



IRS  
*Strategic  
Plan*

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**Service + Enforcement = Compliance**

**T**he Internal Revenue Service (IRS) administers America's tax laws and collects the revenues that fund most government operations and public services. Each year, IRS employees make hundreds of millions of contacts with American taxpayers and businesses. The IRS and its employees represent the face of government to more U.S. citizens than any other agency.

We provide service to millions of taxpayers to help them understand and meet their tax obligations. We also deter people inclined to evade their responsibilities and vigorously pursue those who violate tax laws. The IRS relies on taxpayers to voluntarily comply, but remains ready to take appropriate actions when they do not. It is as simple as this: People should pay what they owe.

This Strategic Plan provides a roadmap for IRS operations over the next five years. It underscores our commitment to providing excellent service to taxpayers and enforcing America's tax laws in a balanced manner. Service and enforcement are equally important priorities for the IRS, as reflected by our guiding principle, Service Plus Enforcement Equals Compliance. The plan was reviewed and approved by the IRS Oversight Board, an independent body that provides the IRS with long-term guidance and direction.

Since enactment of the Restructuring and Reform Act of 1998, we have made significant progress in improving our service, especially in areas of telephone and electronic tax administration. We have learned a great deal and are serving taxpayers and tax professionals better than ever before.

While our commitment to service continues, we also must sharpen our focus on enforcement. Our enforcement programs must rest on a sound foundation of taxpayer rights. We will uphold high quality standards in our enforcement casework and professional conduct. At all times, we will strive to provide excellent service as we enforce the tax laws fairly and professionally. In other words, we can and must have balance.

The overwhelming majority of taxpayers, both individuals and businesses, are honest and law abiding. They deserve efficient, professional service and fair tax administration. They have a right to expect that just as they comply with tax laws, their neighbors and business competitors will do the same. Meeting their expectations is my goal as IRS Commissioner, and is the force behind this Strategic Plan.

## Message from the Commissioner



A handwritten signature in black ink that reads "Mark W. Everson". The signature is fluid and cursive, written in a professional style.

Mark W. Everson

**Commissioner of Internal Revenue**

# Vision

The IRS in 2009 is a 21st Century agency with the human capital and technology capabilities to effectively and efficiently collect the taxes owed with the least disruption and burden to taxpayers

## Values

- Integrity
- Accountability
- Accuracy
- Respect
- Professionalism
- Partnering

Over the last 50 years, the volume and complexity of Internal Revenue Service (IRS) operations expanded tremendously. The future of the IRS is shaped by many factors. Our customer base is diverse and ever changing, as are the economic and social conditions in which we live and conduct business. The IRS must be prepared to respond to an increasing and more demanding population, a more global and multi-lingual environment and an increasing number of taxpayers with complex financial holdings and the means and motive to resist the payment of taxes. In addition, we face frequent tax law changes, more numerous and complex tax schemes and, internally, an aging IRS workforce.

The IRS' vision statement anticipates a dynamic world filled with new demands for service.

To achieve our vision we must re-center the agency to provide the proper balance of service and enforcement poised to meet customer expectations and to respond quickly to technological and demographic changes. Our vision of the future is best described through its most prominent characteristics:

- ◆ Delivery of services that meet customer needs
- ◆ Citizens understand their responsibilities to pay taxes honestly
- ◆ Fair and consistent enforcement is applied to all citizens
- ◆ Americans consider the IRS an organization that provides a valuable service to the country and is a desirable place to work

Our core values guide our path to achieving our vision. We expect IRS executives, managers and employees to demonstrate these values as they perform their duties.

**Integrity** – We uphold the highest standards of honesty, truthfulness, reliability and honor

**Accountability** – We constantly measure ourselves against our commitments and we hold ourselves responsible for our actions and the outcomes of our work

**Accuracy** – We are diligent in ensuring precise and thorough work products

**Respect** – We value differences in people and ideas and we treat others with fairness, dignity and esteem

**Professionalism** – We ensure competency and efficiency and we focus on achieving excellence

**Partnering** – We listen to our stakeholders and work closely with them

With this focus, we will be an organization that meets mission demands while protecting taxpayer rights.

**T**hrough the IRS Restructuring and Reform Act of 1998 (RRA98), Congress gave us a clear mandate: do a better job meeting the needs of taxpayers and collecting revenues. We express this direction in our mission statement.

This mission statement describes our role, as well as the public's expectation regarding how we should perform that role. In the United States, the Congress passes tax laws and requires taxpayers to comply. The taxpayer's role is to understand and meet his or her tax obligations. Our role is to help the large majority of compliant taxpayers with the tax law, while ensuring that the minority who are unwilling to comply pay their fair share. We must meet the highest standards of service and integrity in performing our role.

The strategic goals guiding the future direction of the IRS are:

- ◆ Improve Taxpayer Service
- ◆ Enhance Enforcement of the Tax Law
- ◆ Modernize the IRS through its People, Processes and Technology

As we progress on achieving each goal, we will move toward reaching our vision, achieving our mission and meeting the public's expectations. To further define our goals we have developed specific objectives and measures of success for each goal that represent what we are striving to achieve and how we will judge our success, both qualitatively and quantitatively.

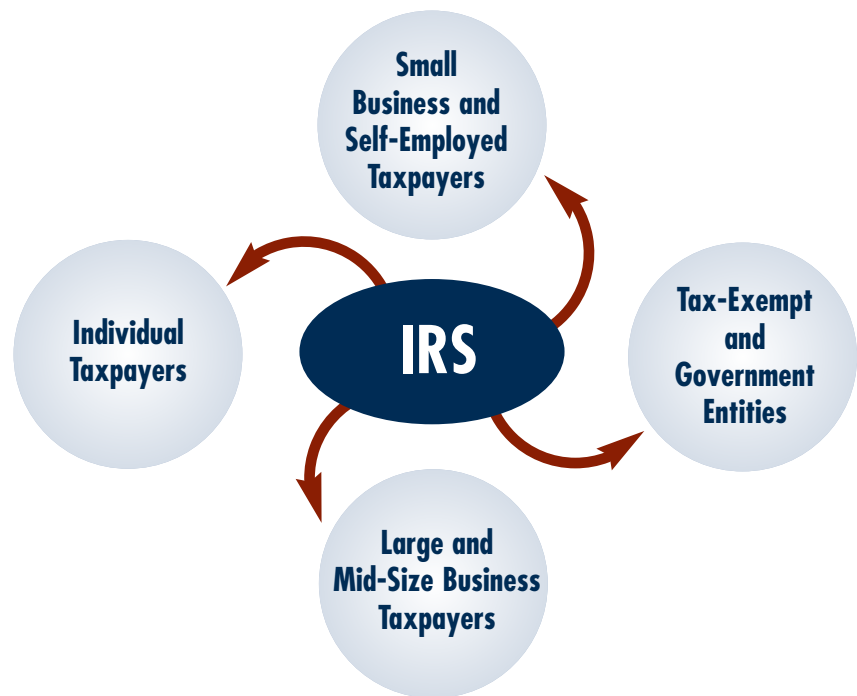
## Mission

### 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.

# Organization

To conform to the provisions of RRA 98, our organizational structure closely resembles the private sector model of organizing around customers with similar needs. Each of our four primary operating divisions meets the needs of the specific taxpayer segment it serves. The Wage and Investment Division services individual taxpayers and provides the information, support and assistance these taxpayers need to fulfill their tax obligations. The Small Business and Self-Employed Division services all fully or partially self-employed individuals and corporations and partnerships with assets of \$10 million or less. The Large and Mid-Size Business Division services corporations and partnerships operating in the United States with assets greater than \$10 million. The Tax Exempt and Government Entities Division services a large and unique economic sector of organizations, which include pension plans, exempt organizations, governmental entities and tax-exempt bond issuers.



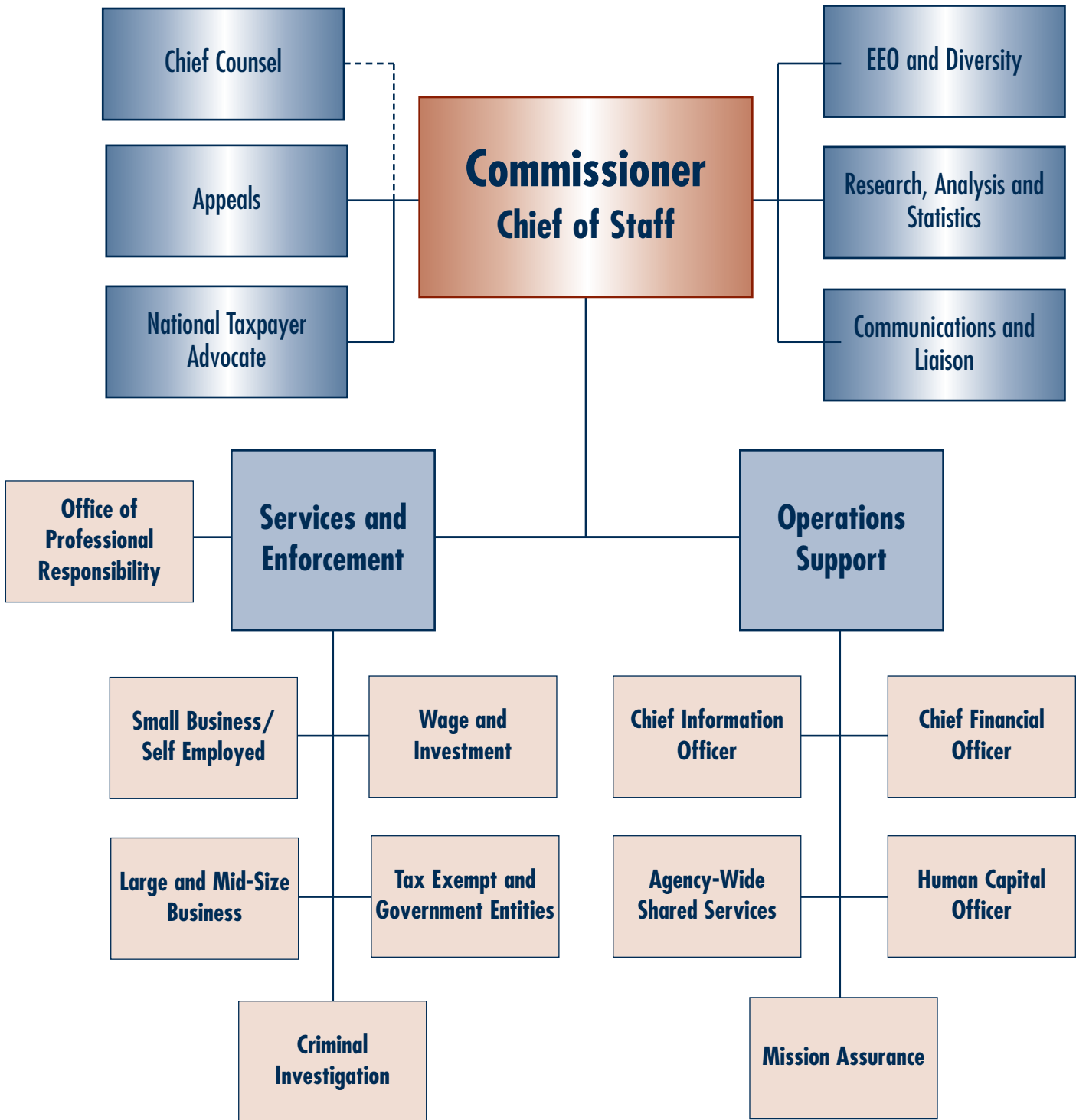
The realignment helped clarify accountability and responsibilities for improving taxpayer service, strengthening enforcement initiatives and continuing modernization efforts. To support this structure and ensure accountability, one Deputy Commissioner position was created to oversee service and enforcement work. The second Deputy Commissioner position integrates the support functions, facilitating economy of scale efficiencies and better business practices in the IRS.

The four operating divisions, along with Criminal Investigation and the Office of Professional Responsibility, report to the Deputy Commissioner for Services and Enforcement. IRS specialized units – including: IRS Chief Counsel; Appeals; the Taxpayer Advocate Service; Equal Employment Opportunity and Diversity; Research, Analysis, and Statistics; and Communications and Liaison – report directly to the Commissioner. The IRS Chief Counsel also reports to the Treasury General Counsel on certain matters. The Deputy Commissioner

for Operations Support oversees all IRS support functions, including Modernization and Information Technology Services, Agency-Wide Shared Services, Mission Assurance, Chief Human Capital Officer and the Office of the Chief Financial Officer.

*Organization*

**Department of the Treasury  
Internal Revenue Service**



**Service + Enforcement = Compliance 7**

# Factors Affecting Achievement of the Vision

## External Factors

- Legislative changes
- Internet and other electronic media
- Abusive tax avoidance transactions
- Increasingly diverse population
- Globalization
- Terrorism

## Internal Factors

- Workforce Renewal and Development
- Changes in workforce

The IRS must effectively deal with varying challenges to achieve its vision. A number of external organizations, including Congress, General Accounting Office (GAO), Department of the Treasury, Treasury Inspector General for Tax Administration (TIGTA) and Office of Management and Budget (OMB) either enforce various rules and regulations that affect IRS operations, or are legally required to review and approve the IRS' plans and activities. We must consider the interests and concerns of these stakeholders as we develop and execute our business plans. In addition, there are numerous external and internal factors that we considered when determining strategies and objectives to help us achieve our vision.

## Legislative Changes

Changes in the tax law and appropriations have a major impact on how we conduct our activities, how many resources we require and how quickly we achieve our strategic goals. Generally, the tax laws are changed each year. Many of these changes have significant impact on the IRS in terms of the scope and effectiveness of service, in the cost to deliver service and in how taxpayers perceive us. We must find ways to effectively administer tax law changes in a way that minimizes complexity, burden on taxpayers and the cost of administering the tax code. Changes intended to simplify the tax code depend on a political consensus.

## Preeminence of the Internet for Communication

The Internet has revolutionized our ability to serve taxpayers and their representatives. We have used the Internet to meet taxpayer demands for quick access, user-friendly tools and better service, and we will continue to use the Internet to reduce burden. In the future, we envision the public will be able to conduct the vast majority of tax interactions electronically. We will continue to improve electronic filing, payment and communication services via the Internet.

## Prevalence and Complexity of Abusive Tax Avoidance Transactions

Abusive tax avoidance transactions present formidable compliance challenges. They have pervaded almost every aspect of our voluntary tax compliance system. They appear on many types of tax returns and range from complex, structured corporate transactions that utilize multiple entities to individual scams and schemes. Use of offshore entities and accounts is also common. The organized promotion of shelters makes them available to all types of taxpayers. The variety, size and nature of tax shelters require an organized approach to detection, deterrence and enforcement so that the use of abusive transactions can be stopped.

We also face challenges in the area of tax-exempt and government entities. Such entities include local community organizations and municipalities, pension funds, state and Indian tribal governments, complex tax-exempt bond



financing transactions and more. They are governed by highly specialized provisions of the tax law. The IRS faces ongoing challenges in assisting these taxpayers in complying with the complicated rules for maintaining their special tax status. Additionally, recent events have shed light on the need to ensure that charitable organizations are not used for non-charitable or illegal purposes, including financing terrorist activities.

## *Factors Affecting Achievement of the Vision*

### **Increasingly Diverse Population**

As American society becomes more diverse, there is an increase in the number of taxpayers with limited-English-proficiency (LEP). The IRS faces challenges of enhancing and expanding its products and services to meet the needs of this customer segment. The IRS must develop and implement programs that identify and meet the needs of LEP taxpayers. The IRS needs to offer education and outreach opportunities to help these taxpayers understand and comply with their obligations. The IRS also needs to effectively engage LEP taxpayers who are participating in a tax system based on self-assessment for the first time to ensure their continued voluntary participation. The IRS has established the Multilingual Initiative Strategy Office to facilitate these programs.

The IRS must meet the challenges posed by small business and self-employed customers. This group of taxpayers is the fastest growing segment of taxpayers and is estimated to be the largest single contributor to the federal tax gap. In addition, IRS must deal effectively with large corporate customers that operate in an increasingly complex global environment, characterized by growing electronic commerce and intricate corporate structures resulting from mergers, acquisitions and partnerships. These complex structures can be readily used to hide corporate and individual use of abusive tax avoidance transactions.

### **Globalization**

As the business world continues to globalize, tax planning is becoming increasingly focused on worldwide tax rate minimization. As a result, taxpayers often have an inherent incentive to adopt structures or arrangements that maximize U.S. expenses or shift income abroad. While many cross-border transactions are clearly addressed under U.S. domestic law or treaty provisions, others involve emerging issues that may constitute unacceptable tax avoidance or evasion. Unless adequate compliance resources are devoted to identify, develop and pursue such issues where appropriate, globalization will pose increasingly serious risks to the U.S. tax base.

## **Terrorism**

Terrorism remains an imminent threat to national security and future terrorist attacks aimed at critical national infrastructure, including our system of tax administration, could produce even more drastic results than those experienced after 9/11. Terrorists and their supporters often raise funds through the abuse of tax-exempt organizations and non-profit organizations ostensibly engaged in humanitarian relief or religious activities. They also use a variety of conventional criminal activities such as dealing in stolen property, insurance fraud, smuggling, and narcotics trafficking. All of these methods have an impact on our tax administration process. The IRS has a unique role in combating the use of charitable organizations to raise funds for terrorist organizations.

The threat of terrorism creates an environment that demands IRS' commitment of resources to assure the safety of IRS personnel and the security and maintenance of facilities, infrastructure and taxpayer information.

## **Workforce Renewal and Development**

The growing retirement eligibility of the federal workforce poses challenges to many federal agencies. Workforce renewal is a constant challenge requiring continued improvements to remain competitive with the private sector. To achieve our performance goals, the IRS must be able to continuously renew itself by attracting and retaining the "best and the brightest." Technological systems are being developed and implemented that will allow the comprehensive tracking of the skills of our workforce so that we can identify current and future skill set gaps and develop strategies to retrain and reposition employees, attract and recruit the skills sets we need and use competition to bring new skills to the IRS.

## **Changes in Workforce**

The IRS will develop and implement a strategic human capital plan designed to ensure a link between the strategic goals of the agency with a real-life view of our organizational capacity as it relates to the strategic management of human capital. The IRS will provide a positive career path option for the mobile workforce of the future. We will institutionalize a process for replenishing the IRS workforce and ensuring leadership continuity through first class recruitment efforts and employee development. We will continue to place great emphasis on linking pay with performance to maximize the workforces' contributions to the Service's core mission and goals. We will strive to become a "first choice" employer where talented people want to work and can excel in a culture of high performance, empowerment and a quality work environment.

This Strategic Plan outlines where the organization is going, how we are going to get there and the basis on which we will judge how successful or unsuccessful we are. It sets forth the strategic priorities of the IRS and lays the foundation for formulating our budget. Through our strategic planning process we identify the most important issues impacting our ability to achieve our strategic goals and the solutions necessary to address those issues. This, in turn, determines how we will deploy our resources and set our performance goals. The President's annual budget request identifies the resources we will need to meet specific performance goals to achieve our strategic priorities. We work with the Department of Treasury to report our specific goals and performance to the Office of Management and Budget (OMB) and Congress in our annual Congressional Budget Justification and Treasury's annual Performance and Accountability Report. Progress towards achieving our strategic priorities, spending allocated resources and achieving the associated performance goals are monitored internally and reported to Treasury and OMB throughout the year.

**IRS** maintains strategic partnerships with other Federal agencies, state and local governments, private sector organizations and the National Treasury Employees Union. These partnerships help us achieve our mission, goals, and objectives.

More specifically, we maintain partnerships to address areas such as criminal investigations, making filing easier, document matching, President's Management Agenda initiatives, database sharing and education and assistance programs. Key partners in these efforts include the Department of the Treasury, Department of Homeland Security, Department of Justice, Department of Labor, Social Security Administration, state tax agencies, Pension Benefit Guarantee Corporation, practitioner and preparer associations, tax software professionals, taxpayer associations and low-income tax clinics, to name a few.

The Internal Revenue Service Advisory Council, the Information Return Processing Advisory Council, the Electronic Tax Administration Advisory Council, the Advisory Committee for Tax Exempt and Government Entities and the Taxpayer Advocacy Panel provide organized public forums for discussion of relevant tax administration issues. They convey the public's perception of IRS activities, offer constructive observations regarding current and proposed IRS policies, programs, and procedures, and suggest improvements to IRS operations. Nationwide tax forums are held annually, in various locations, to provide the tax professional community with the latest and most complete information on IRS programs, practices, and policies and the most recent Electronic Tax Administration initiatives. Practitioner feedback is also provided through associations such as the American Institute of Certified Public Accountants, the American Bar Association, the Tax Executives Institute, the National Society of Tax Professionals, the National Association of Enrolled Agents and the National Association of Tax Practitioners.

## Linking the Strategic Plan to Budget and Performance

## Key Partners in Achieving Strategic Goals

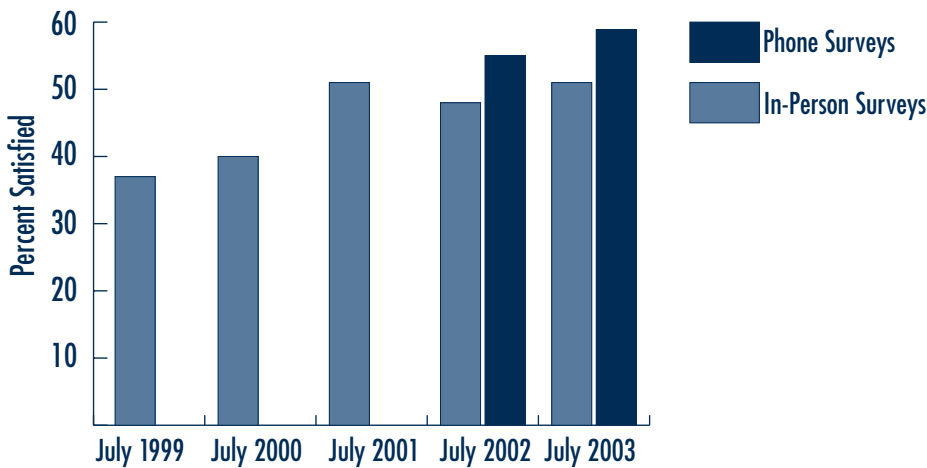
The IRS is committed to helping people understand their tax obligations and to making it easier for them to participate in the tax system. Our efforts to minimize the burden for compliant taxpayers are complemented by our enforcement efforts against non-compliant taxpayers to achieve our overall goal of full participation in our self-assessment tax system. We will also increase self-assessment participation through education and outreach and by focusing our compliance efforts on high-risk areas. IRS maintains a customer-oriented focus by routinely soliciting information about the needs and characteristics of its customers and implementing programs based on that information. We recognize there are customer service aspects in all our interactions with taxpayers, including during enforcement. We have steadily improved our customer satisfaction rating since the enactment of the Restructuring and Reform Act of 1998.

## Goal 1 - Improve Taxpayer Service

### Objectives

- Improve service options for the tax paying public
- Facilitate participation in the tax system by all sectors of the public
- Simplify the tax process

**IRS Satisfaction Survey  
Roper Favorability**



### Objective: Improve Service Options for the Tax Paying Public

The IRS will continue to improve quality, efficiency and service delivery through a wide-range of initiatives designed to increase service coverage to taxpayers and to implement new and improved business processes. We will expand existing community coalitions and partnerships and establish new ones to enhance taxpayer education, tax preparation assistance and self-sufficiency for improved taxpayer compliance. We will offer products and services to address growing needs of limited-English-proficient (LEP) taxpayers. We will develop specialized initiatives designed to provide multilingual products and services to taxpayers. Significant challenges and other priorities remain in the transition from a paper-based environment to an electronic-based environment that will challenge IRS in meeting the Congressional goal to have 80% of all returns filed electronically by 2007. Ultimately, the IRS will offer taxpayers and their representatives the ability to conduct nearly all of their interactions with the IRS electronically.

### In 2003

- Over 8.5 Million Taxpayers were served at 421 walk-in sites
- Over 88.5 million taxpayers received telephone assistance

## Means & Strategies

### *Increase the scope and accessibility of services offered electronically.*

We will continue to launch new and enhanced filing and payment programs to create an environment where electronic interaction is the preferred option for our customers. Modernized e-file will be expanded to include corporate returns and tax-exempt returns which will enable businesses and non-profits to file electronically. We will also address many other form types such as partnership returns, fiduciary estate returns, employment tax returns and individual returns. Electronic payment options will be enhanced allowing for greater flexibility for the taxpayer through more choices such as instant payments for individuals, express enrollment procedures for new businesses and upgraded software packages for practitioners. We will continue to explore electronic solutions to improve enforcement activities, such as a collaborative work environment to provide both IRS employees and taxpayers equal access to both taxpayer and IRS case records while facilitating the ability to work together from remote locations.

### *Deliver focused education, outreach and alternative services directly and through stakeholder relationships, especially for those taxpayers not utilizing electronic services.*

We will continue to use a comprehensive range of products and services to reach our customers, including those who do not use electronic services. We will review and refine our portfolio of over 1,600 publications, which help taxpayers understand and comply with the tax code. We will develop an aggressive communication program to serve taxpayers by creating timely drop-in articles and press releases for the print media, and increase our distribution channels to reach our audiences. Our stakeholders will continue taking on a greater share of the responsibility to help taxpayers understand and comply with the tax code. Whether they are operating a Volunteer Income Tax Assistance (VITA) site, delivering a small business workshop or participating in a coalition, our partners will take on a greater role in helping improve taxpayer compliance. Our partners will also continue to help us increase electronic filing and payment.

### *Provide tools to ensure accurate, timely and accessible responses to tax law and account issues and inquiries.*

We will provide telephone assistors with interactive electronic tools to enhance their ability to quickly and accurately answer customers' tax law questions. We will monitor customer service through contact recordings to enhance the Service's ability to provide correct answers to customer inquiries, timely correction of errors, and identification of trends for future improvement. Also, IRS employees will have better electronic access to a broad suite of electronic tax administration tools to facilitate speedy and accurate resolution of taxpayer questions and issues.

## Goal 1 - Improve Taxpayer Service

### In 2003

- Nearly 53 million individual income tax returns were filed electronically
- Over 409 million information returns were received electronically
- More than 67 million payments were received electronically

## Objective: Facilitate Participation in the Tax System by All Sectors of the Public

The IRS must develop targeted partner and compliance-oriented outreach and assistance activities at both the national and local levels to increase the value of customer education, support and service delivery. Taxpayers are continually looking for self-service options when interacting with the IRS. The IRS will continue to develop multiple channel self-service options to assist in reducing taxpayer burden and enhancing the customer experience. The IRS will identify less-costly methods of service delivery, improve quality and utilize resources more efficiently. We will determine which resource-intensive programs can be automated, identify new taxpayer self-service applications and provide fully automated services through multiple media. We will develop more focused outreach campaigns that target areas of significant and potential nonparticipation, with specific emphasis on attracting these people to participate.

### Means & Strategies

*Enable individual taxpayers with a wide range of technological literacy to participate in the tax system.*

The e-Services infrastructure will be enhanced to provide multiple channel options for interaction with the IRS. Services will be designed based on customer needs and include access to account information, interactive applications to resolve problems and answer questions and offer self-assistance options to taxpayers via the Internet. For those taxpayers who are not computer-savvy, we will develop and implement specific plans to help Internet users – which may include many low-income, minority, limited-English-proficient and elderly taxpayers – gain experience and comfort in accessing the IRS Web site. We will develop integrated metrics to assess product effectiveness, ensure there is a systematic approach to continuous product improvement and ensure that we apply these self-assessment tools when developing future self-assistance products.

*Remove impediments to participation for groups with language, cultural or other barriers.*

We will launch a Spanish Free-File page and post additional translated products and services to enhance and expand Spanish services on the IRS Web site. The Service will implement a communications plan to increase the direct marketing of products and services to LEP taxpayers.

*Educate new entrants to the self-assessment tax system.*

During the filing season, teams of volunteers will provide income tax preparation at VITA sites throughout the country. We will routinely solicit information concerning the needs and characteristics of our customers and implement programs based on the information received. We will provide professional and courteous service to customers to help them understand and meet their tax obligations. We will explore options with other federal agencies, financial institutions, tax preparers, community groups, trade organizations, state and

Over 1.6 million taxpayers were assisted through VITA and Tax Counseling for the Elderly programs in 2003

local authorities and others to provide one-stop multi-agency tax information and education services to customers. We will expand and integrate products and services to address growing needs of LEP taxpayers and develop specialized initiatives to provide multilingual products and services to taxpayers. Improving services to LEP customers by offering documents, correspondence and publications written in Spanish will enable LEP individuals to more easily understand their tax compliance responsibilities.

## Goal 1 - Improve Taxpayer Service

### Objective: Simplify the Tax Process

The IRS administers the tax code which is passed by the Congress and the President. The IRS analyzes systemic data, identifies impacts on taxpayers of various tax law provisions and works with the Department to identify and develop legislative recommendations that would reduce tax law complexity and taxpayer burden. The IRS also works to simplify the tax process under current law by working extensively with stakeholders. This latter process, which may be lengthy, moves the Service closer to meeting the demands of our customers and alleviating the barriers that restrict taxpayers from meeting their tax obligations. Tax administration comprises approximately eighty percent of the overall paperwork burden imposed by the federal government.

### Means & Strategies

*Simplify the tax return filing and paying experience for all classes of taxpayers.*

Consistent with statutory requirements, we will simplify tax forms and publications and make them more suitable for a computer-based system. The current e-file system will be modernized to provide a single standard for filing electronic tax returns with the IRS. This will allow those who transmit tax returns to submit multiple return types in the same transmission. In February 2004, forms for corporations (Forms 1120, 1120S and 1120-POL) and exempt organizations (Forms 990, 990-EZ, and Form 8868) were made available to the public for electronic filing. The project will continue to expand to include partnerships (Form 1065), trusts (Form 1041), employment (Forms 940 and 941) and individuals (Form 1040). Outreach will be performed to assess product effectiveness and to identify customized product needs and non-traditional delivery options. We will develop and implement improved tools for more efficient and accurate delivery of notices, letters and timely refunds.

Taxpayers may now pay electronically when they e-file their return or by enrolling into the Electronic Federal Tax Payment System. A new concept is being developed to allow individual taxpayers to access to a Web site, get authenticated and pay electronically without having to enroll and wait for a Personal Identification Number.

IRS now offers electronic filing for all of its major return categories- individual, corporate, employment, partnership and exempt organizations

## Goal 1 - Improve Taxpayer Service

### *Reduce taxpayer burden by reducing recordkeeping requirements, where possible, and simplifying the return preparation and examination process.*

We will continue to work with internal and external partners to identify and reduce recordkeeping burden. Where possible, we will simplify tax forms and publications and make them more suitable for a computer-based system. We will identify areas to reduce filing burden and simplify procedures, such as:

- ◆ Consider changing filing requirements for Form 941 from quarterly to annually for certain taxpayer groups
- ◆ Simplify requests for extensions of time to file

We will provide expanded electronic opportunities for taxpayers to access tax information, file their returns, and pay their taxes. We will continue education and outreach efforts to ensure taxpayers have access to compliance assistance resources. We will continue to seek fast-track venues to address contentious and burdensome tax issues. We will provide a consistent IRS position for common issues. Through electronic lien filing capabilities, we will enable taxpayers to verify the filing, release and notification of federal tax liens. This will reduce the time spent by taxpayers attempting to contact the IRS for information or verification regarding liens. We will use an issue-focused examination approach that incorporates the use of risk analysis and materiality thresholds to limit the scope of the examination to critical issues.

### *Ensure that guidance – including forms, instructions and notices explaining IRS policies and interpreting the tax code – is responsive to the needs of the public, written in clear, succinct and understandable language and issued promptly.*

The tax code is complex and the application of a complex law to an equally complex and ever-changing economy will continue to create challenges both for the IRS and for taxpayers. The current compliance system cannot operate effectively unless taxpayers understand their obligations and responsibilities under the law. The absence of clear and understandable tax rules, forms and instructions also breeds disrespect for the tax law and facilitates the promotion of abusive transactions. The IRS will improve service to taxpayers and facilitate enforcement of the tax law by issuing guidance to clarify the law, resolve uncertainty regarding the application of the law and reduce the potential for controversies with taxpayers. This will allow the IRS to focus its examination resources on promoters of abusive transactions and non-compliant taxpayers. Published guidance that promptly addresses abusive transactions discourages many taxpayers from participating in such transactions by informing them of the IRS position on the transactions and providing responsible advisors with arguments to use against the promoters.



## How We Will Measure Success in Improving Taxpayer Service

## Goal 1 - Improve Taxpayer Service

- ◆ **Customer Satisfaction Data** - customers' overall level of satisfaction with key services provided by the IRS, obtained through telephone and mail surveys. Data is also captured for IRS by the University of Michigan Business School's National Quality Research Center for the American Customer Satisfaction Index and by Roper Starch Worldwide, a public opinion polling firm.
- ◆ **Rate of Accuracy** - the percentage of customers receiving accurate responses to their tax law inquiries and account inquiries. IRS uses the data to evaluate the regulatory accuracy of IRS services. IRS intends to add the measure of accuracy for its Tax Assistance Centers to this calculation.
- ◆ **Burden Reduction**- measurements of time and out-of-pocket expense taxpayers incur in meeting their tax responsibilities.
- ◆ **Level of Service** -the relative success rate of taxpayers calling for assistance and seeking services from a Customer Service Representative. Part of the calculation of results for this measure includes the percentage of call attempts made by taxpayers compared to the number of calls answered by IRS.
- ◆ **Rate of Electronic Interactions** - measurements of electronic filing and payment participation rates.
- ◆ **Timeliness of Responding to Customer Inquiries** - measurements of the time taxpayers wait on the telephone when calling IRS about their accounts or inquiring about tax laws when preparing tax returns; the time from account creation to disposition for taxpayers needing account resolution assistance; and, the response time for those taxpayers who communicate electronically with the IRS.

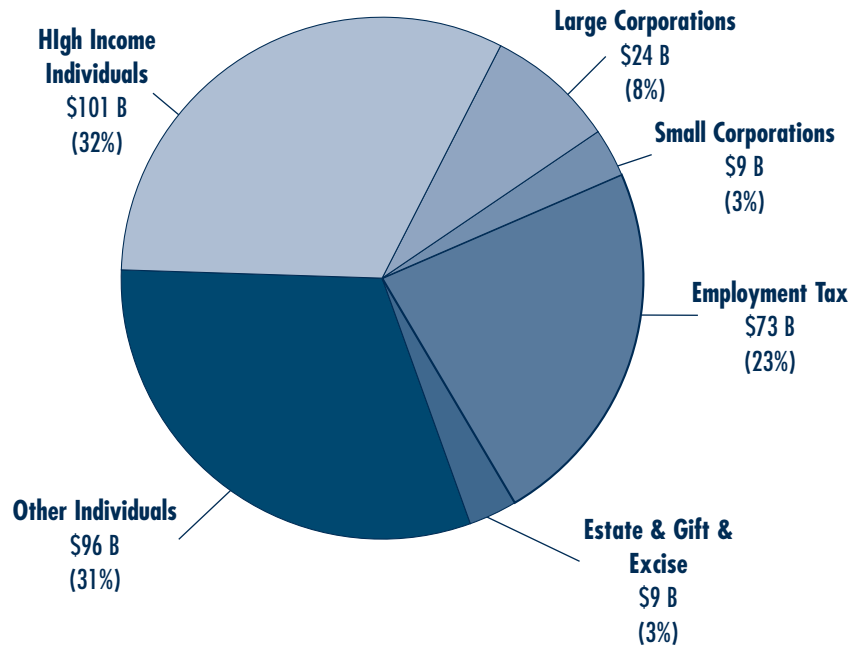
## Goal 2 - Enhance Enforcement Of The Tax Law

### Objectives

- Discourage and deter non-compliance with emphasis on corrosive activity by corporations, high-income individual taxpayers and other contributors to the tax gap
- Ensure that attorneys, accountants and other tax practitioners adhere to professional standards and follow the law
- Detect and deter domestic and off-shore based tax and financial criminal activity
- Deter abuse within tax-exempt and governmental entities and misuse of such entities by third parties for tax avoidance or other unintended purposes

We will ensure that taxpayers meet their tax obligations, so that when Americans pay their taxes, they can be confident that their neighbors and competitors are doing the same. Therefore, we must use our enforcement authority to collect the taxes that are due from people who do not fulfill their tax obligations. Noncompliance may not be deliberate and 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. However, some noncompliance is willful, even to the point of criminal tax evasion. For example, certain taxpayers are investing in tax shelters, trusts and other structured products knowing that the promised tax benefits are not in conformity with the law. The IRS will enforce the law across all sectors, but with particular vigor in the corporate arena and for high-income individuals who participate in abusive tax avoidance transactions. However, we will continue to respond on a timely basis to taxpayer requests, ensure our customers receive professional treatment, and protect their rights as taxpayers

### Elements of the Tax Gap



\* These totals include all components of all types of tax for which estimates are available. The most notable exclusion is excise tax. All of the estimates in these charts are projected from compliance data models from TY88 and earlier.

## **Objective: Discourage and Deter Non-Compliance with Emphasis on Corrosive Activity by Corporations, High-Income Individual Taxpayers and Other Contributors to the Tax Gap**

*Goal 2 - Enhance Enforcement Of The Tax Law*

We must deter non-compliance. Examinations help to promote an environment of voluntary compliance. The objective of the examination activity is to ensure the proper amount of tax is reported and paid. This includes verification of return accuracy, including establishing that the correct income is reported and that deductions meet Internal Revenue Code requirements. We are shifting emphasis to increase our audit coverage related to the most egregious abusers. This new direction focuses on several priority areas, including:

- ◆ Promotion and use of abusive tax schemes and avoidance transactions
- ◆ The misuse of offshore transactions
- ◆ The non-filing and underreporting of income by higher income individuals
- ◆ Flow-through income

We will continue to balance service and enforcement as we address benefit programs such as Earned Income Tax Credit and Health Care Tax Credit ensuring people who are eligible receive the correct amount of benefit.

### **Means & Strategies**

*Re-examine and adjust audit processes to target likely areas of non-compliance.*

We are refining return selection criteria to target returns that are significantly underreporting their income. The IRS will devise improved methods to identify returns with a high probability of underreported income and assign more revenue agents and revenue officers to work high-income individual and corporate cases.

*Reduce audit cycle time to improve audits and audit coverage.*

We are implementing several actions to realize significant gains in cycle time. We will focus on both short and long-term processes, systems and procedure changes. We will work to improve our processes and realize the benefits from the legislation on our corporate population, resulting in an improvement in our audit coverage rates.

*Forcefully address abusive tax avoidance transactions.*

Unprecedented growth in the appreciation of capital and in other forms of non-verifiable income, together with correlated increases in tax avoidance, have confronted the nation with an unprecedented volume and variety of verifiable and suspected noncompliance. Our enforcement initiatives will counter deteriorating compliance by hiring revenue agents and revenue officers and instituting process improvements to streamline case processing and consolidate operations.

## Goal 2 - Enhance Enforcement Of The Tax Law

It costs taxpayers only 48 cents for each \$100 collected by the IRS

### *Improve measurement and detection of non-compliance.*

We will enhance the Schedule K-1 matching program to identify and address non-filers, to identify abusive scheme promoters and users and to select and classify business and individual returns for examination. We will develop and deploy classification and selection models to identify corporate cases most likely using abusive transactions. We will update measures of the level and sources of non-compliance through the National Research Program.

### *Improve allocation of enforcement resources.*

No other taxing authority in the world is as efficient as the IRS. Even so, we will continue to identify and implement operational efficiencies to generate savings that can be realigned to high-priority enforcement work. Failing to detect and respond to filing, payment and reporting noncompliance reduces tax revenue and undermines the voluntary compliance system. We will continue to shift enforcement resources to areas of highest compliance risk first while maintaining a measured program of examination coverage for all taxpayer segments to improve voluntary compliance across the board. We will improve the management of available information by aggregating and analyzing enterprise data to assess the risks inherent in transaction and ownership relationships that are the basis of many identified abusive schemes. Criminal Investigation, working in concert with the other operating divisions and its law enforcement partners, will devote its resources to the most egregious violations of the Internal Revenue Code and related violations that will promote voluntary compliance and deter future criminal activity.

### *Leverage enforcement activities with other governmental agencies, external partners, stakeholders and media.*

We will identify and focus our efforts on the most egregious non-filers and most productive cases. We will centralize automated enforcement tools. We will expand our matching programs to include state employer wage data to identify business non-filers. Current programs will be enhanced to provide better identification of “out of business” and “wages last paid” non-filing business taxpayers. We will also develop a multifunctional strategy to collaborate with state governments to coordinate casework and share leads with the states in the area of Abusive Tax Avoidance Transactions. The IRS-State Partnership was formed to strengthen overall tax administration at the federal, state and local level by working in tandem to leverage resources, and avoid repeating efforts.

## **Objective: Ensure that Attorneys, Accountants and Other Tax Practitioners Adhere to Professional Standards and Follow the Law**

*Goal 2 - Enhance Enforcement Of The Tax Law*

The IRS administers the laws and regulations governing the practice of tax professionals. To ensure tax professionals are informed of their obligations, we will share expectations with them and enlist the support of the many tax professional organizations that do adhere to the law to communicate standards of conduct to their constituencies. Examples of “best practices” will be developed and shared to provide additional guidance for acceptable standards of practice. We will encourage ethical behavior and deter non-compliance by making the consequences of practitioner misbehavior more widely known within the boundaries of law and regulation. Those practitioners who choose not to comply with established standards of conduct will be subject to a broad range of coordinated actions that will effectively address their misconduct, e.g., the assessment of preparer penalties, disciplinary sanctions imposed under the authority of Treasury Circular 230, suspension of electronic filing privileges, the pursuit of injunctive action and, where warranted, criminal prosecution initiated by the Department of Justice.

### **Means & Strategies**

*Strengthen partnerships with practitioners to achieve the highest level of professional integrity and improve tax compliance.*

Tax professionals, and the organizations to which they belong, are key allies in communicating, monitoring and regulating standards of conduct among the tax practitioner community. We will develop and maintain ongoing dialogues and close working relationships with the leadership of the national organizations representing attorneys, certified public accountants, enrolled agents and other tax professionals. Additionally, we will interact with tax preparers who are not members of one of the above groups through locally and nationally sponsored events such as the IRS Nationwide Tax Forums. Tax professionals and the organizations to which they belong, will serve as the conduits for communiqués from the Service on a variety of issues frequently dealing with ethics and integrity in practice. We will supplement this with a variety of other media options to ensure that our messages are widely dispersed and readily accessible. Most practitioner organizations establish and expect their membership to adhere to standards of professionalism and technical competence. Frequently, professional organizations will add their endorsements or insights to messages from the IRS. An atmosphere of open dialogue and respect will encourage tax professionals to share information on marketplace trends with the IRS, thus enabling us to more quickly and efficiently address potential practitioner misconduct. This will enhance professionalism throughout the industry and support tax compliance.

## Goal 2 - Enhance Enforcement Of The Tax Law

### *Establish and communicate clear, robust, current and meaningful standards of conduct for tax practitioners.*

We investigate allegations of misconduct on the part of tax practitioners and enforce the standards of practice for those who represent taxpayers before the Service, as outlined in Treasury Circular 230. To be an effective tool for deterring and addressing practitioner misconduct, it is essential that Circular 230 provide clear expectations of tax professionals and that it gives the Service appropriate capability to address practitioner misbehavior. Circular 230 must communicate standards of professionalism by incorporating “best practice” examples into the document. We will continue to monitor the effectiveness of Circular 230 in light of emerging trends in the tax arena and propose modifications as appropriate. We will also ensure that all the capabilities of the Service are exercised in addressing practitioner misbehavior. This includes, but is not limited to, the assessment and collection of preparer penalties, withdrawing electronic filing privileges and disbarment from representing clients before the Service. To ensure awareness of the consequences of practitioner misconduct, we will make such sanctions a matter of public record, to the extent permitted under law and regulation.

### *Establish and maintain a vigorous, targeted and effective system of practitioner oversight.*

The Office of Professional Responsibility will work closely with the leadership of the operating divisions to identify the improper practitioner behaviors that have the greatest impact on tax administration. We will also reach out to field personnel through continuing professional education sessions, information on our Web site, case-specific communications and publicity about the results of our oversight efforts. It is expected that this will rejuvenate referrals of practitioner misconduct from IRS field components, as well as from the practitioner community itself. We will use referral information to develop Servicewide coordinated strategies to deter, detect and address such practitioner misconduct. Our goal is to focus our enforcement resources and tactics on those dimensions of practitioner misconduct most threatening to tax administration and those that would achieve the most widespread deterrent effect on practitioner misbehavior.

### *Establish and administer a fair, diligent and effective system of sanctions for practitioners who fail to observe standards of conduct.*

Practitioner misconduct can serve to erode public confidence in the tax system and create unfortunate consequences for taxpayers relying on unscrupulous tax practitioners. It is therefore in the interest of tax administration and taxpayer protection to effectively address practitioner misconduct. We have available a number of tools to influence practitioner behavior. These include, when appropriate:

- ◆ Monetary sanction through the imposition of return preparer penalties
- ◆ Suspension or disbarment of practitioners who are covered by Treasury Circular 230, depriving them of the privilege to represent taxpayers before the Service
- ◆ Criminal prosecution

- ◆ Revocation of electronic filing privileges
- ◆ Injunctions initiated by the Department of Justice against promoters or other advocates of illegal tax avoidance schemes

## Goal 2 - Enhance Enforcement Of The Tax Law

We will ensure these capabilities are exercised judiciously, appropriately and in a coordinated manner to have the greatest influence deterring and addressing practitioner misconduct.

### **Objective: Detect and Deter Domestic and Off-Shore Based Tax and Financial Criminal Activity**

The Criminal Investigation (CI) function of the IRS enforces the criminal provisions of the Internal Revenue Code, the Bank Secrecy Act and the anti-Money Laundering statutes. The IRS has a variety of criminal sanctions available that can be used when taxpayers refuse to comply or attempt to evade their tax obligations. Criminal sanctions are the most severe penalties that can be imposed and may include imprisonment and fines, in addition to civil sanctions. The vigorous enforcement of the criminal statutes is an integral component of the IRS' efforts to enhance voluntary compliance and foster confidence in the fairness and integrity of the tax system.

#### **Means & Strategies**

*Re-examine and adjust Criminal Investigation processes to hasten selection and pursuit of criminal cases.*

CI will be in the forefront in establishing a record management system utilizing the Criminal Investigation Electronic Records Management Information System that facilitates consistent operations, automates workflows and provides for automatic electronic filing of documents. We will work closely with the Department of Justice to identify and remove barriers that prevent the expeditious resolution of cases in the federal court system. CI will also pursue receipt of financial records electronically, which will hasten receipt and the ability to analyze and present financial evidence. As the number of tax returns filed electronically increases and taxpayers make more use of online resources for their financial transactions, we will continue to develop the electronic fraud detection system to identify fraudulent refund schemes and refer the cases for investigation. We will intensify our efforts to use automated processes to identify potential cases for investigation. We are also developing investigative techniques to analyze electronic accounting and financial records.

## Goal 2 - Enhance Enforcement Of The Tax Law

*Swiftly detect and deter appropriate targets in areas of corporate fraud, high-income individuals' participation in abusive schemes, malicious non-filers, international tax avoidance schemes and terrorism-related financial crimes.*

The IRS will develop a cross-functional strategy to identify and investigate egregious high-income non-filers, identify flow-through entities used to mask questionable structured transactions and address their abuse through enforcement actions. Employment tax investigations will address failure to file employment tax returns and interrelate with trust fund issues involved in employment tax withholdings. CI's international strategy includes special agent attachés assigned to facilitate the growing international aspects of CI's large-scale investigations, apprehending fugitives overseas, ratification of exchange agreements and the increasing number of requests for assistance from foreign countries. IRS special agents will continue to participate on the FBI's Joint Terrorism Task Forces focused on disrupting and dismantling terrorist financing.

### **Objective: Deter Abuse within Tax-Exempt and Governmental Entities and Misuse of such Entities by Third Parties for Tax Avoidance or Other Unintended Purposes**

Although tax-exempt and government entities are generally not subject to federal income tax, very complex tax laws and guidance regulate their operations. Individuals, organizations and the public at large rely on the IRS to ensure that tax-exempt entities operate in a manner consistent with their tax-advantaged status. Abusive tax schemes often involve various types of tax-exempt and government entities. These schemes appear to have grown and are not limited to a single area. Left unchallenged, such schemes not only undermine confidence in our voluntary compliance tax system, but also can undermine support for charitable giving, a unique and important feature of our society.

#### **Means & Strategies**

*Deter the abuse of tax-exempt entities by insiders for unintended purposes through increased audits in targeted areas.*

Using our recently developed market-based risk assessment tool, we will identify compliance risks for various segments within each tax-exempt sector. The risk assessment tool will enable us to determine compliance levels by market segment and explore various techniques, including additional examinations, to improve overall compliance. We expect these efforts will spur thousands of new examinations. Similarly, we will develop a workload selection methodology for government entities and begin to examine cases that meet abusive transaction criteria.



*Identify and deter the misuse of tax-exempt entities by others for tax avoidance or other unintended purposes.*

The IRS' new Exempt Organization Fraud and Financial Transactions Unit will identify and work fraud cases and develop referrals for criminal cases. Staffed with fraud specialists, forensic accountants and agents with expertise in tracking foreign grant activities, this office will bridge the existing gap in the IRS' ability to provide specialized exempt organization expertise to law enforcement.

*Prevent the diversion of assets of tax-exempt entities for terrorist or other criminal activities.*

The growing charitable sector and the events of September 11, 2001, shed light on the need to ensure charitable assets are not diverted for illegal or other non-charitable purposes. The IRS' new Exempt Organization Fraud and Financial Transactions Unit, mentioned above, will provide the expertise to track foreign grant activities, bridge the existing gap in the IRS' ability to provide specialized exempt organization expertise to law enforcement and assist in identifying and working fraud cases.

## Goal 2 - Enhance Enforcement Of The Tax Law

### How We Will Measure Success in Enhancing Enforcement of the Tax Law

- ◆ *Rate of Reporting Compliance* - the percentage of individual income tax liability that is reported on timely filed returns for a given tax year.
- ◆ *Rate of Filing Compliance* - the percentage of individual returns that are filed timely for a given tax year.
- ◆ *Rate of Payment Compliance* - the percentage of tax liability reported on timely filed returns that is paid by the return due date.
- ◆ *Percent of Priority Guidance List Items Published* - the percentage of tax issues that IRS will address through regulations, rulings, notices and other forms of guidance during the 12-month period beginning July 1 and ending June 30.
- ◆ *Percent of Americans Who Think it is OK to Cheat on Taxes* - results obtained from the annual IRS Oversight Board survey of public opinion. The Survey is conducted by Roper Starch Worldwide, a global public opinion polling firm.
- ◆ *Average Cycle Time* - measure of the length of time from receipt of a case for audit until the audit is completed. The average will be computed from the results of audits on individuals, small and large business entities and tax-exempt entities.

# Goal 3 – Modernize the IRS Through Its People, Processes and Technology

## Objectives

- Increase organizational capacity to enable full engagement and maximum productivity of employees
- Modernize information systems to improve service and enforcement
- Ensure the safety and security of people, facilities and information systems
- Modernize business processes and align the infrastructure support to maximize resources devoted to frontline operations

The IRS must strategically manage resources, associated business processes and technology systems to effectively and efficiently meet service and enforcement missions. To the IRS, "modernization" relates to each of those areas. Many of our tax administration systems are obsolete and are difficult to keep current with today's fast-paced environment; they must be modernized. "Modernization" includes technology projects with which taxpayers are not directly involved, such as replacing our master file system, implementing new accounting systems and building the modernized technological infrastructure on which all of our future modernization applications will depend. Modernization also includes modernizing our work processes and preparing our workforce to meet the challenges of the 21st century, including replenishing a maturing workforce, improving workforce skills and ensuring a continual leadership cadre for the future.

## Objective: Increase Organizational Capacity to Enable Full Engagement and Maximum Productivity of Employees

The IRS must work to remove barriers impeding the full engagement of our employees to support the workload changes needed to deliver top-quality service, while providing our employees every opportunity for personal growth. We will evaluate alternatives for employee learning and development and implement improvements to close critical competency gaps. Our primary efforts in training delivery and methodology will be to utilize the latest technology to facilitate continuous and just-in-time learning. Employees will serve customers best when they consistently perceive the IRS workplace and its leaders as fair and supportive. Additionally, employee satisfaction will be enhanced along with organizational effectiveness when their legitimate concerns are considered in a timely and just fashion.

## Means & Strategies

*Provide tools, training and incentives to develop existing talent to meet the changing demands of the future.*

We will continually assess and evaluate future workload needs and design competencies for the workforce of tomorrow. We will equip our workforce with requisite skills for the changing business arena and will develop accelerated training programs that place new employees in a productive status sooner. The IRS will transition to a needs-based, demand-driven learning and education environment that leverages e-learning to maintain full workforce capabilities without adversely impacting service levels and quality. In this environment, we will ensure adequate and available just-in-time training to meet business demands with increased workforce competency. We will ensure our employees obtain the competencies needed to maximize the use of technology in support of our mission. We will assess the tools and technology that make employees most efficient at their jobs to ensure the IRS achieves its mission. All the while, we will ensure this technology reduces burden, to focus employee time on mission accomplishment.

### *Attract and retain new hires with needed skills.*

The IRS will sustain an aggressive recruitment effort that strengthens and extends partnerships with key colleges and universities and with private sector business organizations. We will continue to seek ways to be recognized as an “employer of choice” for talented college graduates. We will continue to evaluate alternatives for employee learning and development and implement improvements to close critical competency gaps. We will fast-track new hires into the field by adapting our training programs to maximize innovative training concepts such as remote learning, just-in-time modules, and training tailored to the specific needs of new hires that, for example, may have tax knowledge but need training in procedures.

### *Ensure leadership continuity and retention of organizational knowledge.*

Leadership strategies will be competency based and will ensure the management cadre is well equipped to meet the challenges of the future. We will create a culture and provide avenues for identifying a pool of high-potential, quality applicants interested in management positions, replacing the losses brought on predominantly by retirement eligibility and expanding the knowledge base of incumbent managers through leadership placement opportunities and developmental programs such as front-line, campus and senior management readiness. The IRS will ensure it has leaders who effectively manage people by inspiring, motivating and guiding others toward mission goals while sustaining a learning environment that drives continuous improvement in performance. IRS leaders must embrace programs and tools that share institutional knowledge and use innovative means to link knowledge across their organizations to facilitate best practices, promote personal and professional growth and avoid failures. We will use technology to collect, share and leverage organizational knowledge thus improving the retention of this information for transfer to employees.

### *Promote a work environment that optimizes the use of talent, provides fair and equal opportunity to all and encourages employees to excel.*

People are the key factor in business performance. Our service to taxpayers hinges on the effectiveness of our employees — and on our investment in their development. The sincerity of our commitment to this goal must be unequivocal and our employees must perceive it as such. We will ensure that our leaders effectively manage people by challenging the workforce and demonstrating high standards of honesty, trust, openness and respect. The IRS employee population includes 73% minorities and women combined. We will continue to promote diversity and opportunity in a non discriminatory environment.

The IRS linked individual performance to organizational goals through our performance management system for the entire workforce. We have begun to link pay to performance by establishing a pay for performance system for senior and department managers that will be expanded to front line managers. Further, we will move to expand our pay-for-performance systems across the entire workforce to provide a direct link between an employee’s performance and the organization’s success. This will create a “line of sight” from the individual’s responsibility to the organization’s goal.

## *Goal 3 – Modernize the IRS Through Its People, Processes and Technology*

At the end of 2003, the IRS employed 82,495 full-time permanent individuals and 12,143 seasonal or part-time employees

### Goal 3 – Modernize the IRS Through Its People, Processes and Technology

## Objective: Modernize Information Systems to Improve Service and Enforcement

To improve service to taxpayers, increase the effectiveness and efficiency of agency operations and provide greater value to the government, we will implement information technology solutions, such as the Customer Account Data Engine, that anticipate and meet enterprise-wide needs. Technology solutions will be balanced with cultural changes and advances in business systems to improve enforcement, customer service and modernization. The IRS Enterprise Architecture provides the framework and direction for a coordinated move into the future.

### Means & Strategies

*Deliver modernized systems designed to replace the master file, strengthen collection and other enforcement efforts, meet taxpayer and practitioner needs and service expectations and support internal management needs for financial and human resources management.*

The IRS will continue partnerships with commercial vendors for electronic tax law research, subscription services and other commercial resources. We will enhance the Business Systems Modernization (BSM) program management and accountability by establishing ongoing third-party reviews, improving contract administration to balance IRS and contractor risks, strengthening the BSM project teams, ensuring business unit ownership, implementing performance benchmarking and addressing systemic development and delivery issues. The immediate focus of the BSM program will be to complete the tax administration systems while only focusing only on certain pieces of other information management and human resource systems. Completion of these other systems will be readdressed in later years.

*Continually monitor the technology portfolio to support business operating needs, ensure systems meet technical standards and are flexible enough to accommodate developing changes in customer needs and expectations.*

All information technology and modernized projects will be prioritized, and we will deliver on both long-term and day-to-day corporate commitments. Processes will be put in place to better integrate business and technology strategies and manage out-of-cycle information technology requests and budget changes. We will implement workstation improvements, such as speedier access to better tax administration tools, and user-defined employee portals to improve business results.

## **Objective: Ensure the Safety and Security of People, Facilities and Information Systems**

*Goal 3 – Modernize the IRS Through Its People, Processes and Technology*

The IRS will continue to implement improvements in the security of taxpayer information, employees and critical infrastructure assets. We will enhance business continuity capabilities and extend them Servicewide, implement day-to-day security operations in a consistent and repeatable manner and protect the integrity of tax information.

### **Means & Strategies**

*Implement measures to maintain a safe and secure workplace environment for individuals.*

We will launch a new automated proactive and preventative Safety and Health Management Information and Control System to enhance reporting capabilities and hazard recognition and significantly reduce worker's compensation claims. We will also use enhanced safety hazard detection and reporting capabilities to eliminate safety incidents and continue to work to reduce employee injuries and the attendant backlog of long-term workers' compensation issues. We will partner with General Services Administration and local law enforcement to take all action necessary to safeguard IRS personnel and participate in government-wide programs that plan for disaster response, and continue to reduce the security risks facing IRS employees and facilities.

*Maintain a risk-based information security program that ensures cost-effective security controls are in place.*

The IRS will implement information security roles and responsibilities consistently across IRS facilities and provide specialized security training to those employees having information security roles and responsibilities. The Federal Information Security Management Act requires that the IRS maintain an agency-wide automated information security program that effectively balances the implementation of adequate security protections commensurate with the risks to IRS networks and computer systems. We will complete annual security program reviews and security controls testing of all major applications and general support system networks. Security certification and accreditation shall also be completed or updated for all major information systems. Performance metrics and corrective action plans shall continue to be maintained and updated for the program.

*Develop, exercise and maintain continuity of operations plans, contingency plans and other measures to protect critical infrastructure.*

The IRS will implement disaster recovery capability for computing center assets and disaster recovery plans for all critical infrastructure assets in accordance with business performance expectations. We will continue efforts to apply adequate security protections and business continuity plans for all mission-critical and business-essential processes, facilities, and assets. We will develop a business recovery plan and identify alternative locations and sources to complete critical work processes. The plan will cover employees, equipment and shelter for the recovery period.

## **Objective: Modernize Business Processes and Align the Infrastructure Support to Maximize Resources Devoted to Front-line Operations**

To improve agency operations, we will identify modernization opportunities that will create operational efficiencies to allow us to maximize our effectiveness in achieving our vision. We will tighten operations to devote more people to front-line positions and strengthen tax enforcement activities. We will work to capture the benefits of new technology, implement an improved personnel system and consolidate our back-office case processing activities. We will continually strive to meet and exceed our responsibilities for providing the most comprehensive and accountable management and cost-effective delivery of services.

### **Means & Strategies**

#### *Pursue reengineering of business processes to more efficiently provide services.*

We will reengineer the examination function to streamline the examination process, increase effectiveness and timeliness in examining returns, collecting taxes, and resolving taxpayer issues, and reduce and redirect expenditures to improve operational results. The collection functions will be reengineered to improve workload selection, reduce cycle time, improve casework quality and improve customer and employee satisfaction. We will focus our collection activities on the inventory that is most likely to yield positive results, ensure timely initial contacts by Revenue Officers and reduce activity lapses in casework.

#### *Streamline operations that do not have direct contact with taxpayers.*

Insolvency and Examination/Collection Field Support and Lien Processing activities are currently performed at 92 different locations. Centralizing these activities to four Campus sites will improve business results by streamlining processes, leveraging the economies of scale and freeing up staff for frontline collection work. We will develop additional strategies and identify ways to devote more resources to our front-line service, compliance, and enforcement staffs. We will review the structure and placement of our support functions, specifically human resources, communication, equal employment opportunity, finance and strategic planning to determine how these areas can be integrated into a more efficient corporate structure.

#### *Redirect savings to frontline operations.*

The IRS established a working group to study how we can devote more resources to our front-line service, compliance, and enforcement staffs. One area under study is the structure and placement of our support functions. The support functions—specifically human resources, communication, equal employment opportunity, finance and strategic planning—are currently embedded throughout all business, functional and support units. Now, we are exploring how those areas can be integrated into a more efficient corporate structure. This will ensure consistent practices in these areas across the

agency. Also, collection personnel are benefiting from technological improvements in collection systems, such as the installation of the Automated Collection System enterprise call routing functionality. This system automates internal processes, enabling staff to apply more time to direct collection casework and increasing productivity.

## *Goal 3 – Modernize the IRS Through Its People, Processes and Technology*

### **How We Will Measure Success in Modernizing the IRS Through Its People, Processes and Technology**

- ◆ *Level of Employee Engagement* - measures the number of IRS employees who feel they are in the right job, are managed well and are productive. Data used to determine results is taken from the IRS' annual employee satisfaction survey.
- ◆ *Index of Employee Perceptions of Performance Management System* - an index based on how employees responded to certain questions on the Federal Human Capital Survey conducted annually by the Office of Personnel Management.
- ◆ *President's Management Agenda Scorecard* - a measurement of IRS' progress in implementing the President's Management Agenda.
- ◆ *Ratio of Mission-Critical Occupations (MCO) Employees to Non-MCO Employees* - proportion of staff employed in mission-critical areas, those that support tax processing, administration, and enforcement functions of the IRS, to the non mission-critical areas.
- ◆ *Benchmark IT Services and Development to Private Industry Standards for Cost, Scheduling, and Functionality* - measures BSM performance in budget, cost controls and program requirements stability:
  - *Contracted Program Cost and Schedule Variance* - variance in obligated dollars to original contract amount and variance in schedule based on Task Orders and subsequent modifications.
  - *Contracted Requirements Stability* - variance in contracted Task Order requirements and modifications from the original Task Order requirements.
  - *Contracted Requirements Delivered* - the percentage of requirements delivered to total requirements contracted in the Task Order and subsequent modifications.

# Program Evaluations

**P**rogram evaluations are assessments through objective measurements and systemic analysis of the manner and extent to which programs achieve intended objectives. Where warranted, program evaluations encompass assessment of program implementation processes and operating policies and procedures. IRS will obtain evaluations of its programs through a variety of sources.

**Strategic Assessments** - Each IRS operating division and Criminal Investigation performs an annual strategic assessment of their environment to identify future trends, issues and problems and the strategies necessary to address them.

**Specific Program Evaluations** - Evaluations serving the analytical needs of requesting executives, which typically involve specific questions or aspects of a program rather than more traditional, comprehensive program evaluations. Recent evaluations include the implementation of the health care tax credit, lockbox operations, employee tax compliance, taxpayer assistance locations, offer-in-compromise program and information technology management.

**Risk Analyses** - Assessments of the risks inherent to accomplishing our strategic goals and objectives associated with specific programs and initiatives. The analysis informs senior leadership of those risks most significant to the enterprise, and allows them to manage and mitigate such risks.

**Program Assessment Rating Tool (PART)** - The Office of Management and Budget (OMB) PART tool is used to evaluate IRS programs. The OMB reviewed Tax Collection and Earned Income Tax Credit in 2002 and Submission Processing in 2003. Taxpayer Education and Assistance, Customer Service and Taxpayer Advocate Service are scheduled for 2004. All major IRS programs will be assessed by 2008.

**Strategic Studies** - Strategic studies are conducted for national, strategic and crosscutting issues of particular interest to the Commissioner and the executive leadership. These studies may require multi-unit teams to evaluate specific issues and their implications.

**National Taxpayer Advocate's Annual Report to Congress** - This report lists the top problems taxpayers face in complying with their tax obligations, as well as a list of suggested legislative changes to correct issues driven by specific tax code sections.

**Treasury Inspector General for Tax Administration (TIGTA) Audits** - TIGTA audits provide an independent review of IRS activities to promote improvements in IRS operations. TIGTA audits cover such areas as the Federal Financial Management Improvement Act, Modernized e-File, Trends in Compliance Activities, Improving Customer Service and Voluntary Compliance, to name a few. The IRS tracks progress on all TIGTA recommendations.

**General Accounting Office (GAO) Audits** - GAO evaluations help assess the effectiveness and impact of IRS' programs and provide an important source of critical external evaluations. GAO evaluations cover areas such as the Excise Tax Certification Process, Business Systems Modernization, the National Research Program, Workforce Planning, Compliance and Collections, Enforcement



Efforts, the Tax Filing Season and IRS Contracting, to name a few. The IRS tracks progress on all GAO recommendations.

**Customer Satisfaction Surveys** - Customer satisfaction surveys are used to improve customer service delivery. Most customer satisfaction surveys assess service of post-filing, compliance functions (examination, collection, etc.) while a few surveys determine taxpayer's level of satisfaction with the filing process. Taxpayers evaluate various aspects of service such as timeliness, professionalism, knowledge, courtesy, and fairness. Analyzing this feedback enables the IRS to develop improvement programs which will respond to the taxpayer's most important needs. These improvement areas become part of IRS manager's performance commitments to ensure implementation.

**Employee Satisfaction Surveys** - Employee surveys are the chief tool for collecting employee feedback to make workplace improvements and provide a source of data for identifying key issues, developing strategies, executing action plans and measuring results. The survey provides important data for decision-making and gives employees a voice in decisions that affect their workgroups.

# Linkage to Treasury's Strategic Plan

IRS Strategic Goals	Treasury Goals & Objectives
<p><b>Improve Taxpayer Service</b></p>	<p>Manage the Government's Finances Effectively</p> <p><i>Objective F41:</i> Collect federal tax revenue when due through a fair and uniform application of the law.</p>
<p><b>Enhance Enforcement of the Tax Law</b></p>	<p>Preserve the Integrity of Financial Systems</p> <p><i>Objective F3A:</i> Disrupt and dismantle financial infrastructure of terrorists, drug traffickers, and other financial criminals.</p> <p>Manage the Government's Finances Effectively</p> <p><i>Objective F41:</i> Collect federal tax revenue when due through a fair and uniform application of the law.</p>
<p><b>Modernize IRS through its People, Processes and Technology</b></p>	<p>Manage the Government's Finances Effectively</p> <p><i>Objective F41:</i> Collect federal tax revenue when due through a fair and uniform application of the law.</p>



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