpayers, employees, and the IRS' many other stakeholders will realize major benefits for years to come. Taxpayers will find it easier and less burdensome to meet their tax responsibilities and will have increased confidence that taxes are being collected fairly and efficiently. Employees will have increased respect from the public, improved tools and support to perform their jobs, and improved career opportunities. Tax practitioners and other stakeholders will find it easier and more productive to work with the IRS.***

***The most challenging aspect of the IRS strategic plan is that we must continue current operations to administer the largest and most complex tax system in the world, while simultaneously reengineering and improving its most fundamental underpinnings. This will require sustained support from the Congress and the public, as the change will take time and will inevitably include some setbacks along the way. It will also require some funds for investments, especially for business systems modernization, and adequate funding for current operations.***

***As we publish this strategic plan, I am more confident than ever that we the IRS can meet the high expectations of the American taxpayer.***

**Charles O. Rossotti**  
**Commissioner of Internal Revenue**



# Executive Summary

## *The IRS Mission*

It is a new era for the IRS. The IRS Restructuring and Reform Act of 1998 (RRA98) gave us a clear mandate - do a better job in meeting the needs of taxpayers as well as in collecting the money. We have expressed this direction in a new IRS mission statement:

*Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.*

This mission statement accurately describes our role, as well as the public's expectation as to how we should perform that role. In the United States, the Congress passes tax laws and requires taxpayers to comply with them. The taxpayer's role is to understand and meet their tax obligations - and most do. Our role is to help the majority of taxpayers who willingly comply, while seeing that those who are unwilling are not allowed to burden their fellow taxpayers.

Just as the best companies produce excellent shareholder returns by providing high-quality products and services, we expect successful execution of our new mission will produce tax revenues for the Treasury. Achieving this mission requires us to make fundamental changes while we continue to administer a very large, complex, and ever-changing tax system.

## *Strategic Goals and Objectives*

While a new mission statement and clarification of the public's expectations are fundamentally important, it is equally important that we define the specific goals and objectives needed to achieve our mission. These goals and objectives represent what we are striving to achieve and how we will judge our success both qualitatively and quantitatively.

The IRS has formulated three strategic goals. If progress is made on all three of these goals, we can be confident that we are moving toward achieving our mission and meeting the public's expectations.

### *Top-quality service to each taxpayer in every interaction*

- ◆ We should provide tax law guidance, rulings, information, forms, and instructions to taxpayers in an easier and clearer process, reducing the chances of error and the time and effort required.

- ◆ We should give taxpayers the information they need about their tax accounts and assistance in determining how much or how to pay or make appropriate adjustments to their accounts accurately, quickly, and conveniently.
- ◆ We should inform taxpayers promptly and treat them professionally if we intervene in the form of an examination, a collection action, or a notification that the agency believes additional taxes are owed.

Whenever the IRS deals with a taxpayer, we should give the taxpayer first-quality service and treatment that is helpful, based on the particular situation and need. The ultimate measure of success in our first strategic goal is whether or not our customers believe we are meeting their expectations.

The Roper opinion research organization has compared the trend in favorability ratings by the public of various government agencies. In the early 80's, the public's rating of the IRS was comparable to that of other government agencies. However, during the mid-1980's, our ratings and those of other agencies declined substantially. In the 1990's, other agencies improved, while ours continued to decline. There has been improvement in 1999 and 2000, although it remains well below that of other agencies.

We believe it is possible to measure the success of the IRS in meeting the legitimate expectations of the millions of taxpayers with whom we deal and that if we provide good service and fair and professional treatment, taxpayers will rate the IRS appropriately.

### *Top-quality service to all taxpayers through fair and uniform application of the law*

Our tax system depends on each person who is voluntarily meeting his or her tax obligations having confidence that his or her neighbor or competitor is also complying. Therefore, when taxpayers do not

voluntarily meet their tax obligations, the IRS must use its enforcement powers to collect the taxes that are due.

Noncompliance is not necessarily deliberate, but can stem from a wide range of causes, including lack of knowledge, confusion, poor record keeping, differing legal interpretations, unexpected personal emergencies, and temporary cash flow problems. On the other hand, some noncompliance is willful, even to the point of criminal tax evasion. In the interest of fairness, it is vital that we address all aspects of the noncompliance spectrum.

Enforcement is one of the essential components of ensuring compliance and fairness. Enforcement actions are taken when the facts of the case show that such action is necessary to bring that taxpayer into compliance with the law. We have, however, used many techniques other than direct enforcement that have increased compliance. These techniques include better and more targeted taxpayer education, better reporting, voluntary agreements, improved regulations, and earlier intervention through notices and phone calls. A major focus of this plan is to put more emphasis on these strategies for improving compliance.

Nevertheless, regardless of how successful we are in these strategies, examinations, collection actions, and criminal investigations will be essential components of our effort to ensure fairness and compliance. Since the passage of the IRS Restructuring and Reform Act of 1998 (RRA98), we have undertaken substantially fewer enforcement actions. The decline in enforcement has resulted in our collecting less enforcement revenue - \$37 billion in 1997 compared to \$33 billion in 1999.

It is important for us to stabilize the level of enforcement activity, so that the proper action can be taken in each case. To accomplish this we must have some additional staff resources and devote additional training and management attention to clear up confusion about how to administer provisions of RRA98.



The measure of success in this goal is the total collection percentage. Arriving at this measure is dependent upon our ability to measure three components that make up overall compliance:

- ◆ Filing compliance - the percentage of returns that are filed on time
- ◆ Payment compliance - the percentage of taxes due that are paid when owed
- ◆ Reporting compliance - the percentage of tax liability that is reported on filed returns

Another indicator of success is the uniformity of compliance, representing the relative degree of compliance among various economic sectors, different geographic areas, and different demographic segments.

We do not have reliable, up-to-date measures of overall compliance, nor of compliance by major sectors. Because we lack good measures, we do not know if overall compliance is remaining steady or declining. However, from the information available, we do know that compliance is quite uneven and that there are major problem areas in which significant noncompliance exists.

### *Productivity through a quality work environment*

Our third strategic goal is to increase productivity by providing a quality work environment for our employees. We must not only provide top-quality service to taxpayers, but we must do so efficiently, using the fewest possible resources. It is essential that our employees clearly accept ownership of our strategic goals, receive the support they need to provide good service to our customers, and are able to communicate upward and across the organization effectively about problems and obstacles which they perceive stand in the way of good service.

The IRS is shrinking when compared to the economy. One measure of our success in building productivity is to increase our workforce only slightly while handling the increased workload and improving performance on our service goals. Should we accomplish this ambitious goal, we will increase productivity and continue to shrink the size of the agency significantly in relation to the size of the economy.

From 1993 through 1999, the number of IRS employees decreased 15%, from 115,000 to 98,000, while the economy grew in real terms by 23% and the number of tax returns processed grew by 8.7%. Looking solely at gross numbers, one might assume that the IRS has succeeded in recent years in achieving higher productivity. The reduction in number of IRS employees was achieved only in part by an increase in real productivity. A greater portion of the reduction was due to significant reductions in compliance activity.

The IRS budget is a small part of tax administration. When addressing the resources used in tax administration, it is important to consider all resources, recognizing that most of the cost - both direct financial cost and the indirect cost of inconvenience - are incurred by taxpayers in complying with the tax laws. While measures are not precise, our internal budget represents perhaps 5% to 10% of the total cost of tax administration in the economy. It is not economical to save money in the IRS by imposing much larger costs on taxpayers.

**Employee satisfaction** - Employee satisfaction with the quality of the work environment is also measured as a part our third strategic goal. In 1999, overall job satisfaction for IRS employees was 54.5%. In 2000, this score increased to 60%.

Although this improvement is encouraging, further analysis of the numbers shows major room for improvement in the quality of training, the tools and technology provided, and in the ability of upper management to respond more effectively to constraints that limit the productivity of employees.

## *Taxpayers and employees will benefit if we achieve our three goals*

Achieving these three strategic goals will provide significant benefits to taxpayers and employees. However, it will take time to become noticeable.

From the taxpayers' perspective, some of these benefits are:

- ◆ More useful help in understanding and filing taxes
- ◆ Fast, accurate service in response to questions about taxes owed or refunds due
- ◆ Professional, courteous help in determining the best way to meet tax obligations
- ◆ Professional, courteous treatment during the examination process
- ◆ Greater confidence in the fairness and equity of tax administration
- ◆ Clear and effective means of identifying and communicating problems of law or regulations that cause unfairness or disproportionate administrative burdens

Benefits from the IRS employees' point of view include:

- ◆ Greater respect from the public
- ◆ Performance measures which emphasize quality as well as quantity
- ◆ A flatter organization structure
- ◆ A stabilized workforce with numerous career paths

- ◆ Increased emphasis on training and high-quality technology and support tools

## *Key External Factors*

Two key external factors could effect our ability to accomplish our strategic goals - changes in the tax law and funding.

**Changes in the tax law** - Changes in the tax law could have major impact on how we conduct our activities, how many resources are required, and how much progress we can make on our strategic goals.

Some level of change is a normal part of our environment as Congress makes some changes to the tax law each year. Changes in tax law that increase complexity add to the burden on taxpayers, increase the cost of administering the tax code, and make it difficult for us to meet both our service and compliance goals.

Changes with effective dates in the year of enactment and major changes in the tax law consume considerable IRS resources. If funds are not provided for these activities, then we have to divert funds from other improvement projects. This reallocation of resources could delay or eliminate progress on some strategic goals.

**Funding** - The IRS is an operational agency, not a policy or grant making agency. Taxpayers are required by law to file returns and pay taxes and they expect and depend on us to meet their needs. Growth in the economy and our volume of business make it harder to meet these expectations every year. In order to operate, we must have funds to pay our workers and operate our computers, the two main drivers of our budget. In addition, to achieve the strategic goals in the strategic plan, we need substantial investments over a period of years, especially for the business systems modernization program.

If sufficient funding is provided, we will be able to implement this strategic plan and improve the way we deliver on our mission and service goals. We will also be able to continue to become more productive and to actually shrink in size relative to the real economy. If funding is cut below required operational and investment levels, we will not achieve our strategic goals. Taxpayers will have to bear the costs in another form, namely increased burden in dealing with the tax system, increased unfairness, and potentially reduced tax revenue.

### *Guiding Principles*

These principles are a link between our strategic goals, the tangible changes we make, and the actions we take to achieve these goals. We expect all IRS executives, managers, and employees to manage and operate using these guiding principles.

#### *Understand and solve problems from the customer's point of view*

We did not make this shift in emphasis from an internal focus to a customer focus when many other organizations did. We have adopted this focus in recent years and can already point to practical examples where this principle has had important effects.

#### *Enable managers to be accountable, with the requisite knowledge, responsibility, and authority to take action*

We expect managers to understand the substance of the matters for which they are responsible and higher management must provide the appropriate guidance, structure, training, management support, and tools so that their subordinate managers can be accountable.

#### *Align measures of performance at all organizational levels*

Because of the complexity and diversity of IRS operations, it is essential that we have performance measures that are meaningful for each type and size of organizational unit.

#### *Foster open, honest communication*

Open, honest communication is one of the most powerful principles of management for a large organization like the IRS. We cannot solve problems that we do not know about or refuse to acknowledge. We must identify problems, acknowledge them, address them, and use them as a learning tool for the future.

#### *Insist on total integrity*

Total integrity means that each of our employees must perform all of his or her duties in accord with the public interest and not with regard to personal interest.

#### *Demonstrate effective stewardship of assets and information entrusted to the IRS*

We must accurately account for taxpayer funds, use our budget funds efficiently and for the purpose intended, manage and account for our inventory of property and equipment, and safeguard taxpayer information

### *Major Strategies*

In April 2000, an intensive process of research, analysis, and discovery aimed at determining how well we are performing our most fundamental tax administration services - pre-filing, filing, and post-filing services — and what new issues we will face in the future was begun. Organizational units conducted an assessment of their external and internal

environment to identify trends, issues and problems (TIPs) that were affecting business operations and service delivery. We used the TIPs as the basis for identifying and developing our Major Strategies, Operational Priorities, and Improvement Projects and to provide practical guidance as to how to allocate our limited resources and focus our management in order to achieve our strategic goals.

### *Meet the needs of taxpayers*

Each year the IRS has millions of interactions with taxpayers that need information or assistance in order to file returns or pay what they owe. Whenever we deal with a taxpayer, the taxpayer should receive quality service that is helpful based on his/her particular situation and need. The fundamental changes we have begun in all aspects of our operations will combine to provide taxpayers accurate and prompt information to assist them in filing, paying, and resolving issues in a time and manner convenient for them.

### *Reduce taxpayer burden*

One of the overriding themes in improving IRS's business practices is the shift from addressing taxpayer problems well after returns are filed to addressing them early in the process, and in fact preventing problems wherever possible. We will make substantial progress in reducing burden on taxpayers over the next two years, although much more will be possible through our longer-term business system modernization efforts. Increasing our efforts to partner with sales and practitioners will be a major part of this strategy.

### *Broaden the use of electronic interactions*

Electronically filed returns improve service for taxpayers and boost productivity by reducing errors,

speeding refunds, and reducing labor costs. We will enhance technology to allow filing of a full range of returns, eliminate requirements for separate signature documents, tailor marketing and education programs to attract taxpayers and practitioners with varying needs, and broaden the number of effective payment options. Customer education and assistance programs through the IRS web site, such as distributing forms and publications and answering tax law questions, are growing rapidly.

### *Address key areas of non-compliance*

Research indicates that there are major problem areas of substantial noncompliance including abusive tax shelters and trusts as vehicles for managing assets and for wealth transference. Balances of unpaid employment and withholding taxes by businesses have increased and overpayment of refunds due to erroneous returns is high. We will make substantial progress in combating key areas of noncompliance over the next two years. Here are some of the ways we will implement this strategy.

♦ *Underreporting, nonfiling and abusive trusts and passthroughs* - We will establish a program to initiate K-1 matching and to target compliance resources.

♦ *Erroneous Refunds and Earned Income Tax Credit (EITC) compliance strategies* - Our three-part strategy consists of education for those who prepare EITC returns; visits by agents to review preparers' compliance with the due diligence requirements; and criminal investigations of EITC fraudulent claims and schemes.

### *Stabilize traditional compliance activities*

Regardless of how successful we are in preventing taxpayer errors, it will always be necessary to intervene through examination and collection actions and investigations when noncompliance or non-payment is found or suspected to be occurring. Since we have limited resources, it is essential that we apply these resources where they will be of most value. More

focused and more rapid intervention can enormously improve the effectiveness and efficiency of our activities, while improved case management tools can improve the quality and speed of cases while ensuring that taxpayer rights are observed. These major improvements will, however, require fundamental redesign of our most complex business processes and are very dependent on new technology from our business systems modernization program. Therefore, our strategy is to stabilize and improve our traditional compliance programs in the near term, while working through the business systems modernization program for longer term and more fundamental improvements.

### *Deal effectively with the global economy*

Rapidly changing technology is driving the global economy and affecting business practices in every sector. The “sale of goods” has been replaced by income from intellectual capital and services. Income from value creation, marketing, manufacturing, and R&D intangibles has replaced income from value realization. Global and foreign source income, global mergers and acquisitions, and foreign joint ventures are increasing. World markets are expanding into less developed countries, and cross border trading is increasing. We will build a capability to deal effectively with the global economy.

### *Meet the special needs of the tax-exempt community*

Tax exempt organizations, pension plans, and government entities present unique challenges to tax administration. In addition, historically, the IRS has under-served government entities. The tax-exempt bond market requires ongoing attention to address emerging economic issues. The Indian Tribal Government gaming and related economic development is rapidly expanding nationwide. One of the ways we will implement this strategy is to ensure the accuracy of the Exempt Organizations Master File by redesigning the maintenance process, expanding our current

return imaging process, and introducing electronic filing for Form 990 filers.

### *Recruit, develop, and retain a quality workforce*

The ability of the IRS to recruit, retain, and develop talented personnel will determine how well we can provide the quality services that taxpayers expect. We are facing many employee recruitment, retention, and development challenges. Replacing the significant number of employees who will retire over the next five years is just one of the challenges that make it crucial for us to improve our ability to attract new and retain essential employees.

### *Provide high-quality, efficient, and responsive information services and shared support services*

Our Information Technology (IT) infrastructure and systems play a critical role in meeting the Service’s mission needs of day-to-day and year-to-year tax administration. A major challenge will be to be responsive to the IT needs of the organizational units in the near-term while also supporting Business Systems Modernization. Effectively managing information system resources is essential to provide more timely customer service and compliance. We will make substantial progress in providing efficient and responsive information services and shared support services to IRS employees over the next two years. Here are some of the ways we will implement this strategy.

♦ *Align the IRS physical plant with the organizational units’ strategies and plans* - We will develop a long-term capital plan to address organizational unit space and housing needs, appropriate security and adequate work stations, technological capacities of buildings, workload volumes, and quality of the work environment.



#### ◆ *Improve customer access and use of services -*

We will establish an Employee Resource Center that will be a broad-based, user-friendly communications link for internal customers including a telephone Help Desk support system, a single point of contact, and web-based customer interfaces for employee benefits and services.

### *Promote effective asset and information stewardship*

American taxpayers and Congress demand a high level of responsibility and responsiveness from the IRS. To succeed in administering America's Tax System while gaining and preserving credibility, we must demonstrate effective stewardship of the assets and information entrusted to us by improving our internal processes for information management, financial management, and asset management. We will make substantial progress in improving our stewardship of assets over the next two years, although much more will be possible through our longer-term business system modernization efforts.

### *Business Systems Modernization Program*

We will make substantial progress in accomplishing our strategies over the next two years. However, we're relying on our Business Systems Modernization Program (BSMP) to make possible longer term fundamental changes to our business processes and practices. These long-term changes are critical to achieving our strategic goals and objectives.

The IRS, which is still dependent on systems installed during the 1960s and 1970s, has established the BSMP to achieve major, fundamental improvements in the way we carry out our mission by taking full advantage of established best business practices and all appropriate technology.

To guide this process of dramatic improvement, which will take place over a period of years, the IRS has analyzed and defined all of the activities in the tax administration process, incorporating them into a

set of business processes and sub-processes. Each business process has associated operating models that further stratify the activities within each process. In addition, we have defined specific improvement strategies that will guide the improvement of each of the major business processes.

Information technology investments to improve our major business processes will be guided by the Tax Administration Vision and Strategy (TAVS) which the IRS is establishing. TAVS will identify a complete picture for how operating divisions will conduct business in the future in order to support our mission, goals, and objectives.

As part of the TAVS effort, we developed the Integrated Business Model that provides an analysis and integrated view of the interactions and dependencies that enable the operating models to work. TAVS and the Integrated Business Model address improvements necessary in Pre-Filing Services, Filing and Account Services, and Post-Filing Compliance Services. For example, improvement in efficiency would come from the Self-Assistance Models that will be offered to taxpayers and increased electronic processing in service centers. In addition, through investments in Pre-Filing tax education and tax applications, we will see reductions in the time staff expend examining tax cases.

### *Organizational Modernization Program*

In response to Congressional mandate, we designed, and are currently implementing a new program structure that focuses on our fundamental tax administration services - Pre-Filing, Filing, and Post-Filing. We also implemented a new, flatter structure, aligned into four operating divisions - Wage and Investment, Small Business and Self-Employed, Large and Mid-Sized Business, and Tax-Exempt and Government Entities.

Over the last 18 months, we have selected virtually all of our senior level leaders and established top management teams charged with the dual task of

managing current operations while modernizing business practices and technology.

The *Wage and Investment Division (W&I)* serves approximately 116 million customers, including those who file jointly, accounting for 88 million returns with wage and investment income only.

The *Small Business and Self-Employed Division (SB/SE)* serves approximately 45 million taxpayers, including fully or partially self-employed individuals and small businesses.

The *Large and Mid-Size Business Division (LMSB)* serves corporations, sub-chapter S corporations, and partnerships with assets greater than \$5 million, who generally deal with the IRS continuously and pay approximately \$460 billion annually in taxes.

The *Tax-Exempt and Government Entities Division (TE/GE)* serves over 3 million customers ranging from small local community organizations and municipalities to major universities, huge pension funds, state and local governments, Indian tribal governments, and complex tax-exempt bond deals.

The *Chief Counsel* has established a senior legal executive as the Division Counsel for each operating division to participate fully in the plans and activities of the operating division management.

The *Appeals* organization serves as the alternative dispute resolution forum for any taxpayer contesting an IRS compliance action.

The *Taxpayer Advocate Service* assists taxpayers in resolving problems that have not been resolved through prior contacts with the IRS or cannot be resolved through normal systemic processes.

The *Criminal Investigation* unit investigates potential criminal violations of the Internal Revenue Code and relation financial crimes in a manner that fosters confidence in the tax system and compliance with the law.

The centralization of information systems resources under the *Chief Information Officer* and of other common services under an *Area-wide Shared Services* organization provides expertise and advice necessary to deliver shared services in the areas of procurement, equal opportunity and diversity, real estate, facilities, and personnel. *Communications and Liaison* manages relationships with the media, Congress, state and local governments, and other external stakeholders.

The *National Headquarters* provides strategic leadership, identity, capabilities, coordination and capital to the agency.

### *Balanced Measures Program*

Quantitative performance measures are essential to the proper operation of any large organization. The techniques that an organization uses to measure its performance go to the heart of what the organization really values. In the IRS, as elsewhere, what the organization values is communicated through a variety of means, both explicit and implicit, including what behavior is rewarded, ignored, or punished. A critical aspect of establishing our balanced measurement system was establishing the measurements based on what we need and want to measure in order to achieve our strategic goals and mission, rather than simply what is most easily measured. Also critical to the measurement system is following the guiding principle that measures must be aligned at all levels, from the top to the front-line employee. This means that the measures or evaluations are aimed at encouraging the type of behavior that will advance the organization's overall strategic goals.

In developing measures for each organizational level, it is important that each component of the balanced measurement system reflect responsibility at that organizational level. Top management has control over strategic issues and mid-level managers have

three strategic goals at both the strategic level and the operational level.

As the Commissioner stated in his message, our new direction has been clearly established at the IRS. We have a new mission statement, new goals and measurement systems, and a new customer-focused

organizational structure. This Executive Summary has provided a look at the main points of our strategy for meeting the high expectations of the American taxpayer. Our full strategic plan gives a more in-depth look at how we will reengineer and improve the fundamental underpinnings of the most complex tax system in the world.



## Preface

This Strategic Plan, the first published in recent history, reflects the new, reorganized IRS. Through our new mission statement and mandates to improve service to the American taxpayers, we will strive to ensure that the IRS is a fundamentally sound organization with principles and fair treatment at the core of our operations.

In order to ensure that both the people of the IRS and the organization can achieve the new mission and goals, the IRS Commissioner and his Senior Management Team (SMT) established a new Strategic Planning, Budgeting and Performance Management (SPBPM) process in early 2000. As part of our reorganization, we determined that agency leadership required a new business process for leading and implementing our new mission, goals, and strategy and program plans. This new process significantly changes our prior strategic planning and performance management practices. The fundamental difference is that the Commissioner and his team, the Commissioners and Chiefs of the organizational units, are leading and managing the process and will be accountable for the performance and business results of the modernized IRS.

With the SPBPM process, we have established strategy and program plans for each business, functional, and shared service unit. The program plans, combined with the Strategic Planning Framework, drive the development and articulation of the Major Strategies and the funding to carry out the plans.

Finally, the efforts of the IRS SMT evolved into the first comprehensive IRS Strategic Plan focused on improving tax administration and service for the American taxpayers. Because of the challenges we face, our current Strategic Plan is limited to a two to three year horizon. As we meet the challenges we face and move further along, we expect to present a fully robust strategic plan.

The Strategic Plan presents our mission, goals to improve both service to the taxpayers and productivity, and plans to implement modern technology. The IRS will be continually evolving and modernizing over the next five to ten years. Through our Strategic Planning Framework, we are proposing a framework for effective management and decision-making at all management levels within the IRS. This includes implementing three new programs that provide structure to significantly improve our delivery of service: pre-filing, filing, and post-filing. We have reorganized the IRS into units focused on taxpayers aligned to one of four operating units: Wage and Investment, Small Business and Self-Employed, Large and Mid-Sized Business, and Tax Exempt and Government Entities.

The tax administration in the new millennium will be focusing on the needs of the taxpayers, while using the latest technology to improve service delivery. Achieving the new mission and meeting the demands of the taxpayers requires fundamental change in many aspects of the IRS. The change we have underway in the year 2000 must produce success in the new mission, while retaining the essential elements that created success in the past. Successfully achieving these fundamental improvements will take

years and carries with it the considerable risk that progress will not happen as planned or expected and that setback will occur. But there is no low-risk plan for the IRS. Therefore, it is critical to continuously identify risks and manage them by confronting them and honestly communicating what the IRS is doing and why. Through this Strategic Plan and our Annual Performance Plan, we provide the public and our stakeholders with our progress to modernize America's tax system.

# The IRS Mission

*Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all*

Over the last 50 years, the volume and complexity of IRS operations has expanded tremendously. Since 1952, the number of returns filed has more than doubled, and the number of pages in the tax code has expanded from 812 to approximately 3,500. The rate of change in the tax administration system and in the economy is also remarkable. In a 12-year period, there were approximately 9,500 changes to the tax code. We continue to deal directly with more Americans than any other institution, private or public.

It is a new era for the IRS. The IRS Restructuring and Reform Act of 1998 (RRA98) gave us a clear mandate - do a better job in meeting the needs of taxpayers as well as in collecting the money. We have expressed this direction in a new IRS mission statement:

*Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.*

This mission statement accurately describes our role, as well as the public's expectation as to how we should perform that role. In the United States, the Congress passes tax laws and requires taxpayers to comply with them. The taxpayer's role is to understand and meet their tax obligations - and most do, since roughly 98% of the taxes collected are paid without active intervention by the IRS. Our role is to help the large majority of taxpayers who are willing to comply with the tax law, while seeing to it that the minority who are unwilling to comply are not allowed to burden their fellow taxpayers. We recognize that we must meet the highest of standards in performing this role, which means that all of our services should be seen by the people who receive them as comparable in quality to the best they get elsewhere.

Just as the best companies produce excellent shareholder returns by providing high-quality products and services, we expect successful execution of our new mission will produce tax revenues for the Treasury, in accordance with the tax law and without political or corrupt influence. This mission does not, in any sense, negate the intent of the previous one; rather, it builds upon it and sets a broader and higher performance standard.

Establishing a new mission for the IRS and clarifying public expectations are essential and meaningful steps in meeting those expectations. Achieving this mission, however, requires us to make a fundamental change - a change that must take place while we continue to administer a very large, complex, and

ever-changing tax system. Because we are striving to perform at a level of quality achieved elsewhere in the economy, we are following proven private and public sector best practices in implementing major components of this change.

# Strategic Planning Framework

*We must continue to operate and administer today's complex and dynamic tax system while undergoing a massive and fundamental modernization effort*

Our strategic planning process has focused the efforts of the IRS senior management team on setting priorities and dividing initiatives into those that can be implemented in the near term and those that require longer to implement and involve fundamental and structural change.

The most challenging aspect of the IRS strategic plan is that we must continue current operations to administer the largest and most complex tax system in the world, while simultaneously reengineering and improving its most fundamental underpinnings.

During fiscal year 2000, we made significant progress in all aspects of our modernization effort. Five items are of particular significance:

- ◆ First, we completed initial training and implementation of the many specific provisions of the IRS Restructuring and Reform Act of 1998.
- ◆ Second, we completed and, for the most part, implemented the design of our new organizational structure. New management teams are in place and all major elements of the new structure will be operational in fiscal year 2001.
- ◆ Third, we will soon complete the planning phases of our Business Systems Modernization Program. By the end of this calendar year, we will have completed a revised business vision as well as a technology strategy and a technical architecture, all directly linked to the IRS' new mission, goals, and structure.
- ◆ Fourth, we have completed the design and initial implementation of a new balanced measurement system for IRS operations.
- ◆ Fifth, we have developed a new strategic-level planning process designed to reconcile our many critical and competing priorities and initiatives with the realities of our resource limitations. Since March 2000, the IRS' senior management team has been intensely engaged in implementing this process.

These achievements form the foundation for a meaningful and all-encompassing strategic planning, budgeting, and performance management process that supports our new mission, our goals and objectives, and our new organizational structure. The process provides a formal platform for establishing IRS strategies and resource allocations.

The strategic plan serves as a framework for developing senior management involvement and guidance. It will direct operating unit ownership of operational plans and business practices. It will also provide for greater integration between our planning, budgeting, research, and performance accountability mechanisms.

Because of the progress we have made in our modernization effort, we are now able to put forth a strategic planning framework that includes all of the IRS' major strategic-level programs and ties directly to several years of operational-level programs and budget requests. This introduction, including the graphic depiction in Figure 1 on page 19, provides a brief overview of our strategic planning framework.

Our new *mission* and three *strategic goals* are the anchor points against which we measure everything that we do at the IRS.

If we make measurable improvements in a balanced way on all three strategic goals, we will clearly deliver on our vital mission for the American taxpayer. Each strategic goal encompasses a number of *objectives* that help define that goal.

*Guiding principles* help link our mission and goals to the everyday actions of IRS employees from all levels of the organization. It will take thousands of everyday actions to accomplish our goals, and the guiding principals help employees understand the relationship between their actions and our goals.

We have three major change programs integrated into an agency-wide modernization process. These programs hold the promise of enabling dramatic and long-lasting improvements in the way we deliver on our mission and strategic goals.

◆ The **Organizational Modernization Program** is our effort to restructure the IRS into customer-focused operating units with end-to-end account-

ability and clear management roles. By the end of calendar year 2000, we will have the major components of this program in place and will conduct our operations through four operating divisions and several functional shared services units. We have new management teams in place to manage this new structure. The Organizational Modernization Program, now in the final stage of implementation, will continue for another two years, through fiscal year 2002, until we have completed more detailed implementation within each of the units, including the redistribution of workload.

◆ The **Business Systems Modernization Program** is our effort to reengineer the IRS' major business processes and practices in accordance with proven best practices and supporting technology. During fiscal year 2000, we focused the program on establishing an effective managerial process, defining the long-term vision of how we will operate in the future, and planning initial projects. The program's first project, customer communications, will improve taxpayer access to customer service toll-free telephone systems. We have scheduled this project for delivery in fiscal year 2001. It will affect all major IRS business processes and all organizational units.

◆ The **Business Systems Modernization Program** is our effort to reengineer the IRS' major business processes and practices in accordance with proven best practices and supporting technology. During fiscal year 2000, we focused the program on establishing an effective managerial process, defining the long-term vision of how we will operate in the future, and planning initial projects. The program's first project, customer communications, will improve taxpayer access to customer service toll-free telephone systems. We have scheduled this project for delivery in fiscal year 2001. It will affect all major IRS business processes and all organizational units.

# IRS STRATEGIC PLANNING FRAMEWORK

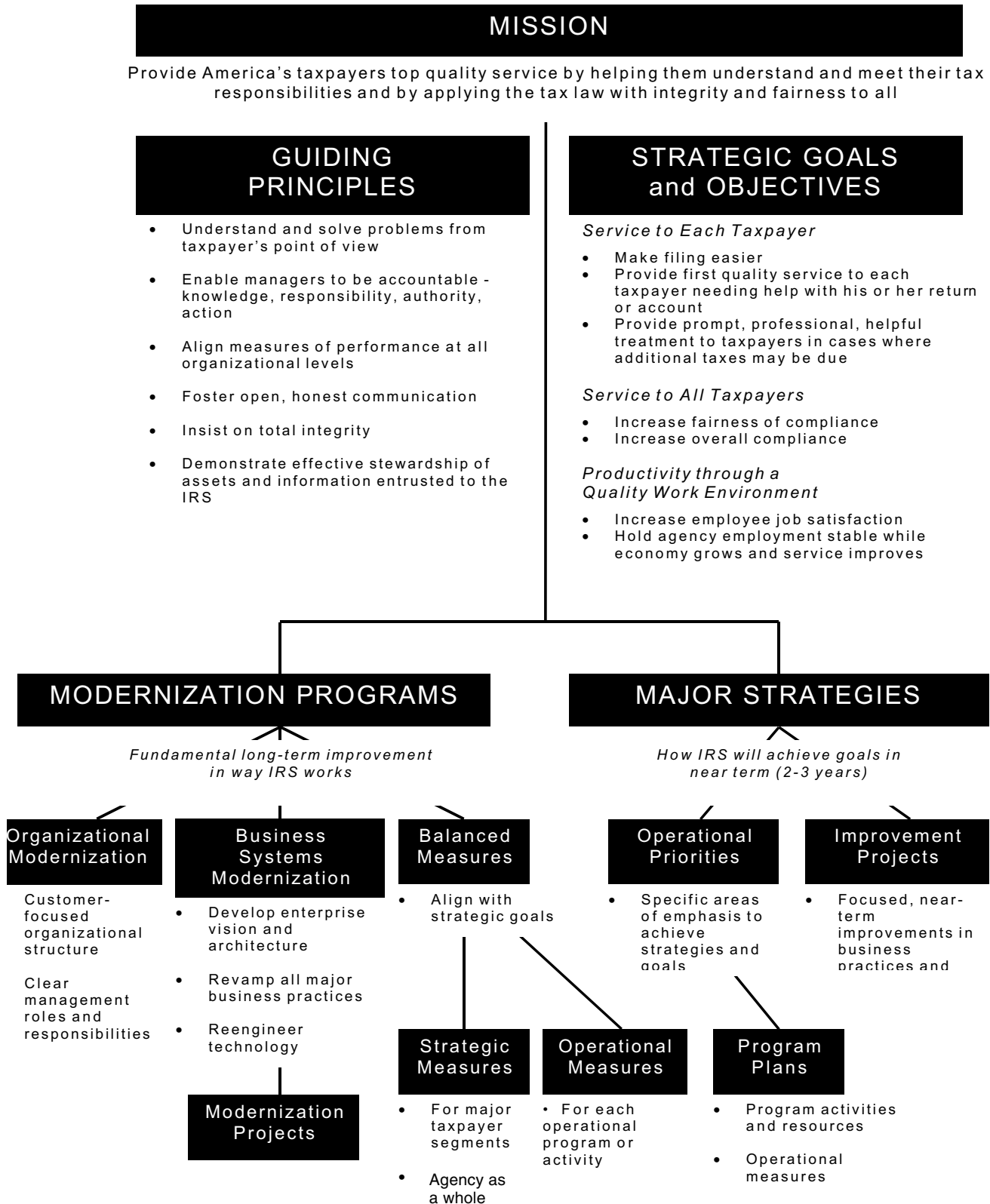


Figure 1

We will accomplish future development and implementation through well-defined projects and releases delivered to specific business owners. Because of its massive scale, pervasive impact, and inherent risk, we will phase in this program over many years and address only the largest agency-wide processes and systems.

- ◆ The *Balanced Measures Program* is our effort to develop and institutionalize a measurement system that encompasses all of our major units and programs and aligns with our three strategic goals. The program has two equally important components - developing operational measures, which gauge the performance of specific IRS programs or activities, and developing strategic measures, which gauge our performance in servicing major taxpayer segments as well as our agency performance as a whole.

Because we previously eliminated essentially all operational measures in response to congressional and internal concerns, first priority was given to establishing operational measures. We have defined these measures for most IRS components and in most cases, we established baselines by the end of fiscal year 2000.

We have not yet developed strategic measures, so a major task over the next two fiscal years will be to develop and deploy such measures.

*Major strategies* are the approaches we will use to achieve progress on our strategic goals over a two- to three-year timeframe. We have developed these strategies based upon senior management's consideration of internal research and analysis, stakeholder input, Treasury Inspector General for Tax Administration (TIGTA) and General Accounting Office (GAO) recommendations, and employee input on the key trends, issues, and problems that most affect the IRS.

We have defined a series of supporting operational priorities and improvement projects for each major strategy.

*Operational priorities* provide specific areas of emphasis for conducting both new and current operations to ensure the achievement of our strategic goals. We will adjust these priorities from year to year depending upon changes made to the tax law, the affects of business system modernization and improvement projects, and/or redirection of program management.

*Improvement projects* represent opportunities to improve the ways in which we work through better business practices and technology. These projects are much smaller and more focused than those stemming from the Business Systems Modernization Program. We select these projects through an agency-wide prioritization process.

Operational priorities and improvement projects are described in the *strategy and program plans* developed by every IRS organizational unit to provide internally specific strategic and program direction. Each operating division commissioner or chief officer works with his/her senior management team to define and execute the strategies and program plans that best meet the current and emerging activities of that unit. Those strategic and operational priorities, in turn, drive overall achievement of our mission and strategic goals.

To provide a continuity across the Service that allows the Commissioner to manage the IRS at the strategic level, organizational units are required to articulate their strategy and program plans in terms of customer service and the functional activities that deliver customer service and compliance. Those services fall into three distinct categories:



- ◆ Pre-Filing Services - services that are provided to a taxpayer before the return is filed to assist in filing a correct return
- ◆ Filing Services - services that are provided to a taxpayer in the process of filing a return and paying taxes
- ◆ Post-Filing Services - services that are provided to a taxpayer after a return is filed to identify and correct a possible erroneous underpayment

By organizing our strategy and program plans, as well as our budgets, financial plans and reports, and accounting systems, around the three service categories

and supporting activities we ensure a consistent and holistic approach to planning for and delivering on our strategic goals and objectives. Supporting activities are:

- ◆ Pre-Filing Taxpayer Assistance and Education
- ◆ Filing and Account Services
- ◆ Compliance Services
- ◆ Shared Services Support
- ◆ General Management and Administration
- ◆ Research and Statistic of Income
- ◆ Earned Income Tax Credit
- ◆ Information Services
- ◆ Information Services Improvement Programs
- ◆ Information Technology Investment Account



# Strategic Goals and Objectives

*Top-quality service  
to each taxpayer  
in every interaction*

★★★

*Top-quality service  
to all taxpayers  
through fair and  
uniform application  
of the law*

★★★

*Productivity  
through a quality  
work environment*

While a new mission statement and clarification of the public's expectations are fundamentally important, it is equally important that we define the specific goals and objectives needed to achieve our mission. In a practical sense, these goals and objectives represent what we are striving to achieve and how we will judge our success both qualitatively and quantitatively.

The IRS has formulated three strategic goals. If progress is made on all three of these goals, we can be confident that we are moving toward achieving our mission and meeting the public's expectations.

*Top-quality service to  
each taxpayer in every interaction*

Our first strategic goal is to provide top-quality service to each taxpayer with whom we deal.

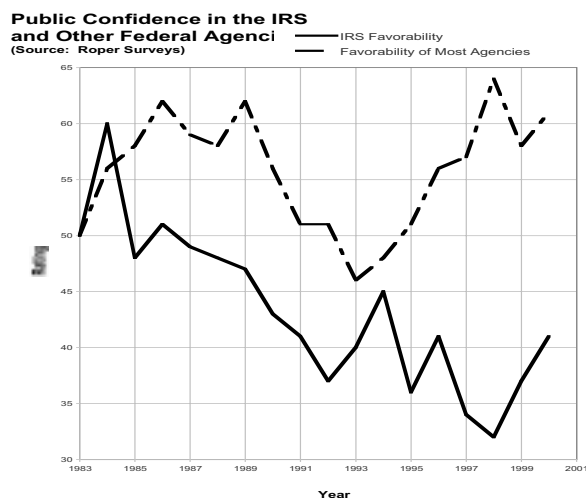
The IRS has millions of interactions with taxpayers each year, ranging from the very simple to the very complex.

- ◆ We provide tax law guidance, rulings, information, forms, and instructions to taxpayers who must file a return. We should make this process ever easier and clearer, reducing the chances of error and the time and effort required by taxpayers.
- ◆ We give millions of taxpayers the information they need about their tax accounts and provide them with assistance in determining how much or how to pay. We should give taxpayers assistance and make appropriate adjustments to their accounts accurately, quickly, and conveniently.
- ◆ We may intervene, in the form of an examination or a collection action, and may inform the taxpayer that the agency believes additional taxes are owed. In these cases, we should inform taxpayers promptly and treat them professionally and with full consideration of their rights.

Whenever the IRS deals with a taxpayer, we should give the taxpayer first-quality service and treatment that is helpful, based on the particular situation and need. To provide this level of service, we must understand both the taxpayer's situation and the tax law.

The ultimate measure of success in our first strategic goal is whether or not our customers, the American taxpayers, believe we are meeting their expectations.

While we have not yet defined the specific measures we will use in assessing our success in meeting this goal, we do have some relevant indicators. For many years, the Roper opinion research organization has compared the trend in favorability ratings by the public of various government agencies. As depicted in Figure 2 below, the public's rating of the IRS was once comparable to that of other government agencies.



**Figure 2**

During the 1980's, our ratings and those of other agencies declined substantially. In the 1990's, the ratings of other agencies improved, while ours continued to decline, reaching an all time low point in 1998. Since this low point, our rating has improved in 1999 and 2000, although it remains well below that of other agencies and of the historical highs for the IRS.

A University of Michigan survey - the American Customer Satisfaction Index (ACSI) - polls people who have dealt recently with various public and private sector organizations. The ACSI ranked the IRS last for a number of years, as shown for 1999 in

Figure 3 on page 25. However, filers who participated in our electronic filing program, which was added to the ACSI as a separate segment in 1999, rated the IRS much higher.

The number and nature of taxpayer complaints about poor service or mistreatment is also a useful indicator of how well we are serving the public. Complaints are particularly important for the IRS, because a taxpayer who suffers even one bad experience dealing with us may have greater impact on public perceptions than thousands of taxpayers who have good experiences in routine transactions. We are developing improved systems to track complaints. While reliable numbers are not yet available, there are indications the number of complaints has declined in 1999 and 2000.

Since 1999, we have been surveying taxpayers who have had direct contact with the IRS, either in person, over the phone, or through correspondence. While these surveys are primarily useful for measuring operational performance in specific programs, over time they do provide an indication of overall success in meeting the public's expectations. In general, these surveys, which began in March of 1998, show modest improvement in customer satisfaction in most program areas, with the highest ratings in taxpayer assistance functions such as telephone service on our toll-free lines and in walk-in service. Our issue resolution functions, including collection and examination, have also shown improvement.

## American Customer Satisfaction Index

Private Service Sector Aggregate	71.9
Manufacturing/Durables	77.3
• Automobiles, vans and light trucks	78.0
• Consumer electronics (TV & VCR)	83.0
• Major household appliances (washer, dryer, stove, refrigerator, dishwasher)	82.0
• Personal computers	72.0
Public Administration/Government Sector Aggregate	68.7
• Solid waste disposal service (suburban)	76.0
• Solid waste disposal service (city)	76.0
• Police service (suburban)	68.0
• Police service (city)	64.0
• Social Security Administration	82.0
• Occupational Safety and Health Administration	51.0
• Federal Aviation Administration	58.0
• <b>Internal Revenue Service (all filers)</b>	<b>51.0</b>
• <b>Internal Revenue Service (electronic filers)</b>	<b>74.0</b>

The ACSI reports indices on a 0-100 scale at the national level, for seven economic sectors, 34 industries and nearly 200 individual companies or agencies. The scores for federal government performance are reported in the form of how well a customer segment is served.

**Figure 3**

We believe it is possible to measure the success of the IRS in meeting the legitimate expectations of the millions of taxpayers with whom we deal and that if we provide good service and fair and professional treatment, taxpayers will rate the IRS appropriately. Historical data and recent experience support this conclusion. The vast majority of taxpayers do pay their taxes and they expect reasonable service when

they need it. If we provide the service they expect, taxpayer views of the IRS will improve. Conversely, a consistent failure to meet the expectations of taxpayers can undermine confidence in the agency and put the whole tax system at risk. Although we have made some progress in the last few years, our experience and data also clearly indicate we need to do more to improve how well we provide service to taxpayers. Our service today is not at a consistently acceptable level. We have designed many of the strategies, improvement projects and modernization programs described in this strategic plan to improve substantially the level of service to the millions of taxpayers we deal with each year.

### *Top-quality service to all taxpayers through fair and uniform application of the law*

Our second strategic goal addresses service to all taxpayers - applying the law with integrity and fairness so that we do not allow those taxpayers who do not comply to place a burden on those who do. This aspect of IRS service is important both to protect revenues flowing to the Treasury and as a matter of fundamental fairness. Our tax system depends on each person who is voluntarily meeting his or her tax obligations having confidence that his or her neighbor or competitor is also complying. Therefore, when taxpayers do not voluntarily meet their tax obligations, the IRS must use its enforcement powers to collect the taxes that are due.

The overall measure of success in this goal is the total collection percentage, which is the fraction of taxes that are actually paid as compared to those that would be paid if everyone paid what was due under the law. Arriving at this measure is dependent upon our ability to measure the three components that make up overall compliance. During fiscal year 2001, the IRS will continue working on the development of these three component measures:

- ◆ **Filing compliance** - the percentage of returns that are filed on time for a given tax year
- ◆ **Payment compliance** - the percentage of taxes due that are paid when owed
- ◆ **Reporting compliance** - the percentage of tax liability that is reported on filed returns for a given year

Another indicator of success is the uniformity of compliance, representing the relative degree of compliance among various economic sectors, different geographic areas, and different demographic segments. Uniformity across sectors is important for actual and perceived fairness of the tax administration system.

We do not have reliable, up-to-date measures of overall compliance, nor of compliance by major sectors. We conducted the last major study on the subject in 1988, relying in part on a study we did in the 1970s. In order to measure progress on this critical goal and to avoid reliance on the more easily measured but flawed concept of enforcement revenue as a strategic measure, we must develop regular and up-to-date measures of overall compliance.

While we work to develop a reliable, up-to-date measure of overall compliance, the best extrapolations of previous studies suggest that noncompliance of all kinds equated to about \$195 billion in fiscal year 1997.

Because we lack good measures, we do not know if overall compliance is remaining steady or declining. However, from the information available, we do know that compliance is quite uneven and that here are major problem areas in which significant noncompliance exists. For example, income reported by third parties is, on the whole, more likely to be reported accurately than self-reported income.

For several years, corporate income tax collections have been rising much more slowly than reported earnings. In 1999 corporate income taxes actually decreased by 2%. Part of this decline is due to the spread of abusive corporate tax shelters. Promoters of abusive trusts and passthrough entities, including complex arrangements to move money to offshore tax havens, have convinced some upper income taxpayers that they can use these schemes to reduce or eliminate taxes.

Balances of unpaid employment and withholding taxes by businesses have also increased. And, the overpayment of refunds due to erroneous returns, including Earned Income Tax Credit (EITC) claims, remains high.

Noncompliance is not necessarily deliberate, but can stem from a wide range of causes, including lack of knowledge, confusion, poor record keeping, differing legal interpretations, unexpected personal emergencies, and temporary cash flow problems. On the other hand, some noncompliance is willful, even to the point of criminal tax evasion. In the interest of fairness, it is vital that we address all aspects of the noncompliance spectrum.

### *Enforcement is one of the essential components of ensuring compliance and fairness*

The IRS takes enforcement actions, such as making assessments of additional tax due after an examination or levying the bank account of a taxpayer who has not paid tax debts, when the facts of the case show that such action is necessary to bring that taxpayer into compliance with the law. Revenue from enforcement action represents about 2% of the revenue we collect, but historically, we have emphasized direct enforcement revenue as a key measure of performance, in part because it is precisely measurable and in part because it showed an indirect deterrent effect that increases compliance.

We have, however, used many techniques other than direct enforcement that have increased compliance.

These techniques include better and more targeted taxpayer education, better reporting, voluntary agreements, improved regulations, and earlier intervention through notices and phone calls. Since 98% of tax revenue flows into the Treasury without enforcement action, an increase of 1% in voluntary compliance would be roughly equivalent to a 50% increase in enforcement revenue. A major focus of this plan is to put more emphasis on these strategies for improving compliance.

Nevertheless, regardless of how successful we are in these strategies, examinations, collection actions, and criminal investigations will be essential components of our effort to ensure fairness and compliance. Since the passage of the IRS Restructuring and Reform Act of 1998 (RRA98), we have undertaken substantially fewer enforcement actions. For example, in fiscal year 1999 we conducted approximately 65% fewer face-to-face examinations on individual returns than in fiscal year 1997. We closed a similarly reduced number of collection cases and referred 73% fewer tax-fraud cases to our Criminal Investigation unit during that same timeframe. These downtrends have occurred for a number of reasons - declines in staff due to budget constraints, a substantial increase in the amount of time required to work a case resulting from provisions set forth in RRA98, uncertainty about certain provisions of RRA98, and increased use of staff to meet taxpayer needs during the filing season. These declines in enforcement have resulted in our collecting less enforcement revenue - \$37 billion in 1997 compared to \$33 billion in 1999.

It is important for us to stabilize the level of enforcement activity, so that the proper action can be taken in each case. To accomplish this we must have some additional staff resources and devote additional

training and management attention to clear up confusion about how to administer provisions of RRA98.

While the lack of reliable measures of compliance limits our ability to assess progress on our goal of serving all taxpayers through effective and fair application of the law, there is sufficient information to know that we are losing enormous sums through failures to pay taxes owed and that we have major problem areas of substantial noncompliance. This situation is not only costly in financial terms, it creates a perception of unfairness which over time can undermine confidence in the tax system. Our modernization program, along with many of the strategies addressed in this plan will enable us to improve performance on this goal, using both traditional enforcement activities and greater emphasis on prevention and early intervention.

### *Productivity through a quality work environment*

Our third strategic goal is to increase productivity by providing a quality work environment for our employees. We must not only provide top-quality service to taxpayers, but we must do so efficiently, using the fewest possible resources. Many private sector organizations demonstrate that success in this area requires providing employees at all levels with high-quality technology tools, adequate training, effective management, and active engagement in the goals of the organization. This is especially true in service organizations, where most front-line employees interact directly with customers. It is essential that our employees clearly accept ownership of our strategic goals, receive the support they need to provide good service to our customers, and are able to communicate upward effectively about problems and obstacles which they perceive stand in the way of good service.

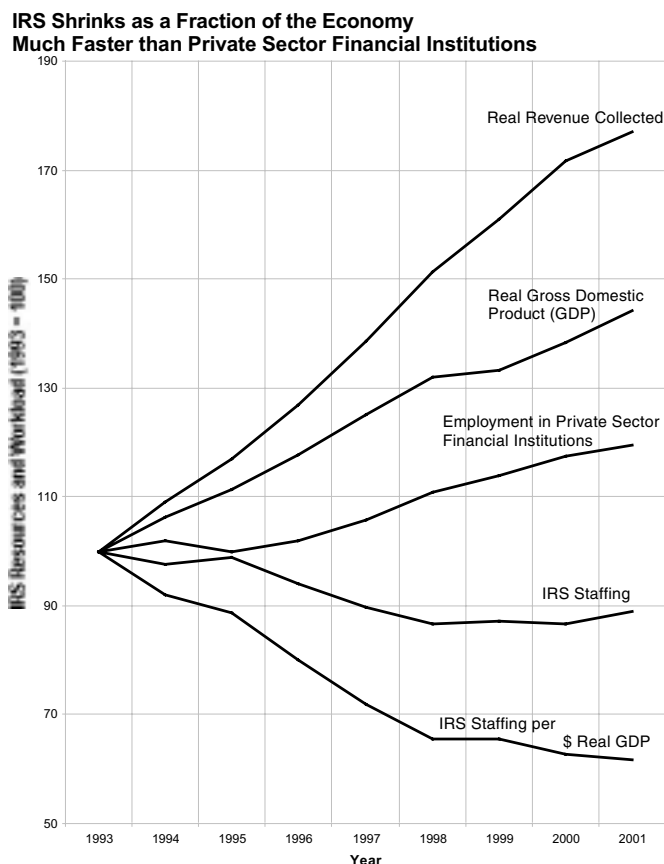


The right work environment helps to unlock employee potential. Companies and organizations that excel in customer service invariably have employees who feel respected as individuals and valued by management for the contribution they make to the overall service effort. A positive work place is free of discrimination, does not tolerate artificial ceilings and barriers to advancement, affords equal opportunity, and recognizes employee performance and potential. It is also a work place that is highly inclusive and seeks to make use of the diverse experience and talents of all employees.

### *The IRS is shrinking when compared to the economy*

One measure of our success in building productivity is to increase our workforce only slightly, while concurrently handling the increased workload from a growing economy and improving performance on our other two service goals. Should we accomplish this ambitious goal, we will increase productivity at a rate greater than the private financial sector and continue to shrink the size of the agency significantly in relation to the size of the economy.

From 1993 through 1999, as depicted in Figure 4 below, the number of IRS employees decreased 15%, from 115,000 to 98,000, while the economy grew in real terms by 23% and the number of tax returns processed grew by 8.7%. Looking solely at gross numbers, one might assume that the IRS has succeeded in recent years in achieving higher productivity. However, our failure to meet the public's service expectations as evidenced by the concerted criticism leveled at the IRS tells a different story. The reduction in number of IRS employees was achieved only in part by an increase in real productivity. A greater portion of the reduction was due to significant reductions in compliance activity.



**Figure 4**

### *The IRS budget is a small part of tax administration*

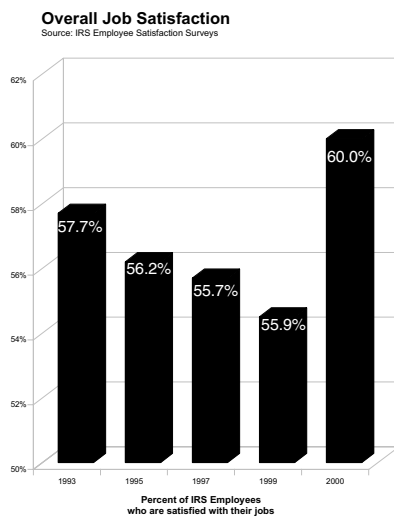
When addressing the resources used in tax administration, it is important to consider all resources, recognizing that most of the cost - both direct financial cost and the indirect cost of inconvenience - are incurred by taxpayers in complying with the tax laws. While measures are not precise, our internal budget represents perhaps 5% to 10% of the total cost of tax administration in the economy. Thus, a very small increase in the cost borne by taxpayers can easily offset any reduction in the on-budget cost of the IRS if service declines or noncompliance increases. It is not economical to save money in the IRS by imposing much larger costs on taxpayers.



## Employee satisfaction

Employee satisfaction with the quality of the work environment is also measured as a part our third strategic goal. Since 1993, the IRS has used employee surveys to measure these attitudes. As part of the design of balanced measures, the employee survey was refined and is now included directly in our organizational measures of performance.

In 1999, overall job satisfaction for IRS employees was 54.5%. In 2000, this score increased to 60%, as shown in Figure 5 below.



**Figure 5**

Although this improvement is encouraging, further analysis of the numbers shows major room for improvement in the quality of training, the tools and technology provided, and in the ability of upper management to respond more effectively to constraints that limit the productivity of employees.

The IRS will need significant investment over the next several years to achieve our productivity goal. Most of our investment will be for replacement of technology, but we will also need investment to redesign the organization and business practices, train our employees, and replace facilities. If we

cannot make the necessary investments, our costs will increase, not decrease, in the long run, and we will be unable to meet the expectations of the public for proper service, treatment, and fairness.

### *Taxpayers and employees will benefit if we achieve our three goals*

One of the most important challenges we face is that we can only succeed if we achieve a high level of performance on all three goals.

We cannot be successful if we collect taxes but do not provide top-quality service to each taxpayer or neglect to respect taxpayer rights.

Equally, we cannot be successful if we provide good service but allow compliance to decline and, thereby, fail to collect taxes.

Finally, we can only achieve these service goals by increasing productivity and utilizing effectively the skills of our workforce. Since resources are severely limited, we must use them wisely to productively accomplish our other goals.

The benefits to taxpayers and employees of our achieving these three strategic goals should be concrete and noticeable, but they will take time to become apparent. From the taxpayers' perspective, some of these benefits are:

- ◆ More useful help in understanding and filing taxes
- ◆ Fast, accurate service in response to questions about taxes owed or refunds due
- ◆ Professional, courteous help in determining the best way to meet tax obligations
- ◆ Professional, courteous treatment during the examination process

- ◆ Greater confidence in the fairness and equity of tax administration
- ◆ Clear and effective means of identifying problems of law or regulations that cause unfairness or disproportionate administrative burdens and communicating these to the proper level of authority for resolution

Benefits from the IRS employees' point of view include:

- ◆ Greater respect from the public
- ◆ Balanced measurements of performance with an emphasis on quality as well as quantity
- ◆ A flatter organization structure that more closely ties to our mission and goals
- ◆ A stabilized workforce with numerous career paths
- ◆ Increased emphasis on training and high-quality technology and support tools

### *Key External Factors*

Two key external factors could effect our ability to accomplish our strategic goals - changes in the tax law and funding.

### *Changes in the tax law*

IRS activities are very heavily driven by the tax law. Our mission and strategic goals are unlikely to change so long as there is a federally administered tax system. However, changes in the tax law could have major impact on how we conduct our activities, how many resources are required, and how much progress we can make on our strategic goals.

Generally, the Congress makes some changes to the tax law each year. Therefore, some level of change is a normal part of our environment. Certain kinds of changes, however, can have significant effects on the IRS in terms of the quality and effectiveness of service, in the cost to deliver service, and in how taxpayers perceive us. In particular, changes in tax law that increase complexity add to the burden on taxpayers, increase the cost of administering the tax code, and make it difficult for us to meet both our service and compliance goals.

In addition, changes with effective dates in the year of enactment, especially if these provisions are enacted in the second half of the calendar year, make it very difficult for us to prepare for the following tax filing season. Such changes increase the cost and reduce the quality of service and may cause taxpayers to make more errors.

In addition, major changes in the tax law consume considerable IRS resources for updating computer systems, forms and publications, taxpayer education, taxpayer assistance, and internal training. If funds are not provided for these activities, then we have to divert funds from other improvement projects. This reallocation of resources could delay or eliminate progress on some strategic goals.

### *Funding*

The IRS is an operational agency, not a policy or grant making agency. Taxpayers are required by law to file returns and pay taxes and they expect and depend on us to meet their needs. Growth in the economy and our volume of business make it harder to meet these expectations every year. In order to operate, we must have funds to pay our workers and operate our computers, the two main drivers of our budget. In addition, to achieve the strategic goals in the strategic plan, we need substantial investments over a period of years, especially for the business systems modernization program.

If sufficient funding is provided, we will be able to implement this strategic plan and improve the way we deliver on our mission and service goals. We will also be able to continue to become more productive and to actually shrink in size relative to the real economy. If funding is cut below required opera-

tional and investment levels, we will not achieve our strategic goals. Taxpayers will have to bear the costs in another form, namely increased burden in dealing with the tax system, increased unfairness, and potentially reduced tax revenue.



# Guiding Principles

*Understand and solve problems from the taxpayer's point of view*

★★★

*Enable managers to be accountable with the requisite knowledge, responsibility, and authority to take action*

★★★

*Align measures of performance at all organizational levels*

★★★

*Foster open, honest communication*

★★★

*Insist on total integrity*

★★★

*Demonstrate effective stewardship of assets and information entrusted to the IRS*

To achieve the IRS' strategic goals, we will have to make many changes over a number of years. We are already taking actions at all levels of the organization, from the front-line to top management. While each change and each action that moves the IRS toward its goals is valuable, it is useful in the midst of such great change to articulate some principles to guide as well as link our efforts. Addressing a list of principles at this time does not imply that the IRS has not been guided by principles in the past or that this list is all-inclusive. Instead, this list emphasizes principles that are especially useful today in guiding our actions. These principles are a link between our strategic goals and the tangible changes we make and the actions we take to achieve these goals. We expect all IRS executives, managers, and employees to manage and operate using these guiding principles in their interactions with both the taxpayers and other employees.

*Understand and solve problems from the taxpayer's point of view*

Solving problems from the customer's point of view has powerful and pervasive implications at this point in IRS history. We did not make this shift in emphasis from an internal focus to a customer focus when many other organizations did over the last 15 years. We have adopted this focus in recent years and can already point to practical examples where this principle has had important effects.

- ◆ We have improved our phone service a great deal, not by answering significantly more calls, but by recognizing that taxpayers typically call at certain times of the day or week. We adjusted the schedules of customer service representatives to make them available at those peak times, rather than concentrating our resources during the normal business day.

- ◆ Taxpayers have rated our Problem Solving Days very highly. We have been able to clear up many long-standing problem cases by understanding the customer's point of view. Some taxpayers needed to meet face-to-face with an IRS representative and needed convenient times to do this. Oftentimes the taxpayers' issues crossed functional boundaries. We provided all the necessary expertise in one place and at one convenient time, to meet their needs.

- ◆ We have changed our quality measures for answering calls to better reflect the customer point of view. Instead of rating the quality of

answers against a test list of IRS-developed tax law questions, we now rate the quality of actual taxpayer calls.

Nearly every IRS activity and every employee's way of doing his or her job are affected by adopting this principle. It guides our internal activities as well. For example, those within the IRS organization who provide information systems services, facilities services, or accounting services have internal customers, and it is vital to understand their needs when solving their problems.

While this principle can significantly improve service to each particular taxpayer, it can also improve overall compliance. Since the IRS intervenes directly with only a very small percentage of taxpayers, we must gain a clear understanding of what causes compliance problems in particular circumstances and situations so we can address those problems effectively.

### *Enable managers to be accountable, with the requisite knowledge, responsibility, and authority to take action*

While almost universally accepted as essential in any well-managed organization, accountability is especially important for the IRS to stress at this time.

As the IRS has grown and become more complex over the years, we have sometimes found it difficult to fulfill this principle, to the frustration of taxpayers, managers, and employees alike. Lack of adequate managerial knowledge of the substance of a problem and/or the lack of authority to solve a problem fueled this frustration. Taxpayer cases that remained unresolved for many years, over-reliance on statistics as a management tool, and poor response from surveyed employees on questions about trusting management all indicate we must renew our commitment to this principle at the IRS.

Proper application of this principle means that we expect managers at all levels of the IRS to understand the substance of the matters for which they are responsible, see that quality work is performed, take action on solving problems within their control, and participate actively with upper management to solve problems requiring higher level action. In turn, higher management must provide the appropriate guidance, structure, training, management support, and tools so that their subordinate managers can be accountable and, then, expect them to rise to the challenge.

We must also establish a much greater level of meaningful communication between those responsible for policy and those responsible for execution. It is not possible to be accountable for making policy without having an accurate and up-to-date knowledge of how that policy is being implemented with actual taxpayers. Likewise, we must use the valuable knowledge gained from work with taxpayers to make constant improvements in policy and business practices. And, if our front-line employees understand the basis for the decisions guiding their operations, they will be able to perform their duties more effectively and make more reasonable decisions.

### *Align measures of performance at all organizational levels*

Everyone in the IRS shares responsibility for fulfilling our mission and making progress toward our strategic goals. We also evaluate every employee against some standard of performance, which in turn is the basis for awards and promotions. It is vital that we align these standards at all levels so as to encourage and reward performance that advances our strategic goals. It is equally important for us to avoid measures or standards that reward inappropriate actions or are subject to manipulation.

The lack of performance measure alignment between managers and employees is one source of our problems in providing service to taxpayers and has undermined trust between employees and managers.

Because of the complexity and diversity of IRS operations, it is essential that we have performance measures that are meaningful for each type and size of organizational unit. The operational measures for a call site answering tax law questions, for example, are significantly different from those for a large-case examination group. We must tailor performance standards of an individual employee in each of these units to what is appropriate and measurable. It is vital that whatever measures we use, we align them to encourage, not discourage, behavior at all levels that contributes to meeting our three strategic goals. Foster open, honest communication

Open, honest communication is one of the most powerful principles of management for a large organization like the IRS. We cannot solve problems that we do not know about or refuse to acknowledge. The more difficult or important the problem, the more important it is for those at higher levels to come to grips with it as soon as possible. We must identify problems, acknowledge them, address them, and use them as a learning tool for the future.

While this principle seems obvious and is well proven, it is often hard to live by. The well-known tendency to “shoot the messenger bringing bad news” often undermines the principle. The natural desire of managers to present solutions, not just problems, can produce situations where major issues are not raised until too late. The natural tendency of preferring good news to bad also works against the principle. And, fear of negative public reaction can suppress or delay acknowledgement of problems.

Notwithstanding the difficulties of following the principle of open, honest communication, it is an essential axiom for us, especially at this time. The

massive degree of change being undertaken and the commitment to addressing fundamental problems means that progress will be slowed and risk will be elevated to unacceptable levels unless we embrace this principle at all levels of the organization. Consequently, to foster open and honest communication, our top managers must demonstrate their receptiveness to hearing real problems and avoid any hint of adverse consequences for those who raise legitimate issues.

### *Insist on total integrity*

The modern IRS was formed with the fundamental objective of collecting taxes, according to the law and without corruption or political influence. We succeeded admirably in this purpose, so the principle of integrity is not new to us.

What is important, however, is for us to stress the breadth of this concept - hence, the term, total integrity. Total integrity means that each of our employee must perform all of his or her duties in accord with the public interest and not with regard to personal interest. This concept includes, but is broader than, avoiding traditional offenses of corruption or political influence. It encompasses all matters of public interest, such as taxpayer rights, use of government resources, access to confidential information, internal and external reporting, personnel practices, procurement and travel activities, acceptance of gifts, and conflicts of interest, both while employed and afterward.

While many matters relating to IRS integrity are codified in rules and regulations, adherence to this principle means that each employee should not only observe the rules but also embrace the spirit of acting in the public interest. When there is doubt as to the right thing to do, there is a failsafe technique - employees must ask for help from a qualified source and not act alone.

### *Demonstrate effective stewardship of assets and information entrusted to the IRS*

The role assigned to the IRS by the Congress requires the public to entrust us with assets and information on an almost unimaginable scale. Each year we take in about \$2 trillion of taxpayer funds, issue \$142 billion in refunds, and receive detailed and sensitive information regarding 126 million individual and six million business taxpayers. To execute this mission, we receive over \$8 billion each year in appropriated funds and manage an inventory of property and equipment valued at \$1.3 billion.

We cannot be successful in our mission unless we can demonstrate to the public and the public's representatives that we provide effective stewardship of the public assets and information entrusted to us. This means that we must accurately account for taxpayer funds, use our budget funds efficiently and for the purpose intended, manage and account for our inventory of property and equipment, and safeguard taxpayer information so that it is used and disclosed only as necessary for authorized tax administration purposes.

The IRS has many systems and procedures designed to accomplish effective asset and information stewardship. Some of these systems were designed long before modern accounting and security standards were established. An important aspect of our modernization program focuses on replacing and upgrading these systems.

Equally or more important than any set of systems, however, is the commitment of every IRS employee and manager to recognize the importance of effective stewardship and to take personal care in ensuring that their everyday actions are guided by this principle. This means that each person must make a special effort to act in accordance with the spirit as well as the letter of those procedures and guidelines established to ensure effective stewardship, and to communicate through appropriate channels when errors or problems occur.

If we abide by this principle, we will demonstrate effective stewardship, even while we improve the tools available to us.



# Major Strategies

*Meet the needs of taxpayers*

★★★

*Reduce taxpayer burden*

★★★

*Broaden the use of electronic interactions*

★★★

*Address key areas of noncompliance*

★★★

*Stabilize traditional compliance activities*

★★★

*Deal effectively with the global economy*

★★★

*Meet the special needs of the tax-exempt community*

★★★

*Recruit, develop, retain a quality workforce*

★★★

*Provide high-quality, efficient, and responsive information services and shared support services*

★★★

*Promote effective asset and information stewardship*

Success in achieving our mission, goals, and objectives is influenced by the environment - external and internal - in which we manage and operate tax administration activities. To provide top-quality service to taxpayers and apply the law fairly, as called for in our mission, we must understand the specific problems and expectations of taxpayers and the compliance problems we must address. We must also assess how well we are meeting our objectives and where improvements are needed. In light of these assessments, we must make choices as to how we can best use our limited resources to meet our strategic goals.

In March 2000, the IRS Commissioner established a new Strategic Planning, Budgeting, and Performance Management process that emphasizes the necessity of strategic assessment as the first step in strategic planning, following the process described in Appendix 2, Strategic Planning, Budgeting, and Performance Management Process. With our mission and goals as our guiding framework, the IRS Senior Management Team began an intensive process of research, analysis, and discovery aimed at determining how well we are performing our most fundamental tax administration services - pre-filing, filing, and post-filing services and what new issues we will face in the future.

Working as a senior management team, the Commissioner, Deputy Commissioners and heads of the IRS' organizational units conducted an assessment of their external and internal environment to identify trends, issues and problems (TIPs) that were affecting business operations and service delivery. This assessment included analysis of customer surveys, research reports and data, the results of prior program evaluations and Servicewide studies, assessment of General Accounting Office (GAO) and Treasury Inspector General for Tax Administration (TIGTA) findings, including high risk areas and major management challenges, and other sources. The Senior Management Team identified the dozens of TIPs that are listed in Appendix 1 entitled, Trends, Issues, and Problems. Prior program evaluations, major management challenges, and high-risk areas are addressed in detail in our Annual Performance Plan.

In conjunction with our mission and goals, we used the TIPs as the basis for identifying and developing our Major Strategies, Operational Priorities, and Improvement Projects to provide practical guidance as to how our limited resources should be allocated and our management should be focused in order to achieve our strategic goals over the next two to three years. For the longer term, the Business Systems Modernization Program will identify and prioritize fundamental improvements in our business systems that will enable even more dramatic improvements.

The IRS Commissioner and the Senior Management Team developed Major Strategies that both cross several organizational units or are confined to a single unit. Within each Major Strategy more specific operational priorities and improvement projects were defined, and responsibility was assigned to operating units for carrying them out. With the mission, goals, and major strategies identified, the Commissioner provided guidance to the organizational units on

developing unit-based Strategy and Program Plans (SPPs). The SPPs address the particular management and operational requirements, along with resources levels, measures, and business systems projects and/or improvement projects for fiscal years 2001 and 2002.

The following sections summarize the Major Strategies and the most significant components that make up each strategy.

# Meet the Needs of Taxpayers

*Meet the needs of taxpayers who ask for help in filing their returns and paying what they owe by offering, higher quality and more available assistance*

Each year the IRS has millions of interactions with taxpayers who need information or assistance in order to file returns or pay what they owe. In 2000, we sent taxpayers 104 million notices, received over 20 million pieces of correspondence, answered 131 million phone calls on toll-free numbers, and served over 9.6 million taxpayers at walk-in sites. We devoted more than 20,000 employees solely to these tasks. These interactions range from the simple, such as providing a form, to the complex such as filing amended returns or paying off old balances.

Whenever we deal with a taxpayer, the taxpayer should receive first quality service that is helpful based on his/her particular situation and need. From the taxpayer's point of view, the quality of service we provide has been well below these expectations. The fundamental change we have begun in all aspects of our operations - organization and management, training of front-line personnel, internal and external distribution of information, information technology, and performance measurement - will combine to provide taxpayers accurate and prompt information to assist them in filing, paying, and resolving issues in a time and manner convenient for them.

We will make substantial progress on this strategy over the next two years, although much more will be possible through our longer-term business systems modernization program. Here are some of the ways we will implement this strategy.

- ◆ **Local Service** - We will improve services in our local offices throughout the country by offering more convenient hours, adding more convenient locations, allowing taxpayers to call for appointments, standardizing and improving the training and technical backup for our assistors so they can resolve a broader range of issues in one stop, renovating existing facilities, and offering mobile units and kiosks for less populated areas.
- ◆ **Higher quality service through phone, Internet and correspondence** - We will offer more accessible, higher quality service to taxpayers who contact us by adding more assistors at peak times, using technology to route calls and messages more precisely to assistors who are best qualified to provide accurate assistance, providing specialized assistance for small businesses and self-employed taxpayers, and making more services accessible over the Internet.

♦ ***Expanding service through partnerships*** - We will expand service to low income, elderly, and other taxpayers who need help filing returns by increasing and better supporting our network of volunteers.

♦ ***More understandable notices and letters*** - We will make our notices and letters easier to understand by rewriting and redesigning them based on feedback from taxpayers and practitioners.

♦ ***Spanish and other language service*** - We will expand service in Spanish and other languages.

♦ ***Simplified filing and payment options for small business*** - We will work with States and other Federal agencies to offer streamlined filing and payment options for small businesses.

♦ ***Paying refunds and resolving accounts faster and more accurately*** - In the longer run, our new technology will permit us to pay refunds and resolve taxpayer accounts much more rapidly and accurately, requiring fewer interactions by the IRS and the taxpayer on routine matters.

# Reduce Taxpayer Burden

*Reduce taxpayer burden, uncertainty and errors by clarifying tax law responsibilities, resolving issues early in the process, and offering effective communication and education*

One of the overriding themes in improving IRS's business practices is the shift from addressing taxpayer problems well after returns are filed to addressing them as early in the process as possible, and in fact preventing problems wherever possible.

This approach follows the well-established principle that it is far better for the customer and far less expensive to eliminate defects than to fix them. In making cars, for instance, it is very expensive to issue a recall because of a defect; it is less expensive to fix a defect before the car leaves the factory; and it is best of all to improve the design and manufacturing process so no defect occurs. So it goes with tax returns. As a rule, if a taxpayer files a correct return, the taxpayer or the IRS incurs no further costs. If the taxpayer makes an error, it is highly beneficial for both taxpayers and the IRS to find and fix the error as soon as possible. If the taxpayer fails to pay the correct amount due, the sooner the issue is addressed, the lighter the burden on the taxpayer and the greater the likelihood that the IRS will receive payment.

A major part of this strategy will be accomplished through partnerships with state governments, practitioners, and many other industry and local groups who are in regular contact with taxpayers. We will make substantial progress in reducing burden on taxpayers over the next two years, although much more will be possible through our longer-term business system modernization efforts. Here are some of the ways we will implement this strategy.

♦ ***Voluntary Compliance Agreements*** - We will expand our Voluntary Compliance Agreement Program to reduce the uncertainty that taxpayers experience in meeting their reporting requirements. Actions will include expanding existing programs such as the Tip Rate Determination and Education Program (TRD/EP). We created this program to ensure the proper reporting of tip income. We originally offered the program to the food and beverage industry and subsequently to the cosmetology, barber, and gaming industries. We have now extended it to all other industries where tipping is customary. We will also inventory all voluntary agreement and similar programs, and develop interim measurements for voluntary agreement programs.

♦ ***Education and Assistance to Start-up Businesses*** - We will develop specialized education and assistance programs for specific market segments. One effort includes the use of outreach, education, and assistance to prevent noncompliance among start-up businesses. We will expand our business partnerships with industry groups, state and

local governments, small business administration, and practitioners to provide specialized education programs, and assess current successful business programs for start-up businesses to promote compliance with the tax laws. We will enhance the section of IRS Digital Daily website that offers an array of information to small business taxpayers, including forms, publications, and IRS points of contact. Enhancements will include providing additional tax information, simplifying access, and streamlining navigation through the site.

♦ **Issue Management Strategy** - We will develop a comprehensive issue management strategy for large and mid-size businesses, including a pre-filing agreement program, fast track emerging issue process, an industry issues resolution process, enhanced alternative dispute resolution tools, the promotion of electronic filing of business returns, and the development of research databases.

♦ **Employee Benefit Plan Workload** - We will implement a marketing strategy to encourage the use of standardized employee plans; add employees and other resources to help process the additional determination receipts; and design and publish information on the IRS Internet to help employee plan customers understand and better comply with their plan filing requirements.

♦ **Published Guidance** - We will provide more effective pre-filing guidance to taxpayers to improve voluntary compliance with the tax laws. The development and publication of guidance directly supports the full range of pre-filing activities and remains the most efficient means to promote a uniform understanding and consistent application of the tax laws by taxpayers and IRS.

♦ **Tax Law Complexity** - The Taxpayer Advocate will identify, and report to Congress as required by the Restructuring and Reform Act, areas of the tax law that impose significant compliance burden on taxpayers or the IRS, including specific recommen-

dations for administrative and legislative solutions for remedying such problems. This report will include recommendations for reducing complexity and for repeal or modification of any provision the IRS Commissioner believes adds undue and unnecessary complexity to the administration of these laws.

♦ **Reduce Sources of Rework** - We will develop proactive strategies to reduce the number of audit reconsideration cases that become problems due to poor communications with taxpayers. Outreach projects will be planned and implemented to educate taxpayers on the reconsideration process, which is the review of an IRS assessment, and the role that they play in providing appropriate documentation.

♦ **Appeals Process** - We will reduce the length of time it takes for a case to go through Appeals by improving case development, expediting case movement to and from Appeals, reducing case backlogs, and developing a new staffing model in response to changing customer requirements.

♦ **Consistent Communication** - We will develop an integrated approach to relationship management to reinforce our external communication and outreach efforts. The approach will include using the IRS-wide Communications and Liaison Council to ensure message consistency, coordination, and accountability, and to ensure that the entire IRS communications infrastructure supports business processes that produce integrated, consistent external and internal communications.

♦ **Simplified Options for Small Businesses** - We will work to offer simpler, less cumbersome ways for small businesses to report and pay employment and other required taxes by providing more electronic payment and filing options and working with state governments to combine federal and state reporting requirements.

# *Broaden the Use of Electronic Interactions*

*Convert most interactions with taxpayers and practitioners to electronic means as rapidly as possible*

Electronically filed returns improve service for taxpayers and boost productivity by reducing errors, speeding refunds, and reducing labor costs. While electronic filing has been increasing rapidly, 77% of returns are still filed on paper. Reaching the Congressionally mandated goal of 80% electronically filed returns will require many improvements. We will enhance technology to allow filing of a full range of returns, eliminate requirements for separate signature documents, tailor marketing and education programs to attract taxpayers and practitioners with varying needs, and broaden the number of effective payment options.

The opportunities to improve business practices through electronic communications with customers and practitioners go far beyond filing of returns. Customer education and assistance programs through the IRS web site, such as distributing forms and publications and answering tax law questions, are growing rapidly. Eventually, secure communications over the Internet with practitioners and taxpayers will be used more effectively to resolve taxpayer account issues, facilitate resolution of examinations, provide taxpayers authorized transcripts of their accounts, and generally improve the timeliness and quality of the full range of IRS interactions with taxpayers.

We will make substantial progress in broadening the use of electronic interactions with taxpayers over the next two years, although much more will be possible through our long-term business system modernization efforts. Here are some of the ways we will implement this strategy.

♦ ***Electronic Filing and Communication Services*** - We will implement the ability to file all 1040 series forms and schedules electronically; develop better payment options; acknowledge receipt of payments; enhance e-services for practitioners, such as secure messaging; and, use of Powers of Attorney.

♦ ***Electronic Signatures*** - We will expand Personal Identification Number (PIN) pilot programs to allow taxpayers nationwide to file using a self-selected PIN and certain other information. This will eliminate the paper signature jurat and reduce our staffing costs. We will also continue to experiment with longer term electronic signature options such as Public Key Infrastructure (PKI)

♦ ***Electronic Tax Administration Marketing*** - We will use paid advertising to expand awareness of IRS e-file options, launch a business marketing campaign, and conduct marketing research to ensure that products and services meet customer needs.



♦ **IRS Website** - We will consolidate management of the IRS web site to enhance the capabilities of the site, and facilitate communication with stakeholders through the site.

♦ **Business E-file Strategy** - We will increase the number of business forms and schedules that can be filed electronically and will actively promote the conversion from paper to electronically filing among all business taxpayers. We will aggressively increase the content of the web site for small business taxpayers to include assistance on how to file returns, pay what they owe, and receive information and assistance.

♦ **Electronic Payments** - We are expanding our Electronic Federal Tax Payment system to provide a secure method for business taxpayers to make

and review all their tax deposits and tax payments through the Internet. We will aggressively promote the expansion of this service to more small businesses and self-employed individuals as a fast, secure, reliable method of making all tax payments.

♦ **Electronic Services for Tax Accounts** - In the long run, we will provide taxpayers and their representatives with the ability to conduct nearly all of their transactions with the IRS electronically through the Internet, including checking on the status of their accounts or previously filed returns, and communicating with IRS employees working with them on tax accounts, tax issues, and tax cases. These capabilities must be highly secure and will be provided through the Business Systems Modernization Program.

## Address Key Areas of Noncompliance

*Promote fairness by combating important areas of noncompliance, including underreporting and abuse of trusts and passthrough entities, corporate tax shelters, non-payment of withholding and payroll taxes, and Earned Income Tax Credit overclaims*

A lack of reliable measures of compliance limits our ability to assess progress on our goal of serving all taxpayers through effective and fair application of the law. However, research indicates that there are major problem areas of substantial noncompliance. Research studies have provided vital information for guiding future pre-filing efforts, identifying issues promptly, providing guidance to our field examination teams, and shaping communications and information exchanges.

There has been a business trend toward using passthrough entities (partnerships and S-corporations) for small and medium size businesses in lieu of sole-proprietorships and corporations. And, trusts are also increasing in popularity as a vehicle for managing assets and for wealth transference. Between 1995 and 1999: partnership filings grew by 26%; S-corporation filings by 29%, and trust filings grew by 7%. In fiscal year 2000 we project that there will be 2 million partnership filings, 2.8 million S-corporation filings, and 3.5 million trust filings.

Customer service and compliance coverage demands increase with this growth. Income distributed by passthrough entities (Partnerships, S-Corporations and Trusts) to their partners, shareholders, and beneficiaries totaled \$500 billion in 1996. Several recent research efforts suggest that K-1 income or losses reported by partners or beneficiaries from partnerships and/or trusts were not accurate in approximately 15% of the cases reviewed.

Promoters of abusive tax shelters are using partnerships, trusts, and offshore entities in their tax schemes to unlawfully reduce or eliminate taxes. Many abusive schemes continue to thrive and new ones are being promoted regularly. Abusive corporate tax shelters are a major problem, not only because of the billions in tax dollars that are being lost but also because of the corrosive effect that is created if individual and small business taxpayers believe that large taxpayers are not paying what they owe. We have identified a proliferating range of schemes, which involve large amounts of money and many complex transactions but which have no real business purpose other than reducing taxes.

Balances of unpaid employment and withholding taxes by businesses have increased. Trust fund liabilities can become quite large in a very short time if employers do not deposit withheld taxes as required by law. Companies with cash flow problems and few assets can quickly owe more than they have the ability to pay.

Overpayment of refunds due to erroneous returns, including Earned Income Tax Credit (EITC) claims, remains high.

We will make substantial progress in combating key areas of noncompliance over the next two years, although more will be possible through our long-term business systems modernization efforts. Here are some of the ways we will implement this strategy.

♦ ***Underreporting, nonfiling and abusive trusts and passthroughs*** - We will establish a program to initiate K-1 matching and to target compliance resources. Beginning in 2002, the IRS will change its processing procedures and begin processing and matching 100% of K-1s. The transcription and matching of K-1 information are low-cost operations that will significantly enhance compliance. This change will aid in the identification of nonfilers by augmenting the current information document program. We will increase the use of targeted notices and target education activities to specific market segments. We will increase the number of abusive trust cases undergoing examination and criminal investigation. We have drafted a new Trust Classification Guide for trust classifiers. The Criminal Investigation unit is concentrating attention on those who are flagrant and promote schemes for profit.

♦ ***Corporate tax shelters*** - We will build strategic relationships with internal and external stakeholders and improve understanding of our workload through continued analysis of nationwide field surveys. Field agents, Appeals, and Counsel will coordinate their efforts in this area. Pre-Filing Guidance and Pre-Filing Agreements on Abusive Corporate Tax Shelter will be issued. And, a “Tax Shelter Hotline” will improve communications with Appeals and Counsel. Agent training tailored to current abusive schemes and recent Treasury regulation changes will be a continuous on-line learning option. Working with Treasury, we will

issue notices and guidance concerning abusive schemes as they are identified. We will leverage the information we receive to identify specific noncompliance, levels of noncompliance, and track trends.

♦ ***Unpaid trust fund taxes*** - To reduce pyramiding of trust fund taxes we will focus resources in known areas of noncompliance using available databases. In addition, we will issue a letter warning the taxpayer of the possible imposition of special trust fund requirements and in extreme cases place the taxpayer under special filing and deposit requirements, and refer the taxpayer for civil or criminal legal action.

We have a commitment from the Department of Justice’s Tax Division and the Chief, Criminal Investigation to support this program.

♦ ***Erroneous Refunds and EITC compliance strategies*** - We will continue outreach and education of professional preparers of income tax returns. Our three-part strategy consists of outreach and education visits by IRS employees to offices of preparers who prepare high volumes of Earned Income Tax Credit (EITC) returns, compliance visits by agents to review preparers’ compliance with the due diligence requirements, assessing penalties as appropriate, and criminal investigations of EITC fraudulent claims and schemes, resulting in indictment and conviction of directing or participating individuals. Additionally, we will make system changes to implement “math error” validation for EITC non-qualifying social security numbers. We will disallow the EITC when a taxpayer claims an ineligible child. We will improve our return selection methods to find those returns that have the greatest potential of being changed if audited. We will develop, in partnership with the professional preparer community, a new publication on how to choose a return preparer.

# Stabilize Traditional Compliance Activities

*Promote fairness by stabilizing traditional compliance activities in examination, collection, and criminal investigation, while observing taxpayer rights*

Regardless of how successful we are in preventing taxpayer errors, it will always be necessary to intervene through examination and collection actions and investigations when noncompliance or non-payment is found or suspected to be occurring. Since we have limited resources, it is essential that we apply these resources where they will be of most value in reducing noncompliance while ensuring fairness, observing taxpayer rights, and reducing the need to burden those who do comply.

The level of traditional examination and collection activity has declined drastically over the past several years because of reduced staffing, new requirements imposed by the IRS Restructuring and Reform Act of 1998, the uncertainty over certain provisions of the act, and the need to divert considerable numbers of staff to assist taxpayers during the filing season. For example, the number of individual returns examined by field examiners declined by 65% between fiscal years 1997 and 2000. The number of collection cases closed either through full payment or initiation of an installment agreement declined from 3.2 million in fiscal year 1997 to 1.7 million in fiscal year 2000. The General Accounting Office (GAO), in testifying before the Senate Committee on Finance in February 2000, indicated that, based on their review, the current number of liens, levies, and seizures is too low<sup>1</sup>. In addition, the number of legal income criminal tax cases referred to Criminal Investigation from other IRS compliance functions declined from 1498 in 1997 to 409 in 2000.

We know that there are important opportunities to use information and computer assisted tools more effectively to manage our compliance activities. In particular, risk-based compliance intervention techniques offer great opportunities for progress. More focused and more rapid intervention can enormously improve the effectiveness and efficiency of our activities, while improved case management tools can improve the quality and speed of cases while ensuring that taxpayer rights are observed. These major improvements will, however, require fundamental redesign of our most complex business processes and are very dependent on new technology from our business systems modernization program. Therefore, our strategy is to stabilize and improve our traditional compliance programs in the near term, while working through the business systems modernization program for longer term and more fundamental improvements.

<sup>1</sup>IRS Restructuring Act: Implementation Under Way but Agency Modernization Important to Success, (GAO/T-GGD-00-53, February 2, 2000), 106<sup>th</sup> Cong., 2<sup>nd</sup> Sess. (2000).

Here are some of the ways that we will implement this strategy.

♦ **Examination and Collection Resources** - We will stabilize the total number of field examination and collection staff available through new hiring while greatly reducing the number of staff diverted to filing season assistance duties. We will do this by using staff assigned to our new or expanded taxpayer education and taxpayer assistance functions for filing season activities. These changes will also permit better planning, more consistent focus, and improved management of compliance resources to improve the quality and efficiency of the traditional compliance casework. Finally, we are providing some additional tools to ensure that taxpayer rights are observed in all instances.

♦ **Examination Selection** - We will establish a Planning and Special Programs (PSP) Unit at the national level to manage case selection and increase fairness to taxpayers. The purpose is to keep those who conduct examinations separate from the selection process. Although, case selection will be managed from a national level, the selection process for Discriminative Index Function (DIF) returns will be done at the service centers. We will rotate classifiers on a regular basis. We are developing overall classification criteria. We will use existing compliance databases to stratify portions of taxpayer population to determine where possible areas of noncompliance exist. We will also utilize Research and Analysis to perform strategic and tactical research aimed at identifying tax administration problems.

♦ **Document Matching Program** - We will develop a methodology to rotate document matching selection criteria from year-to-year to improve voluntary information return reporting on individual income tax returns by FY 2002. We will expand Document Matching to capture data and

transcribe Schedule K-1s filed by partnerships, trusts, and S-corporations to provide information on income/ losses distributed by business entities to individual partners, beneficiaries, and shareholders. We will develop a work plan tailored to particular groups of taxpayers, based on knowledge of specific issues affecting these taxpayers. The plan will include mechanisms to use post-filing knowledge to develop improved guidance and education programs to prevent future problems. We will develop risk-based collection and examination strategies during FY 2001 and FY 2002. These strategies will use knowledge regarding taxpayer behavior, history, and needs in the workload identification, selection, and assignment processes.

♦ **Quality Measurement** - We will continue to use examination and collection quality measurement reports to provide compliance managers with information on their success in achieving quality standards and feedback on their strengths and weaknesses. This individualized feedback enables managers to determine how to better service their customers and to identify areas where employees need additional training. This will lead to greater productivity and more job satisfaction. To provide consistency and a more focused approach to addressing quality improvements, we will emphasize trend analysis and target the results to the necessary training and actions needed to improve current processes.

♦ **Shift of Work to Compliance Services Centers** - We will move some work to the compliance services centers that is currently done in the field. We found, for example, that correspondence cases that required 1,130 staff years in the field to process could be completed with 245 staff years in the centers. We achieved this efficiency through automation, consistency, specialization, and utilizing the operational experience that exists at these centers.

♦ ***Innocent Spouse Claims*** - We will improve the quality of service provided to requesting spouses by reducing the inventory of claims and improving the timeliness, consistency, and accuracy of determinations. To do this, we will consolidate management of the Innocent Spouse Program in a centralized site and enhance the system used for processing claims to include algorithms that will direct examiners through a series of questions leading to the decision, automatically creating a documented case file. We will enhance the system for tracking claims to provide capabilities for more user-friendly and accurate data input and research in a networked environment. We will also expand our efforts to educate and inform taxpayers of their rights under the innocent spouse provisions and to help them file correct and accurate claims.

♦ ***Offers in Compromise (OIC)*** - We will devote approximately 17% of our available front-line field collection staff to Offers-in-Compromise cases in fiscal year 2001. We are completely reengineering this important program by developing streamlined, specialized, and more efficient processes based in a few compliance services sites to handle processing of all cases except those that require investigation by field collection officers. This will not only improve timeliness, quality, and efficiency of OIC cases, it will free up substantial numbers of field collection officers for collection cases.

♦ ***Appeal Rights*** - We will develop an Appeals Communications Center that combines the attributes of a call center and the Internet to allow taxpayers to collaborate on forms with Appeals employees and communicate by using e-mail, telephone, and videoconferencing.

♦ ***Tracking Tax Advocate Casework*** - We will redesign the Taxpayer Advocate Management Information System (TAMIS) to interface with other IRS systems. This will eliminate duplicative data entry and improve data analysis capabilities.

♦ ***Stabilize Taxpayer Advocate Service Organization*** - Our case processing staff will help taxpayers solve problems with the IRS. We encourage resolution of all taxpayer issues at the point of first contact. Our Taxpayer Advocate staff will partner with the Operating Divisions to identify and address systemic and procedural problems. While immediate interventions are implemented, we will develop long-term advocacy proposals that effect systems improvements and impact taxpayers. We are developing a tracking system for identifying, prioritizing, selecting and managing improvement efforts, and tracking results. Our training will focus on providing employees the critical knowledge and skills needed to strengthen their performance. We will perform skill assessments and develop appropriate basic and advanced technical training and deliver it to employees. We will continue to report regularly to Congress on the activities of the Office of the National Taxpayer Advocate and on issues adversely affecting taxpayers. We will fully implement and baseline new organizational performance measures.

♦ ***Criminal Investigations*** - We will focus on increasing tax compliance in legal income cases through invigorating our Fraud Referral Program and applying criminal sanctions where appropriate. We will also establish Lead Development Centers (LDCs) across the nation. We will charge the LDCs with developing legal income cases from investigative leads received from various sources. Through the use of various databases, the LDCs will be able to more efficiently and completely develop promising leads and eliminate non-productive leads more quickly.

♦ ***Criminal Tax Case Support*** - We will more closely integrate our Chief Counsel efforts with the Criminal Investigation function. The Division Counsel/Associate Chief Counsel (Criminal Tax) will supervise, either directly or through six intermediate Area Counsels, over 50 Criminal Tax attorneys located in about 30 posts of duty, who will provide a full range of legal services to Criminal Investigation special agents.





# *Deal Effectively with the Global Economy*

*Build a capability to deal effectively with the global economy*

The corporate organization of the immediate future is free of geographical anchors. It is transnational in operation and attitude. Rapidly changing technology is driving the global economy and affecting business practices in every sector. The “sale of goods” has been replaced by income from intellectual capital and services. Income from value creation, marketing, manufacturing, and R&D intangibles has replaced income from value realization. Global and foreign source income, global mergers and acquisitions, and foreign joint ventures are increasing. World markets are expanding into less developed countries, and cross border trading is increasing. The paperless environment of e-commerce challenges the historical approach to tax administration. Our present approach relates to a geographic, tangible economy. The shift to a global, intangible economy requires extensive enhancement to the knowledge and skills of the IRS workforce and reassessment of tax policy that addresses the new way of doing business.

Here are some of the ways we will build a capability to deal effectively with the global economy.

- ♦ ***Customer Service and Compliance*** - We will enhance customer service and compliance by recommending adequate tax laws and updating our regulations, and by expanding pre-filing services for issues arising through globalization. We will work with Chief Counsel and Treasury to jointly identify and address emerging issues, including published guidance.
- ♦ ***Organizational Structure and Internal Capabilities*** - We will design an organizational structure to position ourselves to address global trading issues by ensuring international expertise is present on all teams and management is informed of significant trends and issues associated with global trading.
- ♦ ***Strategic Alliances*** - We will build strategic alliances with Treasury and other federal agencies, and build relationships with corporate taxpayers to address global issues. We will address these issues on a global basis, using tax treaty partners to identify, address, and resolve complex international issues.
- ♦ ***Emerging Issues*** - We will develop a management information system for tracking emerging issues of the vastly expanding global economy.

♦ ***Internet Access*** - We will provide enhanced global economy research capabilities by providing internet access through secure dial-in, to all employees who need it to perform their jobs.

♦ ***Treaty Certification*** - We will develop shared global database to facilitate the treaty certification process.

♦ ***Issue Classification*** - We will develop an automated international classification system to assist in the early identification of issues and to aid in tracking these issues throughout our interaction with the corporate taxpayer.

# Meet the Special Needs of the Tax-Exempt Community

*Improve the IRS' ability to meet the special needs of pension plans, exempt organizations, and government entities in complying with the tax laws*

**T**ax exempt organizations, pension plans, and government entities present unique challenges to tax administration.

**T**he IRS maintains an Exempt Organizations Master File containing all the public information we are required to keep on more than 1.4 million tax-exempt organizations. This database is neither accurate nor reliable. Our lack of up-to-date information about Exempt Organizations inhibits our ability to serve our customers at the level they expect. Answering even simple questions, such as an organization's location, exempt status, filing requirements, and contribution deductibility, is not possible in a reasonably short time.

**H**istorically, the IRS has under-served government entities. The tax-exempt bond market requires ongoing attention to address emerging economic issues and the financial products developed by underwriters and other members of the industry. The Indian Tribal Government gaming and related economic development is rapidly expanding nationwide. California alone represents a potential of 107 tribes with new gaming operations that did not exist when the restructuring plan was established and the segment was designed.

**H**ere are some of the ways we will implement this strategy.

♦ ***Ensure the accuracy of the Exempt Organizations Master File*** - We will redesign the Exempt Organization Master File maintenance process, expand our current return imaging process to include Forms 990 (Returns for Organizations Exempt from Income Tax), and introduce electronic filing for Form 990 filers. We will begin by analyzing error patterns and sources of errors, then seek the advice of our contractors on the best way to correct and prevent inaccurate and outdated information. To maintain, update, and efficiently disclose exemption statuses to the public, we will expand the Form 990 imaging process. We are already imaging returns filed by public charities and private foundations as a result of earlier improvement efforts. In the future, we will store all information as CD-ROM images. Finally, we will develop reliable, secure communication to taxpayer sites and communication with taxpayer customers.

♦ ***Establish the government entity organization and programs*** - We will hire and train additional employees, strengthening the tax-exempt bond program, and establish partnerships with customer and stakeholder groups to provide better service with limited resources. During fiscal years 2000 and 2001, our Tax-Exempt Bonds (TEB), Federal,

State and Local Governments (FSLG), and Indian Tribal Governments (ITG) functions will be completing the organizational tasks required to hire and train employees and to profile customer populations.

To maximize limited resources, these organizations will establish partnerships with customers through their Outreach Planning and Review offices to

assist in disseminating needed guidance, FSLG will partner with their customers to develop the best means of providing information to assist them in understanding and complying with the employment tax laws. Government Entities intends to strengthen its existing tax-exempt bond program by adding additional staff to increase regulatory efforts, including examination coverage.

# Recruit, Develop, and Retain a Qualified Workforce

*Enable all the IRS goals and strategies by recruiting, developing, and retaining a qualified and skilled workforce*

The ability of the IRS to recruit, retain, and develop talented personnel will determine how well we can provide the quality services that taxpayers expect.

We are facing many employee recruitment, retention, and development challenges. Replacing the significant number of employees who will retire over the next five years is just one of the challenges that make it crucial for us to improve our ability to attract new and retain essential employees who have the right skills. Although organizational unit needs may vary, similar strategies can be applied to ensure a fully qualified staff to accomplish the IRS mission.

Here are some of the ways we will implement this strategy.

- ♦ **Specialization of Customer Service Representatives (CSRs)** - We will develop and deliver training to equip CSRs with specialized areas of expertise.
- ♦ **Developing training materials** - We will engage frontline employees and managers in key tasks such as writing the manual and training materials, determining business requirements for systems, and serving on advisory groups relating to customer needs.
- ♦ **Management training** - We will improve manager and leadership training to enhance supervisory practices. We will design the managerial and leadership curriculum to equip managers with the tools to perform their jobs, including workload management, work planning and scheduling, understanding/supporting technology, and evaluating work products.
- ♦ **Research tools** - We will expand access and use of the Servicewide Electronic Research Project (SERP) and other research tools, redesign the content and delivery of the Internal Revenue Manual (IRM) for a web-based environment, and provide training on research tools for toll-free, Automated Underreporter (AUR) and Correspondence Examination workforces. We will provide on-line help to CSRs to assist with research and implement the Account Calls Decision Tree to guide CSRs through answering taxpayer inquiries.
- ♦ **CSR workstations** - We will replace the remaining Unix workstations with Windows NT workstations, install 17" monitor upgrades, provide network printers, and deploy Integrated Case Processing NT application software.

- ♦ ***Skill Assessment*** - We will deliver targeted, planned learning programs for employees in key occupations and managers. We will develop a skill assessment to determine the current skills and what will be needed for the future. The assessment will identify the courses that will be needed to fill the gaps that are remaining.
- ♦ ***Advanced Education*** - We will develop advanced degree and education programs.
- ♦ ***Quality of Work Life*** - We will establish consistent appropriate compensation and quality of work policies for professional employees and support staff. We will expand service reimbursements and explore funding sources from Human Resources Investment Fund; provide adequate equipment; implement consistent overtime, flexiplace and compensatory time policies; and establish and maintain consistent and clear lines of authority and responsibility.
- ♦ ***Coordinated National Hiring Program*** - We will conduct a nationally coordinated program to hire and train highly qualified people for specialized occupations, including revenue agent, revenue officer, tax specialist, special agent, attorney, and information systems specialists. This program includes national and local advertising and marketing programs, extensive use of the Internet for distribution of information and for taking applications and required entrance examinations, use of specially trained and dedicated recruiters, rapid decisions for applicants, and redesigned entry-level training programs. The program will stress the unique opportunities in the IRS for developing professional skills, performing interesting and important public service, and achieving a balance of work and personal life. It will also make use of incentives such as repayment of student loans.
- ♦ ***Career Paths*** - We will develop and explain the many career paths available for IRS employees in many different occupations. This includes developing clear paths for Compliance and Taxpayer Education and Communication employees both within each operating division and across operating divisions. It includes programs to develop and retain information systems associates, attorneys, special agents, and others in specialized occupations.
- ♦ ***Reasonable Accommodations*** - We will ensure that every employee involved in system and process design understands that the law requires reasonable accommodations for employees and customers with disabilities; that we want input from persons with disabilities; that we will meet accessibility requirements, and that we provide timely reasonable accommodation.
- ♦ ***Workforce Renewal*** - Our Strategic Recruitment Executive Council will oversee the execution of our Strategic Workforce Renewal Plan, including an aggressive college recruiting campaign and reinvigorated intern and cooperative education programs.
- ♦ ***Training Development*** - We will implement the reorganization of our learning and education function, devolving responsibility for technical training development and delivery to the operating divisions.
- ♦ ***Performance and Workforce Quality*** - We will link our new performance appraisal system to a new Senior Executive Incentive Compensation Program that provides for the establishment of individual performance bonus targets at the beginning of the appraisal year that are derived from commitments and tied to our strategy and program plans. We will develop a similar program for senior managers.

# *Provide High-Quality, Efficient, and Responsive Information Services and Shared Support Services*

*Provide high-quality, efficient, responsive information services and shared support services to IRS internal customers*

Our Information Technology (IT) infrastructure and systems play a critical role in meeting the Service's mission needs of day-to-day and year-to-year tax administration processes. A major challenge will be to be responsive to the IT needs of the organizational units in the near-term while also supporting Business Systems Modernization. Effectively managing information system resources, both labor and non-labor, is essential to provide more timely customer service and compliance.

To be effective, the new organizational units must also have sufficient space, appropriate security, adequate workstations, and efficient personnel, equal employment opportunity (EEO), and benefit support.

We will make substantial progress in providing efficient and responsive information services and shared support services to IRS employees over the next two years. Here are some of the ways we will implement this strategy.

♦ *Align the IRS physical plant with the organizational units' strategies and plans* - We will develop a long-term capital plan to address organizational unit space and housing needs, appropriate security and adequate work stations, technological capacities of buildings, workload volumes, and quality of the work environment. Specific projects include redesigning our Field Assistance sites to better serve taxpayers; developing an asset management strategy, including a single automated tracking system; providing services on a reimbursable basis; and, identifying rent costs by organizational unit.

♦ *Improve customer access and use of services* - We will establish an Employee Resource Center that will be a broad-based, user-friendly communications link for internal customers including a telephone Help Desk support system, a single point of contact, and web-based customer interfaces for employee benefits and services. We will complete automation of procurement processes, increase contracting resources to support Business Systems Modernization Office (BSMO) and Prime Systems Integration Services Contract (PRIME) interactions, and reengineer personnel processes.

♦ *Develop AWSS capability to manage/support IRS EEO field operations* - We will initiate the Alternative Dispute Resolution (ADR) process to facilitate and expedite the resolution of Equal Employment Opportunity (EEO) complaints through mediation and conciliation; and standardize the EEO complaint tracking system to provide consistent data faster.



♦ ***Focus all tiers of business systems activities to support the major strategies of the operating and functional divisions*** - We will establish a joint Divisional Information Officer and Business Systems Planning Council to enhance the cooperation and communication between IS and the customer organizations; create Service Level Agreements; and develop comprehensive performance measurement systems to ensure clear understanding of and successful conformance to customer expectations. We will also apply portfolio management, supply management, and organizational responsibility concepts.

♦ ***Rationalize corporate data processing activities*** - We will conclude the Service Center Mainframe Consolidation Project (SCMC), consolidate notice-printing operations, and consolidate mid-range computers at three centers. The Applications and Data Consolidation Servers (ADCS) improvement project consolidates all existing mid-level systems into the computing centers, providing increased reliability, security, and reduced staff to operate these systems.

♦ ***Provide continuing support for current operations with emphasis on increased quality and reduced costs of routine operations*** - We will develop and regularly update plans for an infra-

structure that can support current and projected IRS strategies and priorities, develop defined service level agreements and communicate to internal customers, and actively seek out opportunities for operational cost savings. We will continue to support our commitment to Business Systems Modernization and the Prime Systems Integration Services Contract (PRIME) as the IRS transforms itself from a historically labor-intensive organization to one dependent on new technologies.

♦ ***Improve IRS' ability to manage telecommunication services*** - We will build a robust, responsive telecommunications infrastructure to facilitate improvements in the management and delivery of telecommunications services. This includes providing high speed, high availability network connectivity and increasing availability of secure remote telecommunication entry to allow users and taxpayers fast and efficient access to authorized IRS applications and service; and ensuring availability of additional network bandwidth for growth. We will also modernize and integrate telecommunications technologies (voice, video, wireless) to consolidate our bandwidth needs and to provide new flexibilities to users.

# Promote Effective Asset and Information Stewardship

*Meet responsibilities for effective stewardship of assets and information entrusted to the IRS by improving internal processes for information management, financial management, and asset management*

American taxpayers and Congress demand a high level of responsibility and responsiveness from the IRS. To succeed in administering America's Tax System while gaining and preserving credibility, we must demonstrate effective stewardship of the assets and information entrusted to us by improving our internal processes for information management, financial management, and asset management.

A major concern to the IRS and the taxpaying public revolves around privacy and security, both internal and external. We are committed to recognizing taxpayer privacy to the maximum extent possible in all Service initiatives. Given the vulnerability of modern electronic information systems to cyber attacks, hacking, and natural disaster, we are focusing resources on: risk management processes; secure messaging and authentication; physical security; cyber attack response capability; and disaster recovery measures.

We will make substantial progress in improving our stewardship of assets over the next two years, although much more will be possible through our longer-term business system modernization efforts. Here are some of the ways we will implement this strategy.

♦ **Privacy** - We will incorporate privacy protection principles into all IRS programs and policies. We will enhance the privacy impact assessment methodology, applying it to all stages of a system's development and requiring it as a part of a system's certification.

♦ **Security** - We will establish a Critical Infrastructure Plan to ensure the survivability of information systems critical to the financial security of the United States. We will continue to work with the computing centers to enhance their physical security to Level V, the Department of Justice's highest physical security designation. We will assist service and computing centers in conducting integrated disaster recovery exercises. We will review the state of IRS security and focus on providing solutions to identified vulnerabilities. We will continue to focus on completing security certifications of sensitive systems. We will bring the Computer Security Incidence Response Center to full operational capability.

We will provide oversight of selected IRS program areas to ensure practices are consistent with policy and guidance.

♦ ***Property Management (IT)*** - We will enhance and enforce policies and procedures to ensure accountability for use of information technology (IT) property; migrate the current internally developed IT property tracking system (Integrated Network and Operations Management System - INOMS) to a Commercial Off-the-Shelf (COTS) solution. We will interface the IT asset system with the non-IT procurement and finance systems and establish the system foundation for the Enterprise Systems Management Program that will link the asset system with the help desk and network management systems.

♦ ***Property Management (non-IT)*** - We will develop a comprehensive approach for the management of

our non-IT property. It will be an automated approach that is based on the same platform as the IT property management system.

♦ ***Financial System*** - We will implement a Joint Financial Management Improvement Program (JFMIP) approved financial management system. We will select a Commercial Off-the-Shelf (COTS) product, which best satisfies our internal management needs through an enterprise resource-planning product. Our first phase of implementation will be replacement of the core financial system, with planned future implementation of other internal management modules.

# *Business Systems Modernization Program*

The U.S. economy has achieved impressive increases in productivity through investments in information technology. The IRS, which is still dependent on systems installed during the 1960s and 1970s, has established the Business Systems Modernization Program (BSMP) to achieve major, fundamental improvements in the way we carry out our mission by taking full advantage of established best business practices and all appropriate technology. The BSMP was established within the Information Systems unit to ensure linkages between current operating systems and new investments in information technology.

The IRS cannot perform its mission at an acceptable level with its existing computer systems

The IRS today is critically dependent on a collection of computer systems, which were developed over a 35-year period. Nearly all our employees depend on these computer systems to do their daily jobs, including over 70,000 individuals who use these systems to deliver direct service to taxpayers. This collection of installed systems is very large, comprising a network of 38 mainframe computers, 633 midrange computers, over 100,000 individual computers, 3,434 vendor-supplied software products, and over 50 million lines of IRS-maintained computer code. In a three-year period, we were forced to spend over \$1.4 billion just to make these systems avoid catastrophic failure after the century date change.

While very large and extremely important, our systems are fundamentally deficient and do not allow us to administer the tax system at an acceptable level of efficiency, effectiveness, and risk. The most important systems, which maintain all taxpayer records, were developed in the 1960s and 1970s. We added on many other systems to perform specific functions over the years as the tax code evolved and as new technology became available. This network of systems was never designed or planned. Consequently, data about taxpayers is often inconsistent and out of date, imposing immense burdens on taxpayers and employees who use the systems. Making changes to cope with new tax laws or new services is extremely slow and unreliable. As the General Accounting Office (GAO) has pointed out, the IRS runs serious risk in accounting for funds and maintaining acceptable security of critical data and systems, risks that cannot be fully addressed with the existing systems. Finally, we cannot realize the enormous potential of the Internet to improve service and reduce costs without replacing our obsolete and deficient systems.

These major problems have persisted despite previous attempts at

technology modernization. The lack of success of previous modernization efforts points up the risks and complexity of replacing such a large, old, and complex set of systems. But, the risks of not modernizing are unacceptable. Therefore, there is no risk-free course. The purpose of the IRS Business Systems Modernization program is to modernize our business systems while managing the inherent risks of the process.

Recognizing the necessity for a major effort, the Congress in FY 1998 set up an Information Technology Investment Account (ITIA) and initially funded it with \$325 million in appropriations. In 1997, we published our first comprehensive technology blueprint for the modernized systems. In December 1998, we selected a Prime Systems Integration Services (PRIME) contractor to become our private sector partner in managing the program. The first \$35 million from the ITIA account was released to the IRS on June 28, 1999, to begin detailed planning for the program.

#### IRS' business practices will be dramatically improved

Building on the work of Blueprint 1997 and the massive Organizational Modernization program, we have done very important work in 2000 to complete our new business vision and enterprise architecture. This work shows how all our processes can be dramatically improved in four key dimensions:

- ♦ **Accessibility** - making the right information and expertise available to taxpayers and employees at the most convenient time and method
- ♦ **Accuracy** - increasing the accuracy of every transaction by providing the correct tax law and account information
- ♦ **Speed** - responding rapidly to taxpayer requests for information and assistance
- ♦ **Timeliness** - identifying and correcting problems with taxpayer returns or accounts

In addition, we are designing stringent security and control mechanisms into the architecture to maintain confidentiality of taxpayer information and safeguard assets entrusted to us.

To guide this process of dramatic improvement, which will take place over a period of years, we have analyzed and defined all of the activities in the tax administration process, incorporating them into a limited set of business processes and operating models as shown in Figure 6 on page 63. By selecting the appropriate operating model, each operating division can tailor the process to meet the needs of its customers while making use of standardized business systems.

Business Process		Operating Model
Pre-Filing	Tax Education	<ul style="list-style-type: none"> <li>• Direct</li> <li>• Indirect</li> </ul>
	Tax Law Guidance	<ul style="list-style-type: none"> <li>• Low Complexity</li> <li>• Moderate Complexity</li> <li>• High Complexity</li> </ul>
	Tax Law Application	<ul style="list-style-type: none"> <li>• Self Service</li> <li>• Individual Service</li> <li>• Team-Based Service</li> </ul>
Filing	Submission Processing	<ul style="list-style-type: none"> <li>• Self Preparation - Paper</li> <li>• Self Preparation - Electronic</li> <li>• Assisted Preparation - Paper</li> <li>• Assisted Preparation - Electronic</li> <li>• Auto-Compute by Intermediary</li> <li>• Electronic Handling</li> <li>• Paper Handling</li> </ul>
	Customer Account Management	<ul style="list-style-type: none"> <li>• Self Assistance</li> <li>• Individual Assistance</li> <li>• Team Assistance</li> <li>• Unassisted</li> </ul>
	Customer Communications	<ul style="list-style-type: none"> <li>• Core Services</li> <li>• Dedicated Services</li> <li>• Specialized Services</li> </ul>
Filing and Payment Compliance		<ul style="list-style-type: none"> <li>• Self-Corrected</li> <li>• Assisted</li> <li>• Enforcement</li> </ul>
Reporting Compliance		<ul style="list-style-type: none"> <li>• Remote Assistance</li> <li>• Individual Assistance</li> <li>• Team-Based Assistance</li> </ul>

Figure 6

In addition, we have defined specific strategies that will guide the improvement of each of these major business processes, as summarized in Figure 7 on page 69. As these improvements are implemented, they will enable us to raise the level of performance on all three of our strategic goals.

We have incorporated this concept of the future business processes and technical architecture into the *Blueprint 2000* document. This document will be updated regularly over the coming years. In addition, we will, on a regular basis, determine how specific projects should be defined and prioritized to permit practical migration to the new business processes and update the sequencing plan accordingly. In early 2001, we will make a major update of this plan. The blueprint and sequencing plan provides a high level framework for the overall Business Systems Modernization Program. We then manage each project within the program according to a rigorous life cycle methodology, which includes specific business cases.

### Management of the Program

Our Business Systems Modernization Program is one of the largest business systems projects in the United States, and must be managed with discipline and rigor. Since startup of the program in mid-1999, we have made a great deal of progress in establishing an effective management process. Because of the program's size, expected improvements in the management process can only take place by gaining practical experience. Some of the key elements of our management process are:

- ◆ *An Executive Steering Committee*, chaired by the Commissioner, with a membership that includes senior representatives from the Treasury Department, other key executives, and stakeholders

- ◆ An experienced *IRS Management Team* that includes three executives with a lifetime of experience in the private sector and key internal executives with many years of experience in tax systems and tax administration
- ◆ A strengthened *Prime Systems Integration Services Contract (PRIME) Alliance Management Team*, expanded to include a second experienced program manager and a systems architect
- ◆ Clearly *defined roles and responsibilities* within our Business Systems Modernization Office and the PRIME
- ◆ The proven *Catalyst Methodology* from Computer Sciences Corporation as the basis for ensuring all work is managed in a cost effective manner
- ◆ Active *contracts management* to ensure the timely completion of task order contracts
- ◆ A regular series of intensive *program management reviews* of each project's costs, schedules, and technical specifications
- ◆ A well-maintained *Integrated Master Schedule* that identifies how projects relate to and depend on each other
- ◆ A *Management Information Center* that centralizes status reporting for the entire program
- ◆ A rigorous process of *calculated investment decisions* that includes both analysis of the overall systems portfolio and thorough reviews of business cases as each project progresses through the life cycle



## Business Systems Modernization Program Improvement Strategies

- ★ Provide authorized employees comprehensive, accurate, and up-to-date data about each taxpayer's accounts and case history.
- ★ Enable pervasive use of knowledge and experience gained from taxpayer interactions to improve all tax administration programs, from published guidance to examination selection.
- ★ Provide for an on-going, efficient process for improvement in business processes and technology.

<i>Pre-Filing Services</i>	<i>Filing and Account Services</i>	<i>Post-Filing/Compliance Services</i>	
<p><i>Services to help taxpayers understand the law and reduce burden and uncertainty in preparing returns</i></p>	<p><i>Services that make it easier, more reliable, and less burdensome for taxpayers to file their returns, pay what they owe, receive refunds, and obtain assistance</i></p>	<p><i>Services to ensure fairness and increase overall compliance through systematically planned, timely, and effective interventions in cases where there is significant risk of non-compliance</i></p>	
<ul style="list-style-type: none"> <li>★ Make tax law, tax law interpretations, and explanations easily accessible through the Intranet.</li> <li>★ Use information and experience gained from interactions with taxpayers to identify important issues and recommend improvements to published guidance, tax law explanations, and the tax law itself.</li> <li>★ Actively develop partnerships and electronic connections with key participants in the tax system, including practitioners and state governments. Use technology to link and coordinate activities of the IRS and its partners.</li> </ul>	<ul style="list-style-type: none"> <li>★ Enable all significant filing and payment transactions to be made electronically, while encouraging and making it attractive for taxpayers to use these methods.</li> <li>★ Enable taxpayers and authorized representatives to obtain immediate and unified information about their tax accounts electronically.</li> <li>★ Enable assistance to taxpayers concerning their returns or accounts to be promptly accessible and highly accurate through telephone, Internet, or field assistance locations.</li> <li>★ Complete electronically initiated filing, payment, and refund transactions accurately within hours or at most a few days.</li> <li>★ Accelerate availability of third party information reports and make them available electronically for taxpayers in preparing the following year's tax return.</li> </ul>	<ul style="list-style-type: none"> <li>★ Effectively use all available information to identify areas of non-compliance and to develop plans for interventions ranging from notices, letters, or out-bound phone calls to examinations and assignments to field collectors.</li> <li>★ Use analytically based, systemically managed techniques to select cases that require intervention.</li> <li>★ When intervention is called for, use analytically based techniques to assist in determining the appropriate treatment, including specific issues to be addressed in examination.</li> <li>★ Adhere to strict time frames in initiating examination and collection cases.</li> <li>★ Provide for a range of models, from correspondence to team examinations, and in each case, select the most efficient model for ensuring the accuracy of returns with the least burden on the taxpayer.</li> </ul>	<ul style="list-style-type: none"> <li>★ Provide compliance employees complete, accurate, and up-to-date data about taxpayer case histories and computer-base tools to assist in resolving cases rapidly and in accord with all taxpayer rights when enforcement action is required.</li> <li>★ Ensure that all IRS compliance processes, including examination, collection, and appeals are appropriately integrated to speed case resolution and reduce burden on the taxpayer.</li> <li>★ At the time Employer Identification Number is issued, use all available information to determine assistance required by the business.</li> <li>★ Use information and tools to manage compliance as an integrated process.</li> </ul>

### *Customer Communications*

- ★ Provide communication channel to connect taxpayers and their representatives to the right IRS resources at times, places and means convenient to the taxpayer. Unified access across channels will lead to efficient routing.

### *Technology*

- ★ Implement standardized methods of ensuring security of transmitted data and proper authorization of persons providing or accessing sensitive data.
- ★ Provide for protection and recovery from threats and natural disasters at a level commensurate with risk.

**Figure 7**

## Risks

Due to its enormous size, complexity, and sensitivity, the Business Systems Modernization Program involves considerable risk. The fact that there is risk, however, does not mean that the program will fail. But, it does mean that the program could fail if the risks are not adequately identified and appropriate action taken to address them on a timely basis.

We are actively identifying and managing the risks, and have not hesitated to make changes in the program when necessary. For example, in February of 2000 we scaled back significantly an initially proposed program because management processes were not yet at an adequate level.

Since April 2000, we have reduced or eliminated many serious program risks because of actions taken. However, we are constantly identifying new risks. The most critical point to understand about managing risks in this program is that making constant adjustments to plan is an indication that risks are being addressed and managed.

## Initial projects

Because of the scale, complexity and risk of the BSMP, we can only carry it out by defining manageable sized projects, each of which can be carried out through a “life-cycle” in which successively greater amounts of detail about the project are defined, ultimately resulting in an initial “deployment” of the project as an operational system. As we gain experience through practical work on projects, we will revise the overall enterprise architecture and sequencing plan. We will also revise the details about specific projects as they proceed through the life cycle.

In a first round of planning in 1999, we defined a limited set of initial projects on which work could

proceed at an acceptable risk level. We based this decision on the pre-existing Modernization Blueprint. These initial projects will deliver substantial benefits beginning in 2001 and 2002. They will also provide a practical means of developing and testing our management process and architecture, and lay down an essential foundation for subsequent projects.

The first system we will develop and deploy will be the Customer Communications System. This system will allow us to answer more of the 150 million telephone calls we receive, while providing a solid foundation for future systems, nearly all of which require communication with taxpayers.

On May 22, 2000, this project became the first to meet all of the rigorous requirements for deliverables and reviews prior to the development phase, and on June 22, 2000, we signed a firm fixed price task order. We currently plan initial implementation for the second quarter of 2001 - less than two years after the first release of ITIA funds. In the context of the startup of an enormous, highly integrated and complex systems program, this is an exceptionally fast time for the first major systems deployment.

Following the implementation of Customer Communications, we will deliver other major systems, beginning in the second half of 2001, and continuing at regular intervals into 2002 and beyond.

In the last few months, four other projects have passed important milestones as defined in the Enterprise Life Cycle (ELC) methodology being used for all projects:

- ◆ *The Customer Relationship Management - Examination* project will be the first system to use commercial applications software, allowing IRS examiners of corporate income tax returns to compute taxes accurately. It completed Milestone 2 on July 10, 2000. Milestone 2 establishes a

project concept, its requirements, and design elements as a solution for a specific business area or system. We have produced a preliminary business case.

◆ The *e-services* project will accelerate our ability to meet the overall goal of converting most transactions with taxpayers and their representatives to electronic form. It completed Milestone 2 on August 2, 2000, and will be the first project to be developed using the competitive solution selection method.

◆ The *Customer Account Data Engine* project is the most critical building block in the entire program. It will replace the 35 year-old “master file” system, which contains the authoritative record of all taxpayer accounts. It completed Milestone 2 on August 8, 2000.

◆ The *Custodial Accounting* project will provide the capability to legally and properly account for, report on, and analyze the \$2 trillion of tax revenue received each year. The project received qualified approval to proceed to Milestone 4, on August 8, 2000, and on September 5, 2000, received ESC approval to request release of ITIA funds for the first of four build segments. The business solution will be built in Milestone 4. The system, which is being integrated with other business systems, will be built in accordance with the Enterprise Life Cycle, and will show traceability to both the Modernization Blueprint and the IRS Enterprise Architecture.

In addition, we have made important progress on key infrastructure projects required to support the business systems projects.



# Organizational Modernization Program

In 1998, the Congress mandated an IRS reorganization that focused on meeting the unique needs of particular groups of taxpayers. In response to this mandate, we designed, and are currently implementing, a new organizational structure organized around the taxpayer base and resembles many private financial institutions that have separate divisions serving individual customers, small to medium businesses, and large multinational businesses. Our organization, as depicted in Figure 8 below, is now focused on taxpayers aligned to one of four operating divisions - Wage and Investment, Small Business and Self-Employed, Large and Mid-Sized Business, and Tax Exempt and Government Entities.

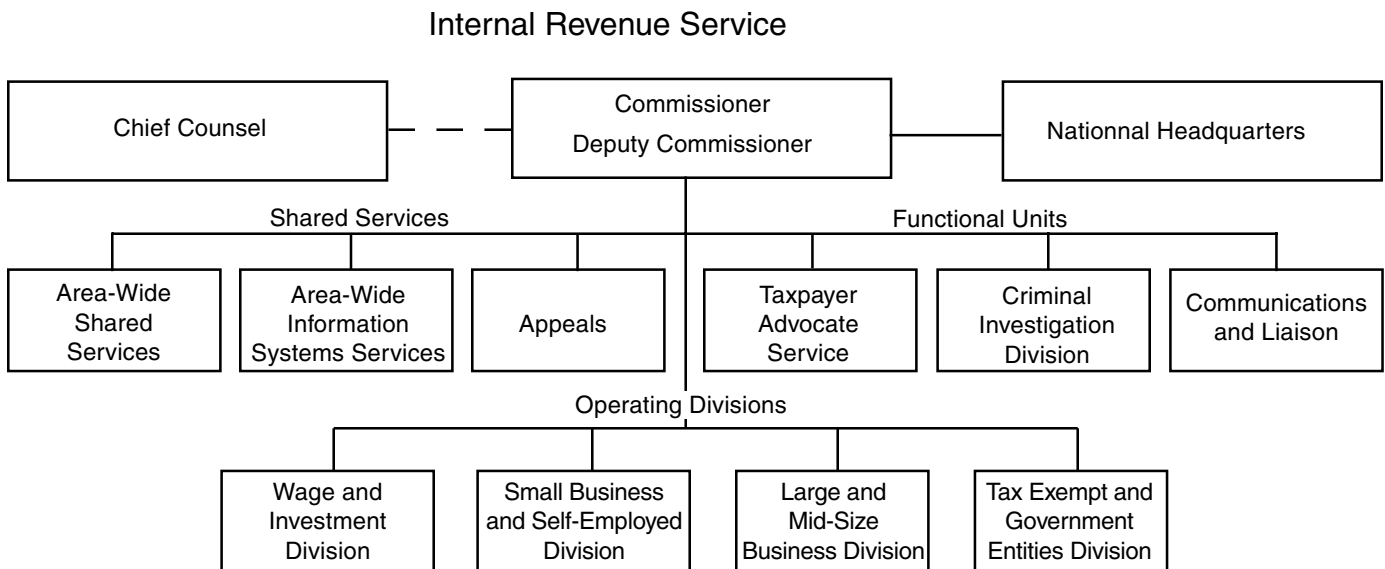


Figure 8

Appeals and the Taxpayer Advocate Service are functional organizations that provide separate specialized and independent channels for taxpayers. The Criminal Investigation unit has sole responsibility for investigating criminal violations of the tax law and will, for the first time, operate as a line unit within the IRS. Communications and Liaison manages relationships with the media, Congress, state and local governments, and other external stakeholders. The Chief Counsel provides tax advice, guidance and legislative services to all components of the IRS. In addition, two organizations, Area-Wide Shared Services and Information Systems, provide common support services to the new operating divisions. And, a smaller National Headquarters office assumes an overall role of setting broad policy, reviewing plans and goals of the operating units and developing major improvement initiatives.

As indicated in Figure 9 below, the needs and problems of the taxpayers served by each of our operating divisions are very different.

### Taxpayer Characteristics (Estimates)

	Wage and Investment	Small Business and Self-Employed	Large and Mid-Size Business	Tax Exempt and Government Entities
Number of filers	88 million	45 million	210,000	2.4 million
Number of individual taxpayers	116 million	—	—	—
Total tax liability (billions)	\$380	\$915	\$466	\$103
Average tax liability per filer	\$4,310	\$20,231	\$2,231,274	\$42,698
Gross cash paid (billions)	\$46	\$790	\$712	\$221
Average number of transactions with IRS per filer/year	1 - 4	4 - 60	60+	60+
Percent preparing own returns	59%	20%	—	—
Assets regulated	—	—	—	\$7 trillion
Average number of returns filed per filer	1.1	2.7	3.5	1.7

Please note that these numbers are estimates and subject to change.

#### Figure 9

The *Wage and Investment Division* serves approximately 88 million filers. This group represents 116 million individual taxpayers, including those who file jointly, with wage and investment income only, almost all of which is reported by third parties. Most of these taxpayers deal with the IRS only once a year, when filing their returns, and most receive refunds. Collection issues are limited since they pay only \$46 billion in cash directly to the IRS, the balance of their liability being paid through withholding by their employers. Compliance issues are focused on a relatively limited range of issues, concentrated on dependent exemptions, credits, filing status, and deductions.

Roughly 60% of these taxpayers file their own returns, depending directly on the IRS or volunteer groups for education and assistance.

The *Small Business and Self-Employed Division* serves about 45 million fully or partially self-employed individuals and small businesses. This group has much more complex dealings with the IRS than the wage and investment taxpayers. They have four to 60 transactions with the IRS per year and pay the IRS directly \$790 billion in cash, which represents nearly 45% of the total cash collected by the IRS. This amount includes personal and corporate initiatives, income taxes, employment taxes, excise taxes, and withholdings for employees, each of which has distinct filing and technical requirements. Since business income and a range of taxes are involved, compliance issues are much more complex. The possibilities for errors, resulting in collection and compliance issues, are greatest in this group. The result is considerably more frequent dealings with IRS compliance functions.

The *Large and Mid-Size Business Division* serves about 210,000 filers that pay the IRS \$712 billion in cash. This group includes corporations with assets over \$5 million. While collection issues are rare, many complex issues such as tax law interpretation, accounting, and regulation, many with international dimensions, frequently arise. At least 20% of these taxpayers interact with IRS compliance functions each year and the largest taxpayers deal with the IRS continuously.

The *Tax Exempt and Government Entities Division* serves a large and unique economic sector of organizations, which include pension plans, exempt organizations, governmental entities, and tax exempt bond issuers. Comprising 2.4 million filers, this sector ranges from small local community organizations to major universities and huge pension funds. Although generally paying no income tax, these organizations pay over \$220 billion in employment taxes and income tax withholdings and control about \$6.7 trillion in assets. We are charged with administering detailed and complex provisions of law that are generally not intended to raise money, but rather to ensure that these entities stay within the policy guidelines that enable them to maintain their tax-exempt status.

#### Each operating division has a tailored structure

Each of our operating divisions is structured to most effectively meet the needs of the taxpayers they serve.

The *Wage and Investment Division* is structured to serve taxpayers with less complex issues through a field organization that provides the information, support, and assistance that they need to understand and fulfill their tax obligations. Processing, account management, and compliance services are provided through eight Service Centers.

The *Small Business and Self-Employed Division*, dealing more frequently with taxpayers on more complex issues, has a compliance field organization,

including both examination and collection groups, reporting to a multi-functional manager.

The *Large and Mid-Size Business Division*, which deals regularly with taxpayers on very complex issues, is predominantly a field organization that is structured into five industry groups.

The *Tax-Exempt and Government Entities Division* has a support structure for each type of taxpayer it will serve - exempt organizations, pension plans, and governmental entities.

The centralization of information systems resources under the *Chief Information Officer* and of other common services under an *Area-wide Shared Services* organization provides for efficient and standardized common services.

The *Chief Counsel* has established a senior legal executive as the Division Counsel for each operating division to participate fully in the plans and activities of the operating division management and to provide high-quality legal advice and representation.

The *Appeals* organization remains an independent channel for taxpayers who have a dispute over a recommended enforcement action.

The *Taxpayer Advocate Service* is geographically distributed to provide local contact with taxpayers. Operating Division Taxpayer Advocates work directly with operating divisions to identify and recommend solutions to systemic problems.

Following the recommendations of a year-long study by Judge William Webster, the *Criminal Investigation* unit is a line unit reporting directly to the Commissioner and Deputy Commissioner. Operating as a nationwide line unit with 35 Special Agent in Charge (SAIC) offices, this organization will closely coordinate its activities and strategies with the operating divisions and will be supported by dedicated attorneys from Chief Counsel.



The *National Headquarters* focuses on strategic direction, capital allocations, and building partnerships with key stakeholders (e.g. Congress, Office of Management and Budget). Unlike in the previous organizational structure, there is minimal involvement in day-to-day operations.

The reduction in layers of management and the number of separate major units will free up some personnel resources to increase support for customer education and assistance programs. Similarly, the reduction of separate operational units and the centralization of management of key functions such as processing, customer assistance, and collection within each division will ease standardization of business practices and introduction of new technology.

#### The modernized organization conforms to our guiding principles

As seen through our guiding principles, the benefits of this new organization structure as compared to the current structure are apparent.

The modernized organization is built around specific groups of taxpayers with relatively similar needs. It is an inherently customer-focused organization, with each operating division responsible for creating and executing business practices and strategies to meet those needs.

The modernized organization sets forth clear end-to-end responsibility and authority for a top official supported by a small top management team to serve a set of taxpayers. Equally important, since the taxpayers served are reasonably homogeneous in their needs, it will be possible and expected for the managers at all levels to be knowledgeable in the substantive problems and issues that arise in administering the tax law in their division.

In the modernized organization structure, much of our complex tax law will not be relevant or important for the particular issues in each division, allowing the managers to focus on that which is important for their taxpayers. For example, the management of the Wage and Investment Division, although responsible for serving 75% of all taxpayers, will generally not have to be concerned with the 83% of the tax code that ordinarily does not apply to taxpayers for which it is responsible. Therefore, we can expect managerial accountability for understanding the problems in their area of responsibility and for taking effective action to reach our strategic goals. The Commissioner, Deputy Commissioners and the national office staff, in turn, will be better able to perform their proper role of helping the operating units set appropriate strategic goals and overseeing their performance in meeting them, rather than engaging in detailed operational issues.

This structure is specifically designed to facilitate direct and meaningful two-way communication, both vertically and horizontally, within the organization.

The top management of the agency and of each major division will consist of a set of teams, each of which will be linked to the next level. For example, the agency top management will consist of the Commissioner, Deputy Commissioner, key staff executives and the heads of each major operating unit, while top management of each major operating unit will consist of its head, deputy head and its top four to six staff and line executives. The total number of management layers from the front-line employee to the top official in the operating unit will generally be about half the number found before the reorganization. In addition, many cross-unit councils and networks of individuals with special expertise will be created (e.g., human resources, finance, collections, examination, research, public affairs, etc.), further helping an interchange of best practices.

Integrity in any organization is achieved primarily by clearly articulating shared values and expectations,

reinforced by consistent leadership and decision-making, rather than by structure. Nevertheless, the modernized structure will contribute to achieving the principle of total integrity in two ways: by clarifying the role of the national office as one of oversight rather than operations and by establishing the Inspector General for Tax Administration as a totally independent agency within the Treasury Department.

#### Clear management roles redefined to achieve goals

Closely related to the modernization of the organization structure is defining the skills and experience required for senior executives. The IRS has been a leader in the federal government in developing executives. The demanding process by which executives are selected and developed is very successful in producing leaders who thoroughly understand the IRS organization and practices. The drawback is that almost all executives have gained all their principal experience within the IRS.

The modernized IRS, modeled after well-established structures and practices in other organizations, creates roles that are more akin to those on the outside. This increases the likelihood of selectively recruiting external management with proper skills and experience. This model also makes the IRS more attractive to potential executive recruits. Their skills and experience will complement the essential skills and experience of executives developed internally, to the benefit of both. For example, there has historically been a Commissioner and a Deputy Commissioner at the top of the agency. We now have a similar senior management team for each operating division, with one executive recruited from the outside and one drawn from the inside.

Over the last 18 months, we have selected virtually all our senior level leaders of the new organizations.

The new operating divisions have established their top management teams. These management teams include individuals with the broad range of experience needed to lead each unit in the challenging dual task of managing current operations while modernizing business practices and technology to achieve our new mission and strategic goals.

We have also established mechanisms to ensure coordination among the operating and functional divisions. One of the most important of these is the strategic planning process itself, which sets clear priorities and assigns responsibility for key strategies, programs, and improvement projects. Other key mechanisms include the Office of Tax Administration Coordination, the Compliance Council, the Executive Resources Board, the Joint Operations Center, and the Commissioners' Representatives. The Deputy Commissioner has top-level responsibility for ensuring operational coordination.

A modernized structure with redefined management roles is one of the essential components needed to achieve our mission and strategic goals. This new structure will make it possible to modernize our business practices and our technology in order to deliver improved service and higher productivity. Our Business Systems Modernization Program focuses on redesigning our business practices and technology.



# Balanced Measures Program

## *Performance Measures*

The techniques that an organization uses to measure its performance go to the heart of what the organization really values. In the IRS, as elsewhere, what the organization values is communicated through a variety of means, both explicit and implicit, including what behavior is rewarded, ignored, or punished. Quantitative measures, being apparently precise and objective, are an extremely powerful device with great influence on behavior.

Over the course of our history, we have used a variety of means to measure management of the IRS' tax administration systems. These statistics and measurements have been at all levels of the management process. In the early 1990s, enforcement revenue became a key measure of success. Unfortunately, revenue measures took on more importance than ever intended and resulted in an imbalance and, ultimately, the passage of Section 1204 of the IRS Restructuring and Reform Act, which prohibits the use of enforcement statistics to set goals or measure the performance of our employees.

## *Establishing a balanced measurement system*

All federal agencies should have appropriate quantitative performance measures. This is required by the Government Performance and Results Act (GPRA) and is essential to the proper operation of any large organization. For this reason, an integral part of our overall modernization program is the establishment of balanced performance measures that support and reinforce achievement of the IRS' mission and overall strategic goals. Because of the history of measurements and the requirements of RRA 98, Section 1204, developing appropriate measures is an especially sensitive and difficult task.

A critical aspect of establishing our balanced measurement system was establishing the measurements based on what we need and want to measure in order to achieve our strategic goals and mission, rather than simply what is most easily measured. This balanced measurement system defines quantities that are relevant to each of the strategic goals and that indicate, in total, progress on all three goals.

Also critical to the measurement system is following the guiding principle that measures must be aligned at all levels, from the top to the front-line employee. This principle does not mean that all levels and all components of the organization have precisely the same measurements,

which would obviously be impossible. Rather, it means that the measures or evaluations are aimed at encouraging the type of behavior that will advance the organization's overall strategic goals, and do not encourage inappropriate behavior.

In developing measures for each organizational level, it is important that each component of the balanced measurement system reflect responsibility at that organizational level. At the top of the organization, management has control over strategies and allocation of resources. At the mid-level, managers have less control over these variables but do have control over the effectiveness of training, coaching and guidance of employees. At the individual level, each employee has control over his or her own individual work and self-development.

An overview of the balanced measures system being implemented at the IRS is shown in Figure 10 on page 77. As seen in the matrix, there will be quantitative measurements keyed to each of the three strategic goals at both the strategic level and the operational level. In general, quantitative measures will not be used at the individual employee level.

In September 1999, we issued a Balanced Measures Regulation to formally establish our new performance management system. The issuance, which followed a public comment period, set forth our structure for measuring organizational and employee performance.

### *Measuring at the strategic level*

The strategic level is designed to measure overall performance for delivering on the overall mission and three strategic goals. This level is meaningful for the organization as a whole or for organizational components that are responsible for providing a full range of services to large sets of taxpayers. In the new organization structure, strategic measures will be applicable to the IRS overall and to each of the four major operating divisions.

We began identifying specific strategic measures in fiscal year 2000 and will refine and finalize these measures in fiscal year 2001. Experience has shown that the development of good performance measures is an evolving process that improves with time. As such, we anticipate there may be changes to the specific measures. We expect, however, that the strategic intent behind these measures will remain firm.

### *Service to Each Taxpayer*

We will assess our progress in meeting this strategic goal through measures of customer satisfaction and burden. We will obtain satisfaction information from a variety of sources, including the American Customer Satisfaction Index (ACSI), Roper Starch, and product/service-specific transactional surveys.

The ACSI results, currently available at an aggregate level for individual return filers and for a subset of electronic filers, report on taxpayer levels of satisfaction with the services of the IRS. The ACSI is also a means for benchmarking against private sector industries and companies as well as other public sector organizations.

The Roper Starch Worldwide surveys reflect Americans' opinions of the IRS. The resulting score, which is the percentage of the total public that has a favorable opinion of the IRS, along with detailed analysis, help us better understand those factors that most influence public perceptions and attitudes toward the IRS.

While these surveys provide much useful information, the levels at which they are compiled and reported make it difficult to identify specific and actionable areas for improvement. For that reason, we also utilize a number of transactional surveys tied to major products and services. The transactional

**IRS MISSION**

Provide America’s taxpayers top-quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all

**STRATEGIC GOALS AND OBJECTIVES**

**Service to Each Taxpayer**

- Make filing easier
- Provide first quality service to each taxpayer needing help with his or her tax return or account
- Provide prompt, professional, helpful treatment to taxpayers in cases where additional taxes may be due

**Service to All Taxpayers**

- Increase fairness of compliance
- Increase overall compliance

**Productivity through a Quality Work Environment**

- Increase employee job satisfaction
- Hold agency employment stable while economy grows and service improves

IRS Balanced Measures System	<b>SERVICEWIDE and MAJOR CUSTOMER SEGMENT STRATEGIC MEASURES</b>			Organizational Performance
	<ul style="list-style-type: none"> <li>• Overall Customer Satisfaction</li> <li>• Burden</li> </ul>	<ul style="list-style-type: none"> <li>• Payment Compliance</li> <li>• Filing Compliance</li> <li>• Reporting Compliance</li> </ul>	<ul style="list-style-type: none"> <li>• Overall Employee Satisfaction</li> <li>• Productivity/Workload Index</li> </ul>	
	<b>OPERATING UNIT OPERATIONAL MEASURES</b>			
	<ul style="list-style-type: none"> <li>• Customer Satisfaction with specific products and services</li> </ul>	<ul style="list-style-type: none"> <li>• Quality of work products and services produced</li> <li>• Quality, accuracy and timeliness of products and services provided</li> </ul>	<ul style="list-style-type: none"> <li>• Organizational Unit and Work Group Employee Satisfaction</li> </ul>	
<b>DIAGNOSTIC and WORKLOAD INDICATORS</b>				
<ul style="list-style-type: none"> <li>• Diagnostic data that is helpful in understanding what influences and impacts operational and strategic measures</li> <li>• Workload data used to project expected levels of activity for an organizational unit or program</li> </ul>				
<b>INDIVIDUAL MEASURES</b>				
<ul style="list-style-type: none"> <li>• Performance plans or agreements for executives, managers, and management officials aligned with strategic goals and balanced measures of customer satisfaction, employee satisfaction, and business results</li> <li>• Critical job elements for front-line employees aligned with the goals of balanced measures</li> </ul>				

**Figure 10**

survey results capture a snapshot of taxpayer's experiences and expectations and can direct us to where customers want to see changes. This is most useful at the operational level, but can also be a useful indicator at the strategic level. Customer complaints are particularly important, since one taxpayer case that is handled badly can have more impact on taxpayer attitudes than dozens of positive, but routine, interactions. Customer complaints will also be used to help identify and address systemic issues and problems that may be negatively impacting the level of service we deliver to taxpayers.

Our customer survey program is being implemented incrementally. Over time, we will expand existing surveys and add new surveys to cover other products and services and to provide aggregate data for each taxpayer segment.

In addition to the satisfaction survey data, we will also utilize other survey data to measure the burden imposed on taxpayers in complying with their tax responsibilities. We will obtain information from taxpayers and practitioners about the time and out-of-pocket expenses that they incur. While the complexity of the tax law, which is a major cause of burden, is outside of our control, we can design and implement strategies, programs, and activities that make it easier for taxpayers to obtain assistance and file their returns. The burden data will assist us in selecting improvements and assessing the impact of those changes on the taxpaying public. While we have focused our initial efforts in developing this measure on individual filers, we will focus future work on developing burden estimates for other taxpayer segments.

### Service to All Taxpayers

Providing service to all taxpayers means that, in applying the tax laws established by the Congress, we must ensure that fairness and integrity are fundamental principles in everything we do. We must be able

to assure taxpayers who pay their taxes that others are also complying. In order to accomplish these goals, it is essential for us to develop regular and meaningful measures of compliance. In the absence of such measures, it will be extremely difficult for us to make informed decisions on strategies to encourage voluntary compliance and the historic tendency to fall back on enforcement revenue as a measure of performance may reoccur.

While voluntary compliance is one of the most important outcomes affected by our activities, it is also one of the most inherently difficult measures to develop. The challenge is in identifying valid and reliable ways to measure it.

The overall measure of success in this goal is the total collection percentage. The collection percentage is the fraction of taxes that are actually paid as compared to those that would be paid if everyone paid what was due under the law. Arriving at this measure is dependent upon our ability to measure the three components that make up overall compliance. During fiscal year 2001, we will continue working on the development of these three component measures.

- ◆ *Filing compliance* - the percentage of returns that are filed on time for a given tax year
- ◆ *Payment compliance* - the percentage of taxes due that are paid when owed
- ◆ *Reporting compliance* - the percentage of tax liability that is reported on filed returns for a given year

We must develop these measures for each major customer segment.

In the balanced measurement system we are implementing, enforcement revenues are not a measure of performance at either the strategic or operational level. The sole use of enforcement revenue at the



strategic level is to measure the effectiveness of case selection for compliance activities.

### Productivity through a Quality Work Environment

In order for us to deliver top-quality service to each taxpayer and top-quality service to all taxpayers, as well as achieve improvements in productivity, we must create an enabling work environment for our employees by providing quality leadership, adequate training, and effective support services. We will assess our success in creating an enabling work using the results of an annual survey of employees. The overall score, which we will compile as a strategic measure for the IRS overall and for each organizational unit, is the average percentage of favorable ratings across the 12 indexes included in the survey covering areas such as training, management effectiveness, manager/employee relations, resources, etc.

In support of the organizational goal to increase the level of productivity so that we can meet the growing workload demands facing the IRS, we must be able to assess how factors such as investments in new technology, redesigned processes and systems, and additional training and support impact productivity. While one measure of productivity would be an aggregate indicator of the services we produce compared to the resources we use, there are complexities that need to be addressed, such as determining a means to account for the mix of work performed across product and service lines. As a first step toward developing a true productivity measure, we are creating a workload index that can be used to estimate the rate at which workload changes over time.

### *Measuring at the operational level*

The operational management level focuses on the effective execution of our core business functions overall and within the organizational units. At this

level, we derive the balanced measures of organizational performance as follows:

### Customer Satisfaction

The goal of the Customer Satisfaction element is to provide accurate and professional services to internal and external customers in a courteous, timely manner. We determine the customer satisfaction goals and accomplishments of operating units on the basis of customer feedback collected via methods such as questionnaires, surveys, and other types of information gathering mechanisms. We gather information to measure customer satisfaction for a particular work unit from a sample of the customers served. Customers provide information for these purposes anonymously. Customers may include individual taxpayers, organizational units or employees within the IRS, and external groups affected by the services performed by the operating unit.

### Business Results

The goal of the Business Results element is to generate a productive quantity of work in a quality manner and to provide meaningful outreach to all customers. The business results measures consist of numerical scores determined under the elements of quality and quantity.

The quantity measures, which are to be used in conjunction with the quality, customer satisfaction, and employee satisfaction measures, provide information about the volume and mix of work products and services produced by our operating units and consist of outcome-neutral production and resource data. Examples include the number of cases closed, work items completed, customer education, assistance and outreach efforts undertaken, hours expended and similar inventory, workload and staffing information.

The quality measures provide information about how well our operating units develop and deliver

their products and services. The quality measures are determined based upon a comparison of a sample of work items handled by certain functions or organizational units against a prescribed set of standards that incorporate the customers' point of view. Additional quality measures will gauge the accuracy and timeliness of the products and services provided.

### Employee Satisfaction

The goal of the Employee Satisfaction element is to create an enabling work environment for employees by providing quality leadership, adequate training and effective support services. We determine the employee satisfaction ratings on the basis of information gathered via survey. All employees have an opportunity to provide information regarding employee satisfaction under conditions that guarantee them anonymity.

### *Measuring at the individual level*

All quantitative measurements are assessments of organizational performance, not of individual employees. This is always true because it is impossible to capture in any quantitative measurement system all that is important in evaluating an individual. For managers responsible for an organizational component, the quantitative measurements of the balanced measurement system are one of the factors that should influence a performance appraisal. As of January 2000, we redefined the system for setting and measuring performance expectations for nearly all managers and executives to align with the balanced measurement system.

For front-line employees, we do not use quantitative measurements to evaluate performance, except in certain submissions processing functions. This is because, in most cases, it is not practical to quantify the performance of an individual employee in a meaningful and appropriate way. Instead, we incorporate the desired activities and behavior consistent with the strategic goals into the "critical elements" of each employee's position description. The manager evaluates this based on informed observation of that employee's job performance. Thus, the front-

line employee's evaluation, although not quantified, is directly aligned with that of the management chain.

### *Operational measures were implemented first*

We began to implement the balanced measures system at the operational level in 1999, starting with three functions, Customer Service, Examination, and Collection, which most directly affected large numbers of taxpayers and employees. We implemented the operational measures for these functions within the existing organizational structure and have now transferred these measures to the new organizational structure. Since that time, we have approved additional balanced measures for Large and Mid-Size Business, Tax Exempt and Government Entities, Taxpayer Advocate Service, Information Systems, Criminal Investigation, Appeals, and for additional Submission Processing and Customer Service product lines within the Wage and Investment and Small Business/Self Employed Operating Divisions. We have slated balanced measures for the remaining organizational units for approval in fiscal year 2001.

In fiscal year 2000, as we completed the design of our new organizational units, the new organization began to emerge. And, as we established priorities and goals, we began work on defining the set of strategic measures that we will use in assessing the performance of each unit and the IRS overall. We still have work to do. We must agree on a final set of Servicewide strategic measures and then begin implementing a comprehensive suite of strategic measures covering all taxpayer segments. Most importantly, we must continue learning how to use balanced measures as a tool to achieve a high level of performance for all three of our strategic goals.

Development of the balanced measurement system and, even more so, learning the new ways of working will take years. By focusing our attention on what is important for achieving our strategic goals, we will be on the right path and will make progress step by step.

# Appendix 1

## *Trends, Issues, and Problems*

Our success in achieving the IRS mission, goals, and objectives is influenced by the environment in which we operate. In fact, the environment determines the strategies we use to achieve our goals.

Each of our major organizational units conducted an assessment of their internal and external environment to identify trends, issues, and problems (TIPs) that were affecting their business operations. They identified dozens of TIPs and developed strategies to address them. The most significant TIPs have been organized around twelve themes:

- ◆ Service to Taxpayers
- ◆ Communication with Taxpayers
- ◆ Pre-Filing Agreements
- ◆ Electronic Tax Administration
- ◆ Complexity of the Tax Law
- ◆ Global Trading
- ◆ Compliance Services
- ◆ Areas of Low Compliance
- ◆ Measuring Compliance
- ◆ Human Resource Issues
- ◆ Technology in Support of Business Operations
- ◆ Shared Services in Support of Business Operations

The following is a summary of the trends, issues, and problems within each theme.

### *Service to Taxpayers*

- We have not met the customer's expectations for accurate account information, timely processing of tax returns, and immediate account resolution.
- Taxpayers continue to be frustrated when they must make repeated contacts and deal with several different IRS employees to resolve separate but closely related tax issues.
- Taxpayers are frustrated by our inability to serve non-English speaking taxpayers on the first contact.
- Taxpayers continue to express concern about the inability to easily access our toll-free number.

- Taxpayers are concerned about inconvenient hours and office locations, the inconsistent answers to the same technical or procedural questions, and the use of voice mail and recorders when trying to obtain customer service.
- Taxpayers and their representatives complain that we are neither consistent nor timely in handling requests for audit reconsideration.
- Taxpayers want more accurate, up-to-date information about the exemption status and filing requirements of organizations as well as the deductibility of contributions. Even though we maintain this type of information for over 1.4 million organizations on the Exempt Organizations Master File, many of the organizations listed as being “active” many have, in fact, ceased to operate.
- We have traditionally handled the administration of penalties within many functions at the IRS. Generally, the imposition or abatement of a penalty is a judgment call, which often translates into lack of consistency when applying criteria. The reasonable cause guidelines for non-assertion or abatement of civil penalties is more specific than in previous years. However, reasonable cause relief is not available for all penalties and other exceptions may apply.
- Approximately 300,000 taxpayer issues are presented to the Taxpayer Advocate Service (TAS) each year. These issues may originate through referrals from other functions or through direct phone calls from taxpayers to TAS. The work performed by TAS in listening to, researching, and responding to the taxpayers’ concerns is a measure of overall “rework” for the entire Internal Revenue Service.
- The General Accounting Office (GAO) identified a number of problems with the administration of

advocacy responsibilities within the Taxpayer Advocate Service. These included lack of priority given to advocacy work, the need for a centralized and coordinated way to identify and manage advocacy projects, duplication of advocacy efforts and failure of IRS to follow through with implementing report recommendations.

### *Communication with Taxpayers*

- Our written communications are often difficult to understand or unresponsive to taxpayer needs. We often fail to send notices to taxpayers timely. Taxpayers are concerned about what they perceive to be the threatening tone of our letters and notices. Taxpayers often receive multiple notices rather than one notice encompassing all accounts.

### *Pre-Filing Agreements*

- Increasingly, taxpayers want us to resolve issues before they file, particularly in light of the length of time required by the traditional examination, appeal, and litigation process.

### *Electronic Tax Administration*

- Record numbers of taxpayers are choosing to file electronically. More taxpayers are also using Personal Identification Numbers (PINs) for paperless filing and electronic payment with balance due returns. They are also using our website as a source of tax forms and tax information. More businesses are using our electronic payment and filing services

### *Complexity of the Tax Law*

- Complexity of the Tax Law continues to be the most serious and burdensome problem facing America’s taxpayers. Many taxpayers do not

understand the most basic aspects of the tax law because they are complicated and contain many exceptions and special rules.

### *Global Trading*

- Large and mid-sized business taxpayers continue to grow significantly in global trading. U. S. multi-national corporations are increasingly involved in foreign activities.
- Mergers and acquisitions have been at record levels during the past decade. The mergers are worldwide affecting both U. S. consolidated return filings as well as returns of foreign controlled corporations filed in the United States.

### *Compliance Services*

- Dissatisfaction among large and mid-size customers has increased because our cycle times are increasing, we deal with past-year rather than current problems, and we manage their issues inconsistently. We close 45% of our examination cases one or more years after the planned closing date. Sixty percent of the cases we send to Appeals are factual in nature, meaning we could have resolved them during an examination. We are now handling more cases involving the current year, but customer satisfaction surveys show growing dissatisfaction with the examination process.
- IRS as a whole and Appeals specifically need to do a better job of explaining the Appeals process and taxpayer rights. Approximately 57% of taxpayers who appeal our examination determinations handle their cases themselves, without representation. We may need to tailor our communications with taxpayers to the needs of individual taxpayers.

### *Areas of Low Compliance*

- We have not been able to increase the compliance of small business and self-employed taxpayers despite past and current efforts. Problem areas include pass-through returns and trusts.
- Our examination coverage is declining, while the number of non-filer and delinquent accounts are increasing and the aging and case quality remains unchanged.
- Proliferation of corporate tax shelters presents an unacceptable and growing level of tax avoidance behavior.
- There are indications that compliance is beginning to decline among Wage and Investment taxpayers, resulting from the lack of a balanced and effective compliance program.
- The introduction of electronic filing, the explosive use of the Internet and the resulting impact on business and financial practices is totally changing how business is done and how fraud is committed.
- The number of Tax Court cases has declined significantly in recent years. There has been an increase in the complexity of litigation and the amount of dollars at stake.
- Because the Earned Income Tax Credit (EITC) is a refundable credit, taxpayers and return preparers are eager to claim it and often do so even when they are not certain of eligibility. Our move to Electronic Tax Administration and expansion of entitlement programs such as the Earned Income Tax Credit pose increased opportunities for refund related crimes.

## *Measuring Compliance*

- The IRS does not have reliable, up-to-date measures of overall compliance, nor of compliance by major customer sectors. We performed our last major study on compliance in 1988, relying on a study we did in the 1970s. In order to measure progress on this critical goal and to avoid reliance on the more easily measured but flawed concept of enforcement revenue as a strategic measure, we must develop regular and up-to-date measures of overall compliance.

## *Human Resource Issues*

- More than 50% of IRS employees in mission-critical front-line compliance and information technology positions are eligible for retirement. Our ability to retain and replace employees in these categories will be adversely affected by an extremely competitive labor market, the negative image of the Federal government generally and the IRS specifically, statutory constraints on Federal compensation, and emerging “nomadic” career patterns.
- Our employees and managers do not have adequate skills to deliver top-quality customer service.
- The employees who have the skills we need do not always live where we need those skills.
- Our employees are becoming less confident in IRS management.
- Employees often lack access to complete taxpayer information that could facilitate offering proactive assistance.
- Employee satisfaction differs significantly between different Race, National Origin, and Gender (RNOG) groups.

## *Technology in Support of Business Operations*

- IRS does not have effective technology to provide a level of service to taxpayers and other customers consistent with today’s standards for a finance-oriented, public service institution. Our performance is by some measures remarkable in view of the huge volume of transactions we complete in a demanding time frame year after year. But, we labor under the burden of outmoded information systems serving cumbersome business processes. Congress has recognized the need for modernization and has authorized funding under a rigorous system of controls based on demonstrated incremental program results.
- Despite significant investment in the past four years, we still have significant shortcomings in our information systems. We have more than 300 stovepiped critical application systems on disparate platforms that are difficult and costly to maintain. Every year we have to implement new capabilities (e.g. tax law changes) in multiple systems to achieve desired outcomes. Most of our core information systems date back to 1960s technology.
- We do not have a financial management system that meets the statutory and policy requirements for necessary, mission-critical financial data, enables us to secure a clean opinion on our audited financial statements, or meets the needs of management for cost accounting information.
- We do not have complete, accurate, and consistent performance information to make fact-based decisions about major investments, human resource allocations, and program performance. In addition, the Service does not have an integrated data collection and delivery system that provides all levels of management with access to the data needed to use measures.



- Demand for information technology services outpaces our supply of information technology resources.
- Increasing outsider threats including computer viruses, hacker attacks, and cyber terrorism.

### *Shared Services in Support of Business Operations*

- We are now using measures developed under our old model of Service operations. These measures may not match our new structure and the revised, re-engineered processes we will develop in the modernized IRS.
- Our employees don't know who to call for service. Current systems can't capture fee-for-service information.
- The facilities we built as Service Centers are 20-30 years old, occupying 3.8 million square feet; some buildings are not Americans with Disabilities Act (ADA) compliant; and, some buildings are not seismic code compliant. We must meet new Taxpayer Assistance Center (TAC) requirements and our union contract commits us to replacing certain existing furniture with ergonomically correct furniture. In addition, some IRS buildings provide inadequate security.
- Our personnel and payroll processing systems are out of date, cumbersome, and ineffective. Our timekeeping system is not user friendly and we deliver personnel services from 23 autonomous locations.
- Our relationship management infrastructure is distributed across national, operating, and functional divisions. We must develop a strategic and integrated business approach among these groups.
- We expect the confidentiality provisions of the Internal Revenue Code to be overhauled. We anticipate new provisions to trigger a surge in Disclosure Advice and Litigation and contribute to the increase in activity in areas such as published guidance and treaties, legislation, and congressional correspondence.
- Virtually all our Operating Divisions have identified the need for additional guidance, legal advice, and other processes designed to resolve issues for the taxpayer in the pre-filing timeframe.



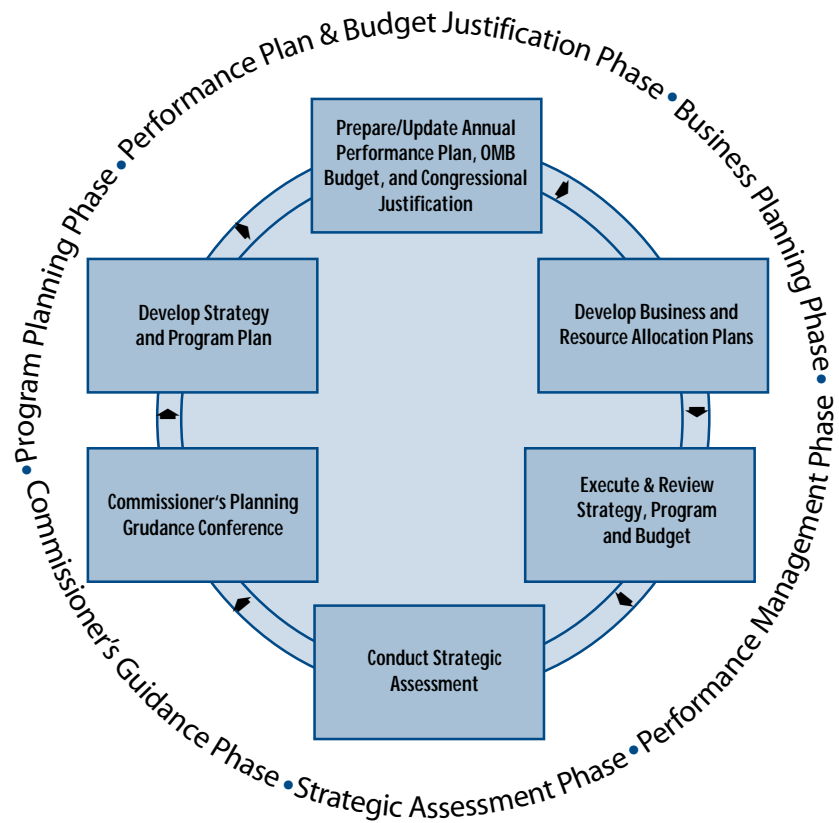


## Appendix 2

### *Strategic Planning, Budgeting, and Performance Management Process*

We introduced a new IRS strategic planning, budgeting, and performance management process in March of 2000. This process provides a formal, structured environment for establishing strategic direction, determining resource levels to support the priorities and projects stemming from that direction, and evaluating performance results. The process incorporates senior management guidance and oversight, in conjunction with Treasury and IRS Oversight Board involvement, while ensuring that our operating divisions maintain ownership of operational plans and business practices. It also provides greater integration between our strategic planning, budgeting, research, and performance accountability mechanisms.

As depicted in Figure 11 below and in Figure 12 on Page 90, our process is both cyclical and iterative. It is also dependent upon rigorous research and analysis, solid management practices, and extensive coordination among our organizational units.



**Figure 11**

The process begins each year with a comprehensive strategic assessment that allows each organizational unit to identify and analyze environmental factors, both external and internal, that have an impact on our strategic direction. This assessment is based on year-round research, analysis, and evaluation and considers such factors as:

- ◆ The expectations of taxpayer, oversight, and stakeholder groups
- ◆ Emerging demographic, technological, social, and economic issues and trends
- ◆ The strengths, weaknesses, and effectiveness of existing programs

By focusing on these factors, our organizational units can assess the impact of current strategies and programs on long-term strategic goals and objectives. This exercise also gives them the opportunity to propose more effective ways of addressing new as well as existing trends, issues, and problems (TIPs). The ultimate result of the strategic assessment is that we identify and prioritize the most critical TIPs and develop formal strategic responses to address them. Organizational units articulate their responses in the form of:

- ◆ Operational priorities, which focus on how they will direct current operational programs and resources to address an issue or problem
- ◆ Improvement projects, which address how they will, through investments in business process reengineering and/or technology, improve or change programs to make them work better

The *Commissioner's planning guidance* is based on the outcomes of the Strategic Assessment Phase. It also takes into consideration feedback from our senior management team, Treasury, and the IRS Oversight Board, as well as the impact of recent budget and oversight actions and directives. In

addition to our mission, vision, and strategic priorities, the guidance communicates to the organizational units the Commissioner's servicewide priorities and resource levels. The guidance document addresses the major strategies selected for implementation, along with approved operational priorities and improvement projects. The organizational units use the Commissioner's Planning Guidance document to build their strategy and program plans.

Organizational unit *strategy and program plans* developed during the Program Planning Phase translate the broad strategic decisions made during the Strategic Assessment and Commissioner's Planning Guidance Phases into comprehensive, high-level plans that address:

- ◆ What will be done in upcoming years to implement the operational priorities and improvement projects selected to support major strategies
- ◆ The resource requirements for implementing and maintaining these program and project activities
- ◆ The impact of these activities on current operations
- ◆ The strategic-level performance measures and workload indicators identified for tracking program and project outcomes, along with anticipated annual performance targets

Strategy and program plans provide the basis for updating our long-range strategic plan, for developing our annual performance plans, for formulating our budget submissions, and for evaluating and reporting our progress in meeting our annual performance targets.

During *performance planning and budget justification*, we consolidate and synopsize the strategy and program plans for use in preparing both our annual

performance plan and our budget submissions to the Treasury, the Office of Management and Budget (OMB), and the Congress. At the completion of the review and/or passback process associated with each of these submissions, we adjust the strategy and program plans to reflect budget and oversight recommendations and our senior management team's decisions on how best to address them.

**Business planning** requires our organizational units to translate their finalized, high-level strategy and program plans into detailed, working-level plans that set specific expectations, provide comprehensive program guidance, develop realistic action plans, and allocate appropriate resources for their field offices. We tailor business plans to on-going operations as well as the implementation of unit-specific operational priorities and improvement projects. While intensely monitored internally by the organizational units, progress at this level is not necessarily a topic for servicewide performance planning and reporting.

Our approach to **performance management** requires evaluative processes at all levels of the organization and emphasizes the need for timely, meaningful communication. Performance monitoring is essential to managing the execution of our strategies and programs and ensuring that they are, in fact, moving us closer to accomplishing our strategic goals and objectives. Through regular, structured feedback mechanisms designed to address program performance, resource utilization and unforeseen obstacles or events, we prepare our managers and executives to recognize and react to the success or failure of program choices and to ensure adherence to strategic intent.

Throughout the year, our senior management team, in conjunction with the IRS Oversight Board, the Treasury Inspector General for Tax Administration, the General Accounting Office, and other stakeholders formally evaluate program performance and recommend strategy and program actions.

The strengths, weaknesses, and effectiveness of existing programs identified through performance monitoring provide a starting point for re-assessing the impact of current strategies and programs on long-term strategic goals and objectives. Performance monitoring results provide the basis for our annual performance report to Treasury, the Office of Management and Budget (OMB), and the Congress and feed into the strategic assessment for the next strategic planning cycle iteration.

Our objective in implementing this multi-phased, iterative process is to provide a dynamic, interactive, credible, way of building confidence and continuity into our strategic planning, budgeting, research, and performance accountability mechanisms. At a more basic level, our intent is to:

- ◆ Extend our planning horizon to five years
- ◆ Involve Treasury up-front and directly in the development and evaluation of proposed plans and budgets
- ◆ Provide for substantive IRS Oversight Board input and review at key points in the preparation of our plans and budgets
- ◆ Tie research and analysis directly to plan development
- ◆ Focus planning and priority setting up-front through the Commissioner's guidance
- ◆ Address improvement project proposals during the strategic planning cycle
- ◆ Link information systems plans directly to operating unit plans
- ◆ Maintain a distinction between operating and investment plans and costs

- ◆ Incorporate program analysis, measurement, and performance reviews into the annual cycle
- ◆ Ensure that the results of the planning cycle are readily translatable into budget categories acceptable for submission to Treasury and OMB

- ◆ Maintain viable measures and indicators at both the strategic and operational levels

The following graphic generically depicts the timing of, and the relationships between, the phases of our strategic planning, budgeting, and performance management process.

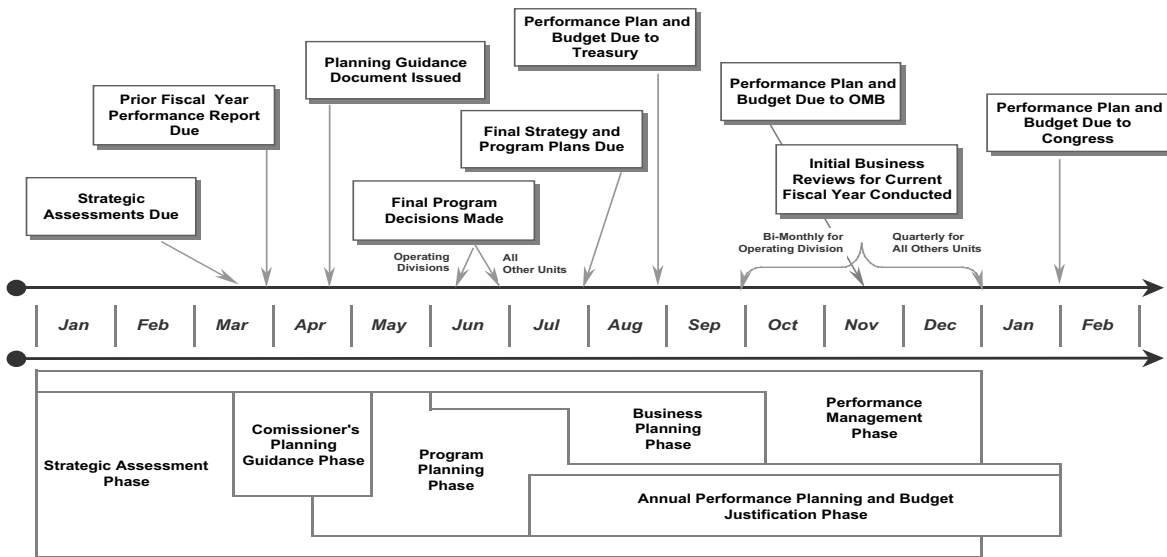


Figure 12

## Appendix 3

### *Program Evaluations, Risk Analyses, and Strategic Studies*

Our newly reconfigured National Headquarters Office has conducted servicewide program evaluation and risk analysis in support of the IRS Commissioner and Senior Management Team. With the “stand-up” for our organizational modernization, each organizational unit has a program evaluation capability, which will assess its programs, operations, and activities relative to the Service’s mission and strategic objectives and goals, as well as program plans and improvement initiatives set forth in the strategic plan and budget.

The National Headquarters will continue to do program evaluation for Servicewide programs, operations, or activities or those that are crosscutting or have strategic significance. The National Headquarters will do some of these crosscutting or strategic studies in partnership with the units that own the programs being evaluated. The organizational units will provide the critical subject matter expertise, while program evaluation will provide relevant qualitative and quantitative evaluation expertise. The organizational units will do program evaluation for their programs, operations, or activities, using both subject matter and evaluation technique expertise relative to their specific programs, operations, and activities.

The Office of the Commissioner or the Senior Management Team usually request Servicewide, crosscutting, or strategic evaluations; whereas, operating unit heads usually request operating unit evaluations.

The tables that begin on page 99 list the program evaluations, risk analyses, and strategic studies we plan to complete in fiscal year 2001 and propose to begin in fiscal year 2002. We considered the results of Servicewide studies completed in fiscal year 2000, as well as others completed in fiscal year 1999, in the strategic assessment phase of our initial strategic plan development. The lists reflect only the Servicewide program evaluations for these years, because the organizational units have not yet fully established their program evaluation capabilities. While the organizational units have not yet planned or completed their program, the unit heads and their senior-level management teams will, over time, do studies related to the strategic objectives and initiatives in their portions of the strategic plan. The units will coordinate the initiation of those studies with the National Headquarters program evaluation office as they relate to the Service’s overall strategic objectives, goals, and initiatives.

## *Types of Evaluation and Analysis*

**Program Evaluation** involves analysis of existing and proposed activities to validate their investment potential and contribution to the achievement of our mission, strategic goals, and objectives. Since the operating units will ultimately carry out our programs, operations, and activities we expect to do most of the program evaluation in the responsible organizational unit. The National Headquarters, however, will have program evaluation capability to assess those exceptional issues with strategic significance that could imperil our strategic goals or objectives.

**Risk Analysis** includes assessing the risks to accomplishing our strategic goals and objectives associated with specific programs and initiatives, as well as opportunities for mitigating and managing those risks. As with program evaluation, the relevant organizational units will generally assess program and project related risks. The National Headquarters will assess Servicewide or Enterprisewide risks.

**Strategic Studies** consist of national, strategic, crosscutting issues of particular interest to the Commissioner's Office and/or Senior Management Team. Typically, these studies require multi-unit teams to evaluate specific issues and their implications. The National Headquarters will generally manage these reviews and include participants from other relevant units with subject matter expertise. We design our studies of voluntary compliance, taxpayer burden, and tax law complexity to serve our future performance measurement and strategic planning processes.

## *Methodologies*

Our program evaluation, risk analysis, and strategic studies will involve a wide range of qualitative and quantitative methods to help us assess our programs, operations, and activities. We will use several methods, including behavioral and attitudinal survey techniques, operations and process analysis, case studies, root cause analysis, econometric and other modeling techniques, structured and focus group interviews, regression analysis, and other statistical techniques.



## MULTI-YEAR STUDIES PLANNED FOR COMPLETION IN FISCAL YEAR 2001

Study	Program Evaluation	Risk Analysis	Strategic Study	Methodology	Objective	Service to Each	Service to All	Productivity through a Quality Work Environment
Burden			★	Modeling, Surveys, and Analysis	Complete models for estimating pre-filing, filing, and post-filing burden for Wage and Investment and Self-Employed taxpayers.		★	
Complexity			★	Analysis	Continue examination of complexity for Congress and the Service by identifying and analyzing a (second) group of provisions and issues, which are troublesome for individuals and small businesses. Issue second annual Commissioner's report on complexity.		★	
Compliance			★	Surveys and Data Analysis	Determine how emerging technologies and methodologies can enhance IRS' ability to (1) measure taxpayer compliance, (2) develop compliance programs, (3) measure the impact of its program's on compliance, and (4) predict taxpayer behavior. Continue work on social norms and the typology of and drivers behind taxpayer compliance behaviors.		★	
Customer Satisfaction Surveys	★		★	Survey and Statistical Analysis	Continue to measure IRS' public approval ratings and analyze the drivers behind those ratings. Continue to enhance and provide survey capability along with analysis of Customer Satisfaction survey results.	★	★	
Risk Management Process		★		Risk Analysis/ Process Analysis/TBD	Implementing the Enterprise-wide risk management process to complement other IRS processes like strategic planning, business review, and budgets.			
Innocent Spouse	★			Process Analysis/Case Studies/Surveys/TBD	Working with the program office to assess complexity factors and identify optimal case and resource allocations.			★

### FISCAL YEAR 2001 STUDIES PLANNED FOR COMPLETION IN FISCAL YEAR 2001

Study	Program Evaluation	Risk Analysis	Strategic Study	Methodology	Objective	Service to Each	Service to All	Productivity through a Quality Work Environment
Earned Income Tax Credit Program	★			Process Analysis and Best Practice Analysis for administering entitled programs.	Perform a comprehensive assessment of the program for its ability to achieve stated objectives and Congressional intent for this separate appropriation.			★
Quality Review Systems	★			Process Analysis Case Studies, and Focus Group Interviews.	First National Special Assurance Review of adequacy of various quality review systems to measure outcomes of interactions with taxpayers. An assessment of the state of quality review in IRS. Has already been completed.	★		★
Customer Communication Project		★		Process and Data Analysis	Ensuring that the Investment Decision Model and business case methodology are properly applied and produce sound analytical bases for decision making.	★		★
Defaults			★	Process Analysis/Case Studies/TBD	Reviewing selective areas of T/P defaults for the underlying causes, program effectiveness implications, and compliance effects.	★		
Outreach			★	Process, Best Practice Analysis/TBD	Identifying best practices, internally and externally, for both performing and measuring effectiveness of various outreach or pre-filing activities.	★		
Non-filers			★	Process, Causal, and Best Practice Analyses	Working with other IRS offices to identify non-filer segments, demographics, and causes for apparent failure to file required tax returns.	★		
Adjustments	★			Process Analysis/TBD	Working with other IRS offices to identify Adjustment Unit peak period receipts, inventories, and drivers of both to find ways to reduce untenable annual peaks.	★		

### MULTI-YEAR STUDIES PROPOSED FOR FISCAL YEAR 2002

Study	Program Evaluation	Risk Analysis	Strategic Study	Methodology	Objective	Service to Each	Service to All	Productivity through a Quality Work Environment
Burden			★	Modeling, Surveys, and Data Analysis	Expand use of new estimation techniques in to the small business arena. Assess burden imposed by employment and other non-income taxes. Further refine existing estimates to support the development and evaluation of burden reduction programs and their effect on taxpayer compliance.		★	
Complexity			★	Data Analysis	Analyze complexity in tax laws affecting individuals and businesses to support the issuance of the Commissioner's annual report on complexity. Begin building the capability to model the impact of complexity on taxpayer compliance and burden.		★	
Compliance			★	Surveys and Data Analysis	Continue to research and analyze the role of social norms and taxpayer behaviors on compliance including the role of complexity. Refine methods of measuring the impact of IRS activities on individual and overall compliance. Identify and analyze emerging compliance issues based on external input and data.		★	
Risk Management	★			Risk Analysis/ Process Review/ TBD	Determine whether the Service's Risk Management Process, including the Enterprise-wide process, is serving its intended purpose in assessing new and imbedded risks associated with new and existing projects, programs, and initiatives.			★

### FISCAL YEAR 2002 STUDIES PROPOSED FOR FISCAL YEAR 2002

Study	Program Evaluation	Risk Analysis	Strategic Study	Methodology	Objective	Service to Each	Service to All	Productivity through a Quality Work Environment
24/7 Telephone Access	★			Process Analysis/ TBD	Assess the adequacy of the toll-free telephone system to provide desired access to taxpayers as well as quality responses.	★		
CADE/CRM CORE			★	Process Analysis/Case Study/Risk Analysis	Determine whether the processes in place to ensure this critical IT investment are working as designed to develop a timely and effective search engine for T/P account data.			★
Survey Administration	★			Process Analysis/ Best Practices	Determine whether customer and employee satisfaction surveys are providing desired measurement data for units' balanced measurement program.	★		
Quality Review Systems		★		Process Review/Case Studies/TBD	Determine whether the best practices or attributes of various unit quality review systems are being utilized to ensure Servicewide data are accurate and representative of the business results they purport to describe.	★		★
Customer Communications Project		★		Process Analysis/ Case Study/ Risk Analysis	Determine the adequacy of ELC, Business Case, and IDM processes to control such IT investment decisions, and whether the project is being designed consistent with those decisions and the customer service needs.	★		★
Installment Agreement/ Offer In Compromise	★			TBD	Determine how these collection techniques are being used after implementation of RRA98 constraints and what effect on T/P compliance.			
Business Systems Modernization Office (BSMO)			★	Process Analysis/ Risk Analysis/ TBD	Determine the adequacy of this Office to provide the CORE Business Systems Executive Steering Committee with the information, analysis, and controls to allow for sound analytically based IT investment decisions.			

FISCAL YEAR 2002 STUDIES PROPOSED FOR FISCAL YEAR 2002								
Study	Program Evaluation	Risk Analysis	Strategic Study	Methodology	Objective	Service to Each	Service to All	Productivity through a Quality Work Environment
Business Process Review System (BPRS)			★	Process Analysis/ Risk Analysis	Determine the adequacy of this process to provide the Commissioner's Office with information and analysis to assess operating unit performance.			
Financial Management Controls	★			Process Analysis/ Risk Analysis	Determine the adequacy of the mechanism to provide the CFO with information and analysis to address known material control weaknesses.			★



## Appendix 4

### *Cross-Agency Partnerships*

The IRS maintains business partnerships with numerous agencies in the Federal sector. Many of these partnerships are instrumental in helping us to accomplish our goals and objectives. Our participation in others, such as the Organized Crime and Drug Enforcement Task Force and the National Drug Control and National Money Laundering strategies, allow us to assist our partners in accomplishing theirs. While the scope of cooperation ranges from simple data exchange through program coordination to the actual processing of each other's work, the objective remains constant - to prevent conflicting goals, eliminate redundancy, and find better ways of serving the public.

The following list of cross-agency coordination efforts is not comprehensive. Rather, it focuses on several of our strategic-level programs that directly impact one or more of our major strategies. A discussion of our major strategies can be found on pages 43 - 72.

- ◆ The *Simplified Tax and Wage Reporting System (STAWRS)* is a multi-agency program to simplify the employment tax and wage reporting process. The program has three major initiatives designed to provide taxpayers with alternative and less burdensome filing options - single point filing, streamlined customer service, and simplified requirements. Our partners include the Treasury Department, the Labor Department, the Social Security Administration, the Small Business Administration, and a number of state agencies.
- ◆ The *IRS Volunteer and Tax Assistance (VITA)* and the *Tax Counseling for the Elderly (TCE)* programs partner with federal agencies such as the Social Security Administration, the Immigration and Naturalization Service, and the General Services Administration and with all state agencies to provide tax assistance to low income, elderly, and non-English speaking taxpayers.
- ◆ In support of the *Earned Income Tax Credit (EITC)* compliance program, we partner with the Social Security Administration to ensure the validation of taxpayer identification numbers. In addition, we work with both the Social Security Administration and State Vital Statistics offices to obtain data that can be used to administering tax code provisions relating to the support or residence of children. And, we partner with Commercial Off-the Shelf (COTS) tax return preparation developers to maintain consistency between EITC tax law requirements and their software products.

◆ The *Combined Annual Wage Reporting (CAWR)* program is designed to reconcile employer payroll tax data filed with the IRS and wage data reported to the Social Security Administration. The program ensures more accurate recordation of employee-employer contributions and enhances the integrity of the Social Security Trust Fund.

◆ The IRS partners with the *Labor Department* and the *Pension Benefit Guaranty Corporation* to improve employee pension plan reporting and disclosure requirements, administer compliance programs, and issue guidance to the employee benefit community. The partners also share responsibility for processing annual pension plan returns