



Exploring The IRS Future State

**Balancing Taxpayer Needs With IRS Budget
and Resource Constraints**

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What is the Future State?

- The IRS undertook a review of its operations and, driven at least in part by continued budget constraints, developed a vision of what the IRS hopes to look like by 2020.
- In an era in which the IRS has had to consider “doing less with less,” the future state can be seen as an effort to harness technology to instead “do more with less.”

What drove the Future State?

- FY 2015 IRS budget was \$10.9 billion – lowest since 2007, more than \$1 billion in cuts since 2010
- FY 2016 – Slight funding increase (to \$11.24 billion) allocated to customer service/telephone assistance, fraud detection, cybersecurity
- Very limited ability to hire new employees – essentially a hiring freeze
- Significant increases in executive and senior manager retirements
 - 41% of managers and 61% of executives eligible to retire in 2016
- Overall staffing down from 100,000 in 2010 to less than 85,000 in 2016
 - 25% of overall workforce eligible to retire in 2016 – increases to 40% by 2019
- Revenue Agent and Revenue Officer staffing down by 15-18% since 2010
- Appeals staffing has fallen by 20% since 2010
- IRS audit rate lowest since 2004 – the number of large business audits has declined 22 percent since last year

Paths to the Future State

- As part of the development of the Future State, the IRS created concepts outlining how the IRS expects to get to the future state.
- IRS Commissioner Koskinen has described these models as a result of evolutionary thinking within the agency. Some aspects, such as online taxpayer accounts, have been suggested for many years – dating at least to the 1998 Restructuring Act – and other aspects are intended to provide taxpayers with the types of interactions that they have been seeking.

Paths to the Future State (cont.)

- Separate concepts were prepared for LB&I, TE/GE and SB/SE & W&I, outlining:
 - Where the operating division wants to be in five years;
 - What organizational competencies are needed to realize the future vision; and
 - How to drive forward momentum for a comprehensive set of necessary change efforts.

Future State themes

- A number of common themes were developed:
 - Facilitate voluntary compliance by empowering taxpayers with secure innovative services, tools and support.
 - Understand non-compliant taxpayer behavior, and develop approaches to deter and change it.
 - Leverage and collaborate with external stakeholders.
 - Cultivate a well-equipped, diverse, skilled and flexible workforce.
 - Select highest value work using data analytics and a robust feedback loop.
 - Drive more agility, efficiency, and effectiveness in IRS operations.

Improved Taxpayer Experience



PRE-FILING



Connected Taxpayers

Seamless integration across digital chat, phone, or in-person contacts with some channels providing 24/7 access and personalized information



Proactive Outreach to Taxpayers

Increased educational outreach to taxpayers to deter non-compliant behavior, and customized online notifications based on taxpayer history

AT FILING



Independent & Empowered Taxpayers

Online accounts provide secure channel for adjustments and corrections along with clear explanations of issues and required adjustments

POST-FILING



Timely Resolution of Issues

Errors are detected at time of filing, and taxpayers are given early notification to correct issues

More Efficient Operations



Equipped and Efficient Workforce

Enhanced analytics identifies highest priority activities, while knowledge management gives employees skills for future work



Flexible Work Environment

Taxpayer and internal files are digitized over secure channels, leading to higher efficiency and enabling work to be less geographically-based



Analytics-Driven Operations

Data analysis helps with issue identification, taxpayer outreach, treatment stream alignment, and work routing



Coordination Across Business Units and Partners

Systems and structures help workforce across business units leverage existing investments and collaborate with external partners

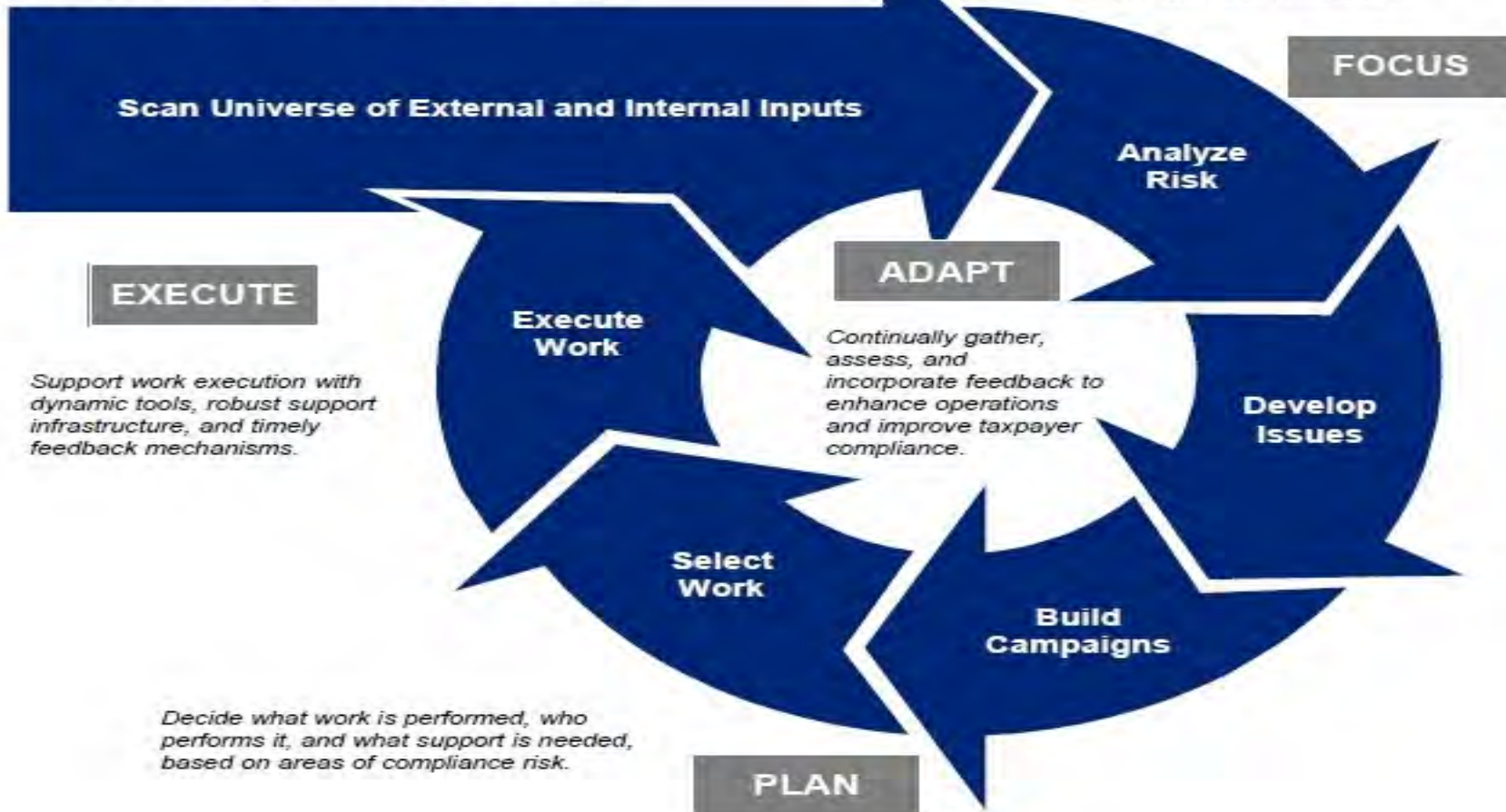
LB&I Future State Model

- LB&I Action Path
 - Change Structure
 - Change Work Selection Process
 - Develop better training, career paths, tools and support
 - Clearly define compliance goals of all LB&I Work
- LB&I – core set of four guiding principles:
 - Flexible, well trained workforce
 - Use of data and feedback from the field to identify issues for examination
 - Improve flexibility of division to address current and emerging issues
 - Use data analysis and feedback to drive loop by which to continually improve

LB&I Future State Model

In order for LB&I work to matter more than it does today, the division will...

Better identify and prioritize areas of compliance risk to more effectively address taxpayer compliance.



LB&I Reorganization

- LB&I implemented a major reorganization in early 2016.
- Today LB&I is organized into nine practice areas that report to a single Deputy Commissioner, LB&I.
- This reorganization eliminated the distinction between domestic and international, and brings greater focus to issues and geography.

LB&I Practice Areas

- Five substantive practice areas:
 - Passthrough Entities
 - Enterprise Activities
 - Cross Border Activities
 - Withholding & International Individual Compliance
 - Treaty & Transfer Pricing Operations
- Four geographic practice areas:
 - Northeastern
 - Eastern
 - Central
 - Western

Updated LB&I Exam Procedures

- Centralized risk model for case/issue selection
- Objective to direct resources to cases with highest compliance risk
- Focus on streamlined audits with issue-focused approach
- Expanded use of data analytics to identify noncompliance
- Development of “Compliance Campaigns” and tailored compliance treatments to address current and emerging compliance concerns

Issue-Based Approach to Exams

- The new LB&I Examination Process was designed to implement the issue-based approach for conducting examinations and promotes collaboration both within the exam team and with the taxpayer
 - Introduces the “issue team concept” and defines the roles and responsibilities of the issue team members
 - Emphasizes cooperation, responsiveness and transparency between the issue team and the taxpayer
 - Introduces new claim procedures for submitting informal claims for refund within 30-days of opening conference
 - Incorporates the LB&I Directive on the Information Document Request (IDR) process
- Principles of Collaboration (IRM 4.46.1.4):
 - Taxpayers should be willing to disclose the facts for issues that have been identified. LB&I must be transparent regarding issues and positions that are being considered. All parties must be objective when considering the facts and legal positions and should be willing to resolve issues through the appropriate dispute resolution tools when appropriate.

Three Stages to Exam Process

- There are three stages to the LB&I examination process:
 - Planning Phase
 - The issue team and taxpayer are encouraged to work collaboratively to establish audit steps, agree to an examination timeline, and develop the issues selected for examination
 - Limitation on submission of affirmative adjustments
 - Execution Phase
 - Failure to respond to IDRs timely triggers mandatory LB&I IDR enforcement policies
 - Both parties are expected collaborate to arrive at a written acknowledgement of all relevant facts and disputed facts for unagreed issues
 - Pro-forma – “IDR for Acknowledgement of Facts on Unagreed Issues” (See IRM Exhibit 4.46.4-3)
 - Closest equivalent is Stipulation of Facts in litigation, but at the administrative level
 - Resolution Phase
 - The parties are also expected to work together to resolve issues at the earliest opportunity using the appropriate issue resolution tool

Compliance Campaigns

- LB&I will use data analysis and feedback from examiners to identify areas of potential non-compliance and will design “campaigns” to address those issues/areas.
- A campaign is a plan focused on the right issues, using the right resources, and using the right combination of treatment streams to achieve the intended compliance outcomes.
- A campaign could consist of an examination and/or some type of alternate treatment such as outreach or guidance.
- LB&I leadership sought suggestions for initial campaigns from all LB&I employees, and has worked in recent months to evaluate which campaigns should move forward.
- The initial LB&I compliance campaigns are expected to be announced in early 2017.

SB/SE and W&I Future State Model

- A combined concept was developed for SB/SE and W&I, with recommendations to shift certain operations between the two divisions going forward to better achieve overall strategic priorities.
- Key goal is to work toward achieving about 90% compliance closures within one year of return filing date.

SB/SE and W&I Focus Areas

- Preemption: leverage tools, education, preparers and partnerships to reduce errors and noncompliance
- Issue identification and filing resolution: maximize pre-refund automatic issue identification and self-correction
- Maximum enforcement efforts: generate maximum collection/exam results by leveraging case selection, early engagement, virtualize work, reengineered processes
- Insight: perform year-round analysis of groups and individual returns to enhance rules, drive campaigns, and improve work selection

Futuristic Vision for Individual Taxpayers

- The Future State contemplates a system of secure online accounts that will provide taxpayers with personalized notifications and guidance based on their profile.
- The online account would include real-time information on status of an electronically filed return, notifications regarding potential errors, and options to amend returns.
- The online account would also include features for establishing and monitoring progress on installment plans for any taxes owed.
- While some tax information might be provided through the online system, the vision still contemplates that taxpayers will need to obtain assistance from third-party providers.

Futuristic Vision for Business Taxpayers

- The Future State also contemplates use of technology to address compliance for business taxpayers. Ideas include:
 - Online accounts for the business to monitor its account, including ability for representatives to access a client's account;
 - Notifications of missed filings or payments, including payroll deposits;
 - Notifications of examinations;
 - Online portal for submitting IDR responses;
 - Virtual conferences to discuss exam issues;
 - Electronic payments for any balances due.

Taxpayer Rights Considerations

- The IRS has described the Taxpayer Bill of Rights as a “foundational component underlying the future vision of the IRS and reflects the agency’s ongoing commitment to respecting taxpayer rights.”
- A key question that the National Taxpayer Advocate and others have raised is whether the efforts to expand the use of technology will help or inhibit the ability of taxpayers to obtain a high level of taxpayer service.
 - For example, the National Taxpayer Advocate has questioned whether the drive to use technology to replace personal interactions with taxpayers, coupled with recent increases in certain user fees, could adversely affect taxpayers of limited means who cannot afford to “pay to play.”
- IRS leadership emphasizes it will continue to make taxpayer rights a focus of Future State work.

NTA Public Forums

- During 2016, the National Taxpayer Advocate conducted public forums in 12 cities to obtain input from taxpayers and practitioners regarding the future state.
- Some of the questions that came out of these forums include:
 - For some time now, due in large part to funding constraints, it has been difficult for many taxpayers and representatives to obtain live assistance when needed. It remains unclear how the shift to even more reliance on technology will impact this situation.
 - In an era of cybersecurity and data privacy concerns, it is unclear to what extent taxpayers will embrace the notion of online accounts for their sensitive tax information.
 - Who could have access to a taxpayer's account? Would access be limited to Circular 230 professionals?