
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Office of Inspections and Evaluations



*Several Changes Sought by the
Internal Revenue Service Restructuring
and Reform Act of 1998 Remain a Challenge*

March 28, 2016

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 28, 2016

MEMORANDUM FOR COMMISSIONER, INTERNAL REVENUE SERVICE

FROM: Gregory D. Kutz
Acting Deputy Inspector General for Inspections and Evaluations

SUBJECT: Final Evaluation Report – Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge (# IE-14-014)

This report presents the results of our evaluation to determine if the selected goals of the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998¹ (RRA 98) have been substantially achieved by the IRS. The review is included in our Fiscal Year (FY)² 2016 Program Plan and addresses the following management and performance challenges facing the IRS:

- Security for Taxpayer Data and IRS Employees
- Tax Compliance Initiatives
- Modernization
- Providing Quality Taxpayer Service Operations
- Taxpayer Protection and Rights
- Human Capital

Synopsis

The objective of the RRA 98 was to transform the IRS into a modern financial services organization. The broadly scoped legislation changed the IRS mission, organizational structure, and business focus while pursuing change in the organizational culture. Congress intended to

¹ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app, 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

² Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

transform the IRS from an “enforcement first” culture to a culture that valued taxpayer service to help taxpayers comply with their responsibilities.

Since FY 2010, the IRS encountered several challenging events that caused congressional concerns.³ Accompanying these events, overall reductions in discretionary Government spending reduced the annual IRS budget by several billion dollars. Therefore, several of the issues reported as significant problems by the IRS Restructuring Commission have resurfaced, while other RRA 98 goals have remained substantially unrealized.

The RRA 98 required changes to transform the IRS into a modern financial institution. These changes included having an Oversight Board to assist in governance, maintaining a taxpayer-focused organizational structure, achieving an 80 percent electronic filing rate for returns and information documents, offering online personal accounts, abstaining from diverting training resources to meet other budget requirements, participating in reducing tax law complexity, and increasing voluntary compliance through applied research.

Recommendations

We recommended that the IRS Commissioner ensure that all organizational changes for offices reporting directly to a Deputy Commissioner or the Commissioner have a documented business case. In addition, the Chief, Communications and Liaison, should contact the congressional tax-writing committees to determine whether the IRS should provide the required tax complexity report.

Response

IRS management agreed with our recommendations. The Deputy Commissioner for Services and Enforcement will ensure that extensive organizational changes that move the agency away from a customer-centric model have a documented business case prior to making the changes. The Chief, Communication and Liaison will contact the congressional tax-writing committees and determine whether there is interest in having the IRS dedicate resources to preparing an annual tax complexity report. Management’s complete response is included in Appendix X.

If you have any questions, please contact me or Phil Shropshire, Director, Office of Inspections and Evaluations.

³ Treasury Inspector General for Tax Administration: Ref. No. 2013-10-053, *Inappropriate Criteria Were Used to Identify Tax-Exempt Applications for Review* (May 2013); Ref. No. 2013-10-037, *Review of the August 2010 Small Business/Self-Employed Division’s Conference in Anaheim, California* (May 2013); Ref. No. 2015-40-024, *Victims of Identity Theft Continue to Experience Delays and Errors in Receiving Refunds* (March 2015).



*Several Changes Sought by the Internal Revenue Service
Restructuring and Reform Act of 1998 Remain a Challenge*

Table of Contents

Background Page 1

Results of Review Page 3

 The RRA 1998 Required Several Organizational Design,
 Governance, Mission, and Performance Measurement
 Changes to the IRS..... Page 3

Recommendation 1:..... Page 7

 The IRS Made Significant Progress in Increasing
 Electronic Filing Participation Rates; However,
 RRA 1998 Goals Have Not Been Achieved Page 10

 Taxpayer Access to Accounts Has Improved; However,
 Online Personal Accounts Are Likely Still Years Away Page 13

 Taxpayer Rights Awareness Has Substantially Improved
 Since the RRA 1998..... Page 20

 Human Capital Is a Continuing and Growing Challenge Page 21

 Budget Reductions Have Led to Declines in Taxpayer
 Services Page 25

 The IRS Does Not Comply With the Annual Requirement
 to Report on Tax Complexity Page 29

Recommendation 2:..... Page 30

 Increasing Voluntary Compliance Through Compliance
 Research and Planning Remains a Challenge..... Page 30

Appendices

 Appendix I – Detailed Objective, Scope, and Methodology Page 32

 Appendix II – Major Contributors to This Report Page 35

 Appendix III – Report Distribution List Page 36



*Several Changes Sought by the Internal Revenue Service
Restructuring and Reform Act of 1998 Remain a Challenge*

Appendix IV – Major Governance Changes in the RRA 1998	Page 37
Appendix V – Comparison of the IRS Advisory Council and the IRS Oversight Board.....	Page 39
Appendix VI – Service on Demand Foundational Projects	Page 41
Appendix VII – Trends in Taxpayers Rights and the Fresh Start Initiatives.....	Page 42
Appendix VIII – Trends in Selected IRS Business Performance Measures and Budgets	Page 48
Appendix IX – Service on Demand Opportunity Areas	Page 53
Appendix X – Management’s Response to the Draft Report	Page 54



*Several Changes Sought by the Internal Revenue Service
Restructuring and Reform Act of 1998 Remain a Challenge*

Abbreviations

CY	Calendar Year
e-Filing	Electronic Filing
EFTPS	Electronic Federal Tax Payment System
ETAAC	Electronic Tax Administration Advisory Committee
FY	Fiscal Year
IA	Installment Agreement
IBTF	In-Business Trust Fund
IRS	Internal Revenue Service
NFTL	Notice of Federal Tax Lien
NTA	National Taxpayer Advocate
OIC	Offer in Compromise
RRA 98	Restructuring and Reform Act of 1998
TAC	Taxpayer Assistance Center
TIGTA	Treasury Inspector General for Tax Administration
VCR	Voluntary Compliance Rate



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Background

Congress established the National Commission on Restructuring the Internal Revenue Service (hereinafter referred to as the Commission) to examine the Internal Revenue Service (IRS) organizational structure, expedite the implementation of modernization, and improve service to taxpayers. In June 1997, the Commission issued a report¹ and provided recommendations to improve the IRS. The main recommendations focused on improving the governance, management, and oversight of the IRS; addressing problems identified with the workforce and the culture; improving customer service and compliance; achieving efficiencies; modernizing core computer systems; converting returns processing into an electronic environment; simplifying the tax code; and protecting taxpayer rights. Congress codified many of the Commission's recommendations with the passage of the IRS Restructuring and Reform Act of 1998² (RRA 98), thereby causing the largest overhaul of the IRS since the 1950s.

The objective of the RRA 98 was to transform the IRS into a modern financial services organization. The broadly scoped legislation changed the IRS mission, organizational structure, and business focus to transform the culture from "enforcement first" to a customer-oriented organization. Congress envisioned the reform provisions to help transform IRS culture by introducing innovations and new management practices and restricting older practices considered abusive.

In March 2010, the Treasury Inspector General for Tax Administration (TIGTA) reported³ the progress in implementing the RRA 98 goals. The report concluded:

The IRS has made significant strides in transforming into a modern financial services organization but major challenges remain. The Business Systems Modernization effort remains a work in progress. In addition, there are human capital management challenges for issues such as replacing an aging workforce, developing a comprehensive employee skills gap assessment, measuring the effectiveness of training, and implementing a performance-based pay system. Finally, in the compliance arena, estimating noncompliance and effectively addressing repeat offenders are continuing challenges.

¹ National Commission on Restructuring the Internal Revenue Service, *A Vision for a New IRS* (June 25, 1997).

² Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app, 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

³ TIGTA, Ref. No. 2010-IE-R002, *The Internal Revenue Service Restructuring and Reform Act of 1998 Was Substantially Implemented but Challenges Remain* (March 2010).



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

The overall objective of this review was to determine if selected goals of the RRA 98 have been substantially achieved by the IRS. Specifically, our evaluation focused on:

- IRS organizational design, governance, mission, and performance measurements;
- The 80 percent electronic filing participation rate goal by Calendar Year (CY) 2007;
- Online personal accounts;
- Taxpayer rights;
- Human capital challenges;
- Taxpayer service;
- Tax law complexity analysis studies; and
- Voluntary compliance improvements through research.

In addition, while the RRA 98 legislation differed from the Commission's report in some areas, TIGTA often referred to the Commission's report to better understand the purposes of the legislation.

This review was performed in Washington, D.C., during the period February 2014 through May 2015. We conducted this evaluation in accordance with the Council of the Inspectors General for Integrity and Efficiency Quality Standards for Inspections and Evaluations. The scope of the evaluation did not include an evaluation of every provision in the RRA 98. The decision to include or exclude a provision was based on materiality and judgment. Detailed information on our objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Results of Review

The changes required to transform the IRS into a modern financial institution are not fully realized. Since the March 2010 TIGTA report, the IRS encountered several challenging events that caused congressional concerns.⁴ Accompanying these events, overall reductions in discretionary Government spending cut the annual IRS budget by several billion dollars. Therefore, several of the issues reported as significant problems by the Commission have resurfaced, while other RRA 98 goals have remained substantially unrealized.

Several major changes sought by the RRA 98 remain a challenge. These changes include having an Oversight Board to assist in governance, maintaining a taxpayer-focused organizational structure, achieving an 80 percent electronic filing rate for returns and information documents, offering online personal accounts, abstaining from diverting training resources to meet other budget requirements, participating in reducing tax law complexity, and increasing voluntary compliance through applied research.

The RRA 1998 Required Several Organizational Design, Governance, Mission, and Performance Measurement Changes to the IRS

In June 1997, the Commission determined that the IRS organizational structure,⁵ governance, and mission no longer enabled the IRS to achieve its strategic objectives and properly serve taxpayers. The geographic organizational structure, combined with the functional operations, contributed to “stove-piping.”⁶ Coordination across the organization was difficult because processing centers and district office functions handled the same taxpayer, which resulted in

⁴ TIGTA, Ref. No. 2013-10-053, *Inappropriate Criteria Were Used to Identify Tax-Exempt Applications for Review* (May 2013); TIGTA, Ref. No. 2013-10-037, *Review of the August 2010 Small Business/Self-Employed Division’s Conference in Anaheim, California* (May 2013); TIGTA, Ref. No. 2015-40-024, *Victims of Identity Theft Continue to Experience Delays and Errors in Receiving Refunds* (March 2015).

⁵ Since the 1950s, the IRS was organized in a geographic structure divided into regions, with policies and procedures tailored to customers within those regions. Specifically, the IRS was organized into a three-tier geographic structure with a National Office, four regional offices, and 33 district offices. In each regional office, there was a Regional Commissioner, a Regional Counsel, and a Regional Director of Appeals. The compliance functions operated separately in each region. There were also 10 processing centers and two computing centers. Each district office administered the tax laws for every kind of taxpayer in a defined geographical area. Within the offices, functional disciplines such as taxpayer services, collection, examination, and appeals set and implemented their own priorities and objectives.

⁶ In a stovepipe organization, functional units such as taxpayer services, exam, collection, appeals, and counsel often have their own subculture. The structure often contributes to creating stovepipes through office layouts and minimizing communications between employees from different functions. This leads to suboptimizing an organization.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

confusion. Moreover, there were eight intermediate levels of staff and line management between a front-line employee and the Deputy Commissioners, which complicated reporting lines and responsibilities.

As with structure, another critical attribute of organizational design is governance. Governance can be defined as the processes and structures implemented to manage and monitor an organization’s progress towards achieving its strategic objectives. Research⁷ indicates that the likelihood of an organization’s success depends on the strength of its governance model.

In its report, the Commission observed many issues of inadequate governance. As examples, the Commission found that the IRS struggled to establish and maintain long-term strategies and priorities. There was a high turnover rate at the Commissioner position⁸ and no singular body responsible for bringing a long-term perspective or budget stability to tax administration. Additionally, the Commission stated that the existing internal oversight bodies (the Taxpayer Advocate and the IRS Office of the Chief Inspector) were not independent because each was appointed by and reported directly to the Commissioner. A description of the major governance elements of the RRA 98 is in Appendix IV.

Prior to the RRA 98, the IRS mission statement focused on an enforcement approach. To place a greater emphasis on service to taxpayers, the RRA 98 required the Commissioner to revise the IRS mission statement. This was done in September 1998 (see Figure 1).

Figure 1: IRS Mission Statement Changes As a Result of the RRA 1998

Pre-RRA 98 Mission Statement	Post-RRA 98 Mission Statement
To collect the proper amount of tax revenue at the least cost; serve the public by continually improving the quality of our products and services; and perform in a manner warranting the highest degree of public confidence in our integrity, efficiency, and fairness.	Provide America’s taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the law with integrity and fairness to all.

Source: IRS News Release IR-98-59 (Sept. 1998).

In turn, the mission statement caused the IRS to revise its performance measurement system. Historically, managers used enforcement statistics⁹ to evaluate employees and justify budgets.¹⁰

⁷ The National Academy of Public Administration, *The Governance Structure of the Pension Benefit Guaranty Corporation: An Independent Review* (Sept. 2013).

⁸ The Commission found that the average term an IRS Commissioner served was less than three years. Turnover remains an issue – since the law’s enactment, there have been nine different Commissioners, five of whom were Acting Commissioners, over a 17-year period. Generally, Acting Commissioners served less than one year; however, presidentially appointed Commissioners helped stabilize the position by serving full terms.

⁹ Management now relies on revenue-neutral measures such as timeliness and the number of cases closed.

¹⁰ Government Accountability Office (formerly known as the General Accounting Office), GAO/GGD-99-11, *IRS Personnel Administration: Use of Enforcement Statistics in Employee Evaluations* (Nov. 1998).



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

The RRA 98 prohibited this practice and required that customer service be balanced with overall tax administration responsibilities. The resulting Balanced Measurement System¹¹ consists of three equally weighted measures: business results, customer satisfaction, and employee satisfaction. Management considers the three components when setting organizational objectives, establishing goals, and assessing performance.

Several major organizational structure changes occurred subsequent to the RRA 98 that could affect maintaining a taxpayer focus

Organizational design is the deliberate process of configuring structures, processes, and employee practices to create an effective organization capable of achieving its objectives and strategies. A key element of organizational design is structure. The structure of an organization establishes reporting relationships, responsibilities, and communication channels. Therefore, organizational structure is the conduit through which decisions are made. The RRA 98 directed the IRS to change the organizational structure from geographic/functional divisions to units serving taxpayers with similar needs. In early CY 1998, the IRS Commissioner announced a plan to replace the geographic organization with a customer-based structure. In this structure, operating divisions provide one-stop service and customize programs best suited to taxpayers with similar characteristics.

In October 2000, the IRS implemented the new organizational structure consisting of four operating divisions and two support organizations.¹² The National Headquarters organizations assumed the role of setting broad policy, reviewing plans and goals of the operating units, and developing major improvement initiatives. In addition, the RRA 98 required the Commissioner to ensure an independent appeals function. This included a plan to prohibit ex parte communications¹³ between Appeals Officers and other IRS employees. The newly created IRS Oversight Board (the Board) was to approve all major reorganizations.¹⁴

Since the enactment of the RRA 98, TIGTA identified several major organizational changes that have occurred at the IRS. Figure 2 shows the major reorganizations.

¹¹ 26 C.F.R. Part 801, *Balanced System for Measuring Organizational and Employee Performance Within the Internal Revenue Service*.

¹² The four operating divisions are the Wage and Investment Division, Small Business/Self-Employed Division, Large Business and International Division, and Tax Exempt and Government Entities Division. The two support organizations are Information Technology Services and Agency-Wide Shared Services.

¹³ Ex parte communication is a communication that takes place between any Appeals employee and employees of other IRS functions without the taxpayer/representative being given an opportunity to participate in the communication. In October 2000, the IRS issued Revenue Procedure 2000-43, *Prohibition of Ex Parte Communications Between Appeals Officers and Other Internal Revenue Service Employees*, providing guidance that formally defines ex parte communications, clarifies the scope of permissible communications, and places greater limitations on communications between Appeals and certain employees in the Office of Chief Counsel.

¹⁴ 26 U.S.C. §7802 (d)(3)(c).



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Figure 2: Major IRS Organizational Changes Since the RRA 1998

<i>Date and Commissioner</i>	<i>Organizational Change</i>	<i>Purpose</i>	<i>Organizational Placement</i>	<i>Documentation/ Business Case/ Board Approval</i>
01/2003 Wenzel (acting)	Establishment of the Office of Professional Responsibility	Replaced the Director of Practice to enhance the oversight of tax professionals by ensuring compliance with Circular 230. ¹⁵	Stand-alone functional unit in Services and Enforcement	○◇☒
05/2003 Everson	Creation of the Deputy Commissioner for Services and Enforcement and the Deputy Commissioner for Operations Support	Additional supervision of the four operating divisions, Criminal Investigation, the Office of Professional Responsibility, the Chief Financial Officer, the Human Capital Office, Agency-Wide Shared Services, and the Information Technology organization.	Reports directly to the Commissioner	○◇☒
10/2010 Shulman	Establishment of the Return Preparer Office	To improve the compliance and accuracy of returns prepared by practitioners.	Stand-alone functional unit in Services and Enforcement	●◇☒
10/2010 Shulman	Reorganization of the Large Business and International Division	Formerly the Large and Midsize Business Division, reorganized to reflect its oversight with the Foreign Account Tax Compliance Act, ¹⁶ which was enacted in March 2010.	Stand-alone customer-based unit in Services and Enforcement	○◇☒
03/2011 Shulman	Establishment of the Office of Online Services	To increase the availability of electronic self-service taxpayer interactions.	Stand-alone functional unit in Services and Enforcement	○◇☒
2011 Shulman	Establishment of the Office of Compliance Analytics	To use data analytics to enhance tax compliance results and capabilities.	Reports directly to the Commissioner	○◇☒
11/2014 Koskinen	Realignment of compliance operations in the Small Business/Self-Employed Division and the Wage and Investment Division*	To streamline responsibility for procedures, post-filing compliance activity is in the Small Business/Self-Employed Division, while pre-filing compliance operations reside in the Wage and Investment Division.	Stand-alone customer-based units in Services and Enforcement	●◇
<p>● = Documentation exists ◆ = Business case present ☒ = Board approval ○ = No documentation exists ◇ = No business case present ☒ = No Board approval</p>				

* The Board is statutorily unable to take action on this realignment because it has no quorum.

Source: TIGTA analysis of IRS documents.

¹⁵ Department of the Treasury, Treasury Department Circular No. 230, *Regulations Governing Practice Before the Internal Revenue Service* (Rev. 6-2014).

¹⁶ Pub. L. No. 111-147, Subtitle A, 124 Stat 97 (2010)(codified in scattered sections of 26 U.S.C.).



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

The major reorganizations lacked a formal business case and contained no evidence of written Board approval. Moreover, only two of the organizational structure changes contained any design documentation. Treasury Directive 21-01¹⁷ requires agencies use business cases to document reorganization proposals.

Without a formal business case, it is difficult to determine the full strategic purpose of proposed organizational changes. For governance purposes, the following information is needed to make an informed decision:

- Understand whether the proposed organizational change has an impact on achieving strategic goals;
- Determine whether a newly proposed organization should be a permanent office or a temporary project office;
- Evaluate the proper organizational placement and reporting relationships of the new office; and
- Assess whether a proposed organizational change meets statutory requirements for the IRS to be a taxpayer-focused organization.

Recommendation

Recommendation 1: The Commissioner should ensure that all future organizational structure changes for offices reporting directly to a Deputy Commissioner or the Commissioner have a documented business case. In addition, the Commissioner should also ensure that organizational realignments between operating divisions maintain the “taxpayer with similar characteristics” focus mandated by the RRA 98.

Management’s Response: Management agreed with this recommendation. The Deputy Commissioner for Services and Enforcement will ensure that extensive organizational changes that move the agency away from a customer-centric model have a documented business case prior to making the changes.

The potential of the Oversight Board is not fully realized with the suspension of operations in April 2015

Within large organizations, a Board of Directors may share responsibility for effective governance. Its members serve as the link between stakeholders and the organization’s executive management team. The Commission’s proposal to establish a Board of Directors did not have universal support. Former IRS Commissioners stated that a Board of Directors would

¹⁷ Department of the Treasury, TD 21-01 (revised), *Organizational Changes* (Feb. 2012).



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

confuse lines of authority, create conflicts of interest, and diffuse accountability.¹⁸ Additionally, opponents argued that a Board of Directors was not suitable for the public sector. In fact, an amendment¹⁹ offered in the Senate sought to have the Board of Directors terminated after 10 years. However, Congress did not adopt the sunset amendment.

The Board began its operations in September 2000 and is responsible for reviewing and approving strategic plans,²⁰ major reorganization plans, and annual budget requests.²¹ Further, the Board reviews the selection, evaluation, and compensation of 18 IRS senior executives. Annually, the Board is required to report to Congress the IRS's progress in meeting its overall objectives and the electronic filing mandate.²²

Board vacancies have existed almost since operations began. At least one Board vacancy has existed since December 2001, and six of the seven memberships reserved for private sector individuals are currently vacant. The Board has been without a quorum²³ since November 2013 and consequently suspended operations in April 2015. TIGTA previously reported that membership vacancies make it difficult for the Board to accomplish its responsibilities and limits the collective experience that private sector members can offer.²⁴ Figure 3 illustrates the progression of membership vacancies on the Board.

¹⁸ National Commission on Restructuring the Internal Revenue Service, *A Vision for a New IRS* (June 25, 1997).

¹⁹ S. Rep. No. 105-174. The Conference agreement did not include the provision for termination of the Board.

²⁰ This includes the establishment of mission and objectives, standards of performance, and annual and long-range plans.

²¹ See Appendix V for a comparison between the responsibilities of the Oversight Board and the Internal Revenue Service Advisory Committee.

²² Pub. L. No. 105-206, Title II, § 2001, 112 Stat. 685 (July 22, 1998).

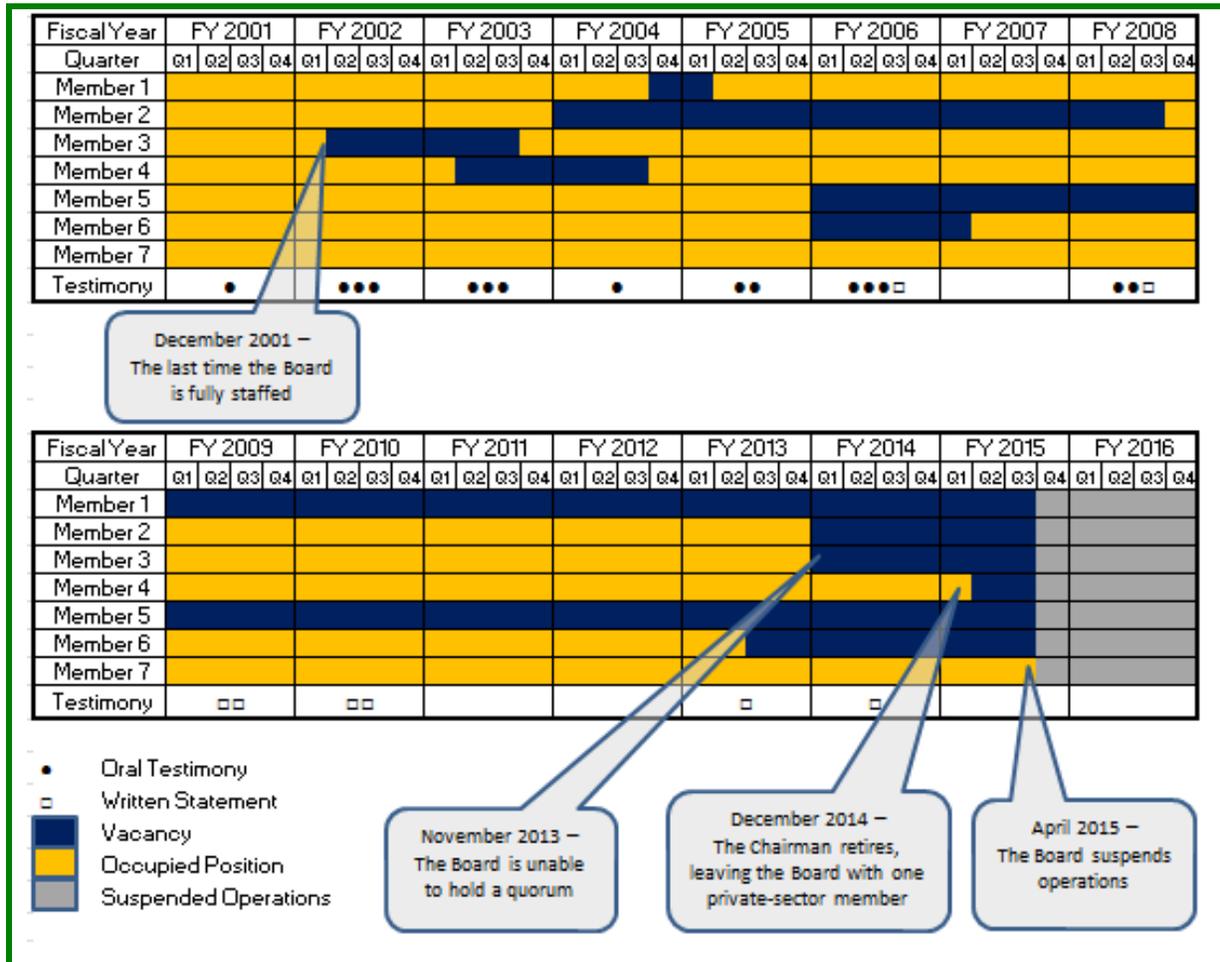
²³ A quorum is the minimum number of members of an assembly or society that must be present at any of its meetings to make the proceedings of that meeting valid. In the context of the IRS Oversight Board, five members would constitute a quorum.

²⁴ TIGTA, Ref No. 2004-10-193, *The Oversight Board Has Achieved Much of Its Original Intent, but There Are Opportunities for Increased Effectiveness* (Sept. 2004).



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Figure 3: Oversight Board Private Sector Membership and Congressional Testimony



Source: TIGTA analysis of IRS documents.

The vacancies exist for a number of potential reasons. First, the Board may not be the strategic priority it was when the RRA 98 became law. For example, since Fiscal Year (FY)²⁵ 2009, the Board has not testified before Congress. Yet, between FYs 2001 and 2008, the Board provided 15 oral testimonies. Additionally, since August 2010, there have only been two Board nominees forwarded to fill vacancies. In its annual report to Congress, the Board encouraged the Administration to address existing vacancies.²⁶

²⁵ Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government’s fiscal year begins on October 1 and ends on September 30.

²⁶ IRS Oversight Board 2013 Annual Report to Congress, p. 5.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Evaluation and conclusion:

The IRS substantially changed its organizational design, governance, mission, and performance measures to comply with the RRA 98. However, the conceptual framework of IRS governance enhancements and organizational design principles has changed since initial implementation. For example, several major organizational changes were completed without a business case as required by the Department of the Treasury and without required Oversight Board approval. Finally, the Oversight Board suspended operations in April 2015.

The IRS Made Significant Progress in Increasing Electronic Filing Participation Rates; However, RRA 1998 Goals Have Not Been Achieved

The Commission reported that electronic filing (hereafter referred to as e-filing) holds great potential to increase cost savings and compliance with only a small investment. The IRS previously promoted e-filing in 1993 by establishing a goal of 80 million tax returns by CY 2001. However, by CY 1998, only 24.6 million returns were e-filed. The Commission determined that the IRS had not developed a comprehensive strategy to meet the CY 2001 goal and recommended the use of incentives, technology, and a marketing plan to increase e-filing participation rates.

The RRA 98 goal to have 80 percent of tax and information returns e-filed by CY 2007 was not substantially achieved. The Electronic Tax Administration Advisory Committee²⁷ (ETAAC) reported that the IRS achieved an 80 percent e-filing rate for individual income tax returns in CY 2012.²⁸ However, the IRS continues to fall short of the 80 percent goal for all major returns. In CY 2014, taxpayers filed 75 percent of all major tax returns electronically. While the e-filing participation rates are encouraging, the ETAAC concluded that it will be challenging to meet the overall 80 percent e-filing goal without an increase in employment tax return participation rates.²⁹

²⁷ The RRA 98 created the ETAAC to monitor and provide input into the IRS's efforts at meeting the electronic tax administration goals. The RRA 98 requires that the ETAAC and the IRS Oversight Board report annually on these efforts. Since its inception, the ETAAC has developed over 100 recommendations to improve electronic tax administration. The IRS has either fully or partially implemented over 50 of these recommendations.

²⁸ ETAAC, *2013 Annual Report to Congress*, p. 4.

²⁹ ETAAC, *2012 Annual Report to Congress*, p. 7.



*Several Changes Sought by the Internal Revenue Service
Restructuring and Reform Act of 1998 Remain a Challenge*

Additional efforts focused on business e-filing participation are needed to achieve electronic tax administration goals

Employment tax returns are the second most frequently filed return after individual tax returns. However, in CY 2013, business taxpayers e-filed employment tax returns³⁰ at a 30 percent rate, whereas individuals e-filed over 83 percent of their returns.

Some actions may increase business e-file rates. In September 2014, TIGTA reported that the IRS expanded its business e-filing returns processing system to accept additional types of business returns.³¹ In addition, overall business e-filing strategy development efforts were centralized to promote a consistent strategy between the operating divisions. The TIGTA report recommended potential actions to assist in increasing business e-filing participation rates. First, TIGTA recommended that the IRS work with the Department of the Treasury to implement e-filing mandates for business return preparers. As Figure 4 illustrates, e-filing mandates³² for business returns have been successful. Currently, individual return preparers must e-file if they prepare 11 or more returns. The report stated that a similar business e-filing mandate could increase e-filing participation by 24 percent and reduce annual returns processing costs by nearly \$17 million.

³⁰ Employment tax returns include Form 940, *Employer's ANNUAL Federal Unemployment Tax Return*; Form 941, *Employer's QUARTERLY Federal Tax Return*; Form 943, *Employer's ANNUAL Federal Tax Return for Agricultural Employees*; Form 944, *Employer's ANNUAL Federal Tax Return*; and Form 945, *ANNUAL Return of Withheld Federal Tax Income*.

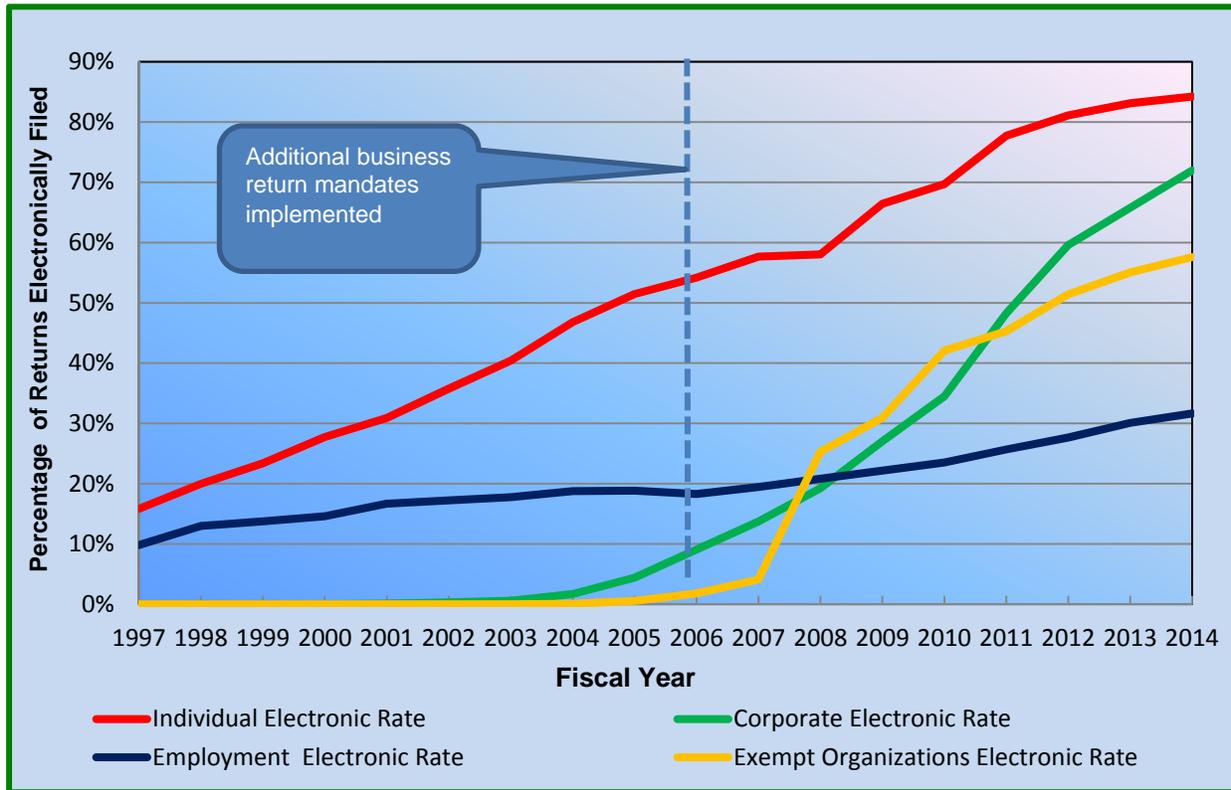
³¹ TIGTA, Ref. No. 2014-40-084, *A Service-Wide Strategy Is Needed to Increase Business Tax Return Electronic Filing* (Sept. 2014).

³² Beginning in CY 2006, Congress and the Department of the Treasury implemented e-filing mandates on corporations and exempt organizations. For example, this included tax return preparers who file at least 250 tax returns annually of Forms 1120, *U.S. Corporation Income Tax Return*, for corporations with assets of \$50 million or more or Forms 990/990-PF, *Return of Organization Exempt From Income Tax*, for organizations with assets of \$100 million or more. In CY 2007, the threshold was lowered to assets of \$10 million or more and 250 returns filed annually for filers of both forms.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Figure 4: Electronic Filing Rates of Major Return Types



Source: IRS Publication 6186, *Calendar Year Return Projections for the United States and IRS Campuses*, Table 2; FY 2014 figures are IRS estimates.

The next potential source for increased business e-filing is leveraging the tax payment system used by businesses. The Electronic Federal Tax Payment System (EFTPS) is a free tax payment service used primarily by businesses to make electronic tax payments. The EFTPS collects over 95 percent of all employment tax payments. The system is also capable of increasing electronic filing. Beginning in November 2009, 185 Federal agencies were eligible to use the EFTPS to file employment tax returns and make tax payments. Currently, this capability is not available to either Federal agencies or private sector employment tax return filers.³³ Finally, TIGTA recommended that the IRS develop processes to make the employment tax electronic signature less cumbersome.

³³ The IRS disagreed with the recommendation to open the EFTPS for e-filing of employment tax returns but was unsure why the Federal agency EFTPS e-filing capability was discontinued in January 2011.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Our analysis showed that another potential method to increase the e-filing rates is to eliminate the need to file quarterly employment tax returns, but barriers do exist.³⁴ In CY 2006, the IRS introduced Form 944 to reduce burden for small employers and improve filing and payment compliance. The form allows small business taxpayers to file and pay annually if their estimated annual employment tax liability is \$1,000 or less.³⁵ However, small business taxpayers have not adopted this filing opportunity. Instead, the number of Forms 944 filed decreased 69 percent from 440,600 returns in CY 2008 to 136,440 returns in CY 2013. In our opinion, the current Form 944 dollar limitation will significantly limit the number of quarterly returns that can be eliminated.

Evaluation and conclusion:

The IRS made significant progress towards reaching the 80 percent e-filing participation rate. However, in order to reach the 80 percent goal, there needs to be greater business taxpayer participation in employment tax return e-filing. Proven methods such as mandates to increase e-filing participation rates, coupled with providing an EFTPS-type technology, could assist in reaching the goal.

Taxpayer Access to Accounts Has Improved; However, Online Personal Accounts Are Likely Still Years Away

The Commission recommended that the IRS operate more like modern financial institutions by offering personal online accounts. The RRA 98 required the IRS to develop an online account for taxpayers and their designees who filed electronically by the end of CY 2006. The IRS did not achieve this goal.

Instead of offering a comprehensive personal online account, the IRS website primarily consists of static web pages.³⁶ In addition, the IRS offers limited interactive tools. A list of the tools primarily available only to individuals is included on the IRS “Tools” web page as shown in Figure 5.

³⁴ Our analysis showed that even if the Form 944 threshold was raised from \$1,000 to \$2,500, taxpayers might continue to file on paper. Data from Tax Year 2013 tax periods showed a 20 percent e-filing rate for quarterly filed Forms 941 with an annual tax liability of \$2,500 or less. For perspective, the overall Form 941 e-filing rate is 35 percent. However, annual filing would eliminate three paper quarterly returns per taxpayer, potentially reducing over one million returns. Consequently, this potentially increases e-filing rates while reducing taxpayer burden and IRS submission processing costs.

³⁵ The threshold was initially \$2,500; however, prior to implementing the program in CY 2006, the IRS reduced the threshold to \$1,000. This decision was related to the Department of the Treasury’s concern about small businesses falling behind in payments and the timeliness of classifying employment tax payments. However, research showed that filing annually instead of quarterly had no impact on payment compliance.

³⁶ On May 26, 2015, the IRS announced that criminals used taxpayer-specific data acquired from non-IRS sources to gain unauthorized access to information on approximately 100,000 tax accounts through the IRS’s “Get Transcript” application. This data included Social Security information, date of birth, and street address.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Figure 5: The IRS “Tools” Web Page

Tools

Filing and paying your taxes should be as convenient as possible. That's why the IRS provides you with many helpful tools, including the following featured interactive forms, calculators and tools.

<u>Free File</u> Prepare and file your federal income taxes online—it's easy and it's free!	<u>IRS Withholding Calculator</u> Estimate the amount that should be withheld from your paycheck for federal income tax purposes.
<u>Get Transcript for My Tax Records</u> View your transcript online and print immediately.	<u>Electronic Filing PIN Request</u> Get your Electronic Filing PIN, a one-time code used to verify your identity when you submit your tax return electronically.
<u>Where's My Refund?</u> Check the status of your refund online within 24 hours after we have received your e-filed return or 4 weeks after you mail a paper return	<u>Online Employer Identification Number (EIN)</u> Get your EIN within minutes without picking up the phone or mailing/faxing a paper Form SS-4.
<u>Where's My Amended Return?</u> Track the status of your amended return after it has been filed.	<u>Direct Pay (for individuals)</u> Pay from your bank account within a free, secure session.
<u>Directory of Tax Return Preparers</u> Find preparers in your area who hold professional credentials recognized by the IRS.	<u>IRS2Go Mobile App</u> Use the IRS's official smartphone app to check your refund status, sign up for helpful tax tips and more.
<u>Online Payment Agreement</u> Determine if you're eligible and apply for an online payment agreement if you have a tax liability you can't completely pay today.	<u>Electronic Federal Tax Payment System</u> Pay your federal taxes on-line or by phone through EFTPS, a free tax payment system.

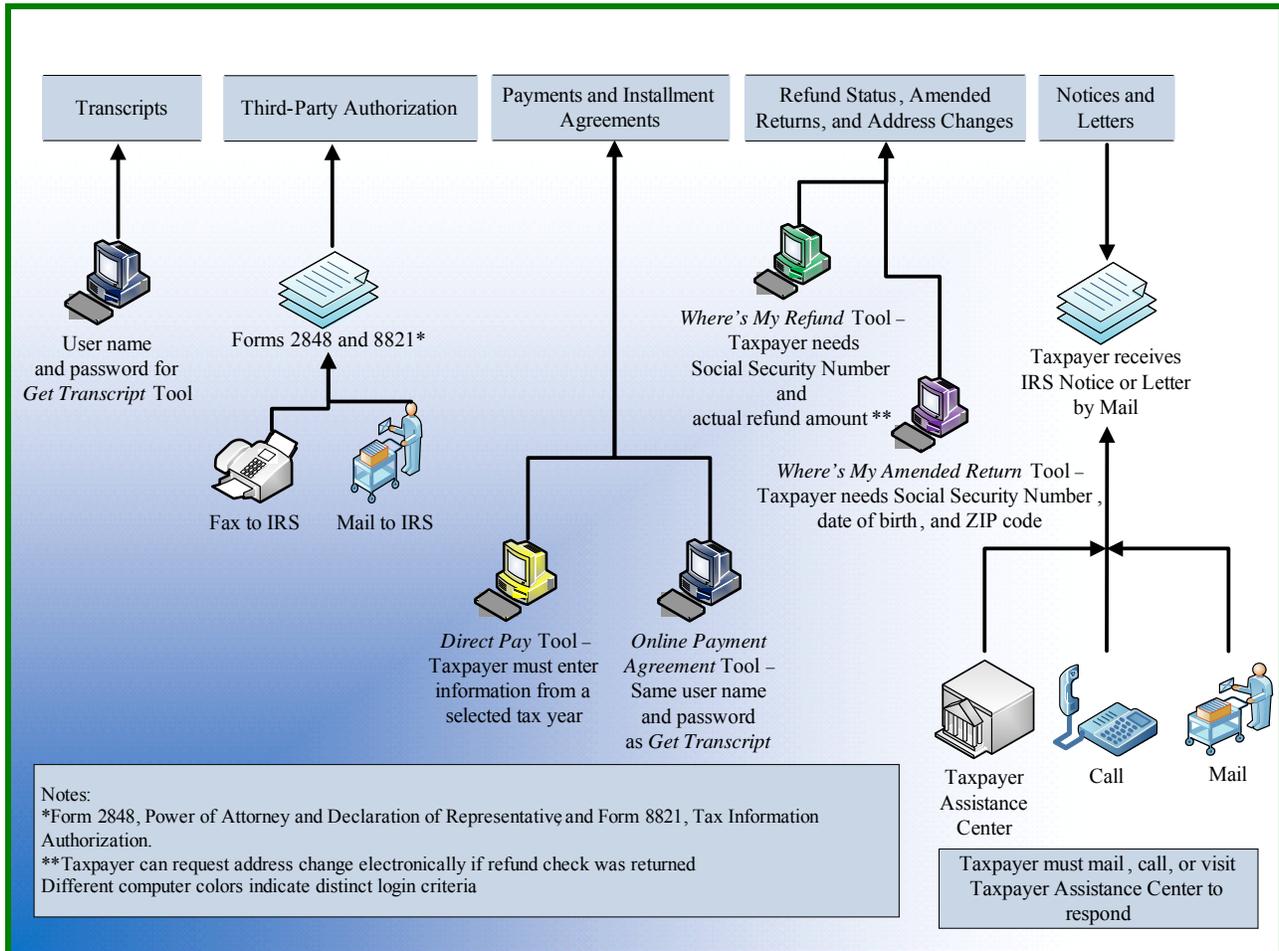
Source: TIGTA screen capture of the IRS Tools web page, last visited May 18, 2015.

In general, the tools function independently and each requires the taxpayer to create a user name and password or enter information from prior year tax returns for access. Figure 6 illustrates a taxpayer's online experience with IRS tools.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Figure 6: Examples of How Taxpayer Access to Account Resources Differ Depending on the Application



Source: TIGTA analysis of IRS online tools.

In contrast to other revenue agency tools, the IRS online tools are less integrated. For example, the New York State Department of Taxation and Finance combines similar taxpayer access into a single account. The taxpayers have a comprehensive overview of their account, can receive and respond to messages, make payments, view their returns, and edit their personal information. Figure 7 illustrates the New York State Department of Taxation and Finance personal account.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Figure 7: The New York Department of Taxation and Finance Online Account

Account Summary Home: Click here to refresh your page and display the original information.

Taxpayer Identification Number: Account information displayed below is for the ID and name shown.

My Account / Account Preferences: Expand these menus to add or edit your personal information.

Services: Expand each menu to view the services available by category.

Periods on file: Click the Filing Period button to view filings and payments for a particular tax year.

E-Spots: Look here to see upcoming events, due dates, etc.

Help: Click to expand and view 'how to' demonstrations, find contact information, etc.

Account messages: Messages include filing due date reminders, account updates, personal income tax refund payments, bills, and related notices.

Bills: View tax assessments here. Use links to pay the bill or to 'Respond' to a notice.

Filings: View your recently filed returns. Click on the Form link to view an e-filed return image.

Payments: View payments and prepayments by filing period. See the payment type, transaction date, confirmation number, status and amount.

Other information:

Date	Message description	Sent to
01/18/2012	Now available: New York State Tax Department personal income tax account email notifications	user@domain.com

Assessment ID	Tax type	Filing period end date	Original bill date	Current balance (\$)
L-00059938-4	Personal Income	12/31/2006	05/09/2008	2,667.69

Periods on file:
12/31/2013 12/31/2012 12/31/2011 12/31/2010 12/31/2008

Form	Filing period end date	Confirmation number	Filing method
IT-370	12/31/2012	PT130000161	Paper

Payment type	Transaction date	Confirmation number	Status	Original amount (\$)	Current amount (\$)
Return Payment (IT-201V)	04/14/2013	PT130000153	POSTED	250.00	250.00
Return Payment (IT-201V)	02/14/2013	PT130000072	DISHONORED	250.00	0.00
Estimated Payment (IT-201V)	12/12/2012	RPPE1212120064992	SCHEDULED FOR 12/14/2013	3,686.00	0.00
Total (\$):				250.00	

Source: TIGTA screen capture of the New York State Department of Taxation and Finance web page.

Previously, the IRS attempted to develop personal online account capabilities. The *My IRS Account* function would have allowed taxpayers to access account information. However, the IRS terminated the project in December 2008 for strategic reasons.³⁷

In CY 2014, the ETAAC recommended a personalized online account for taxpayers and tax professionals.³⁸ The ETAAC envisions that taxpayers will have the capability to view and manage all account information, have integrated service and compliance tools, and authorize a designee from within one account. A similar account for tax professionals would allow direct electronic communication with the IRS.

³⁷ The IRS had not developed an enterprise-wide authentication strategy to ensure the security of online interactions. TIGTA, Ref. No. 2009-20-102, *Changing Strategies Led to the Termination of the My IRS Account Project* (Aug. 2009).

³⁸ ETAAC, *2014 Annual Report to Congress*, p. 8.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

The IRS began development of a new approach to online personal accounts in November 2013. The Service on Demand initiative is a five-year customer service strategy that includes individual online account capabilities. However, there are technical obstacles to overcome before taxpayers can self-serve. The Service on Demand initiative does not contain plans to provide a comprehensive online account for business taxpayers.³⁹

In January 2015, the Services and Enforcement Executive Steering Committee approved three foundational projects⁴⁰ to address the technical obstacles faced by the Service on Demand initiative; however, the IRS has not allocated funds to build the initiative. While the future remains unclear, a conceptual framework exists to provide individual taxpayers with dynamic online account access. Additional information on the Service on Demand initiative is provided on page 28 of this report.

The IRS decision to eliminate some electronic tax administration resources for tax practitioners creates additional burden

The Customer Service Executive Steering Committee⁴¹ discontinued two return preparer online self-service tools because the number of users could not justify the costs. In August 2013, the IRS discontinued the Disclosure Authorization and Electronic Account Resolution applications. The Disclosure Authorization application allowed registered preparers to file a Form 2848, *Power of Attorney and Declaration of Representative*, or Form 8821, *Tax Information Authorization*, electronically rather than mailing or faxing the form. The Electronic Account Resolution application allowed authorized designees to electronically send and receive account inquiries to resolve issues on their clients' behalf.

Figure 8 shows that demand for the Disclosure Authorization application increased prior to its discontinuation. In fact, since FY 2008, electronic Disclosure Authorization application usage tripled.

³⁹ IRS management indicated that providing authentication for business taxpayers is more complicated than for individual taxpayers because businesses can be represented by multiple individuals. At this time, the IRS is unable to determine who is authorized to act on behalf of the company.

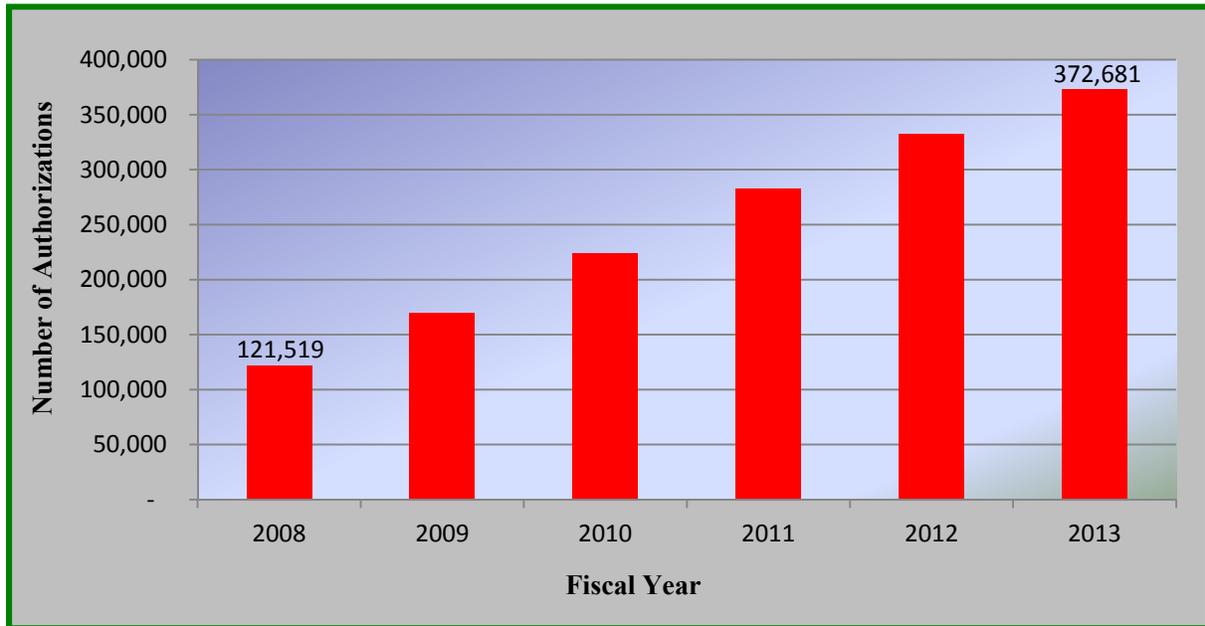
⁴⁰ For more information on the foundational projects, see Appendix VI.

⁴¹ The Customer Service Executive Steering Committee co-chairpersons are the Business Modernization Office Executive in the Wage and Investment Division and the Director, Customer Service Domain, in the Information Technology organization.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Figure 8: Electronic Disclosure Authorizations



Source: IRS Data Book, Table 19.

Without self-service tools, tax practitioners must revert to filing authorization forms by paper or fax. Currently, the goal for IRS employees to manually input authorization forms is within five business days of receipt. Therefore, tax practitioners must wait to receive confirmation before a request is processed. Further, without the Electronic Account Resolution application, tax practitioners must contact the IRS in writing or by phone to resolve account issues.

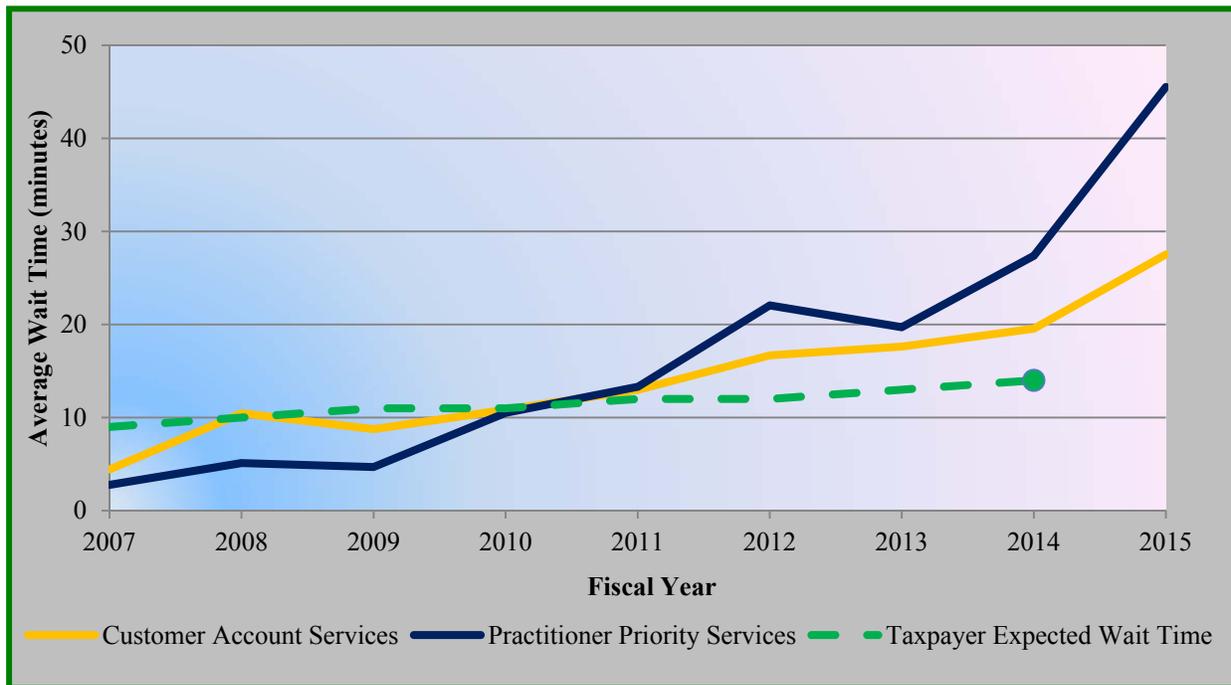
Yet contacting the IRS has become increasingly more difficult. For example, tax practitioners can call the Practitioner Priority Service toll-free number to resolve account issues. However, telephone wait times⁴² on the Practitioner Priority Service line more than doubled from 20 to 46 minutes after the discontinuation of self-service tools. In contrast, wait times for all other types of customer accounts increased 56 percent to 28 minutes.

⁴² The IRS Joint Operations Center monitors and tracks the toll-free call center data. The telephone wait time information is taken from the IRS Average Speed of Answer (tracked in seconds) and converted to minutes of wait time.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Figure 9: Selected Telephone Wait Times



Source: Joint Operations Center Executive Level Summary Reports, FYs 2007–2015 (data through April 22, 2015) and IRS Oversight Board 2014 Taxpayer Attitude Survey (last conducted in CY 2014).

Consequently, the National Taxpayer Advocate (NTA) considered the discontinuation of the Disclosure Authorization and Electronic Account Resolution applications to be a *Most Serious Problem* that conflicts with strategic initiatives to increase online self-service options.⁴³ Likewise, external stakeholders⁴⁴ expressed their dissatisfaction about the decision to discontinue the service.

Evaluation and conclusion:

Since the RRA 98, the IRS made some progress in developing online tools for taxpayers; however, the personal online account has yet to be deployed. The inability to provide personal online self-service accounts results in additional taxpayer burden and the use of scarce IRS resources. However, until enterprise-wide electronic authentication is implemented, online personal accounts cannot be implemented. Extra caution needs to be given to authentication methods given recent Government data breaches. In addition, the decision to discontinue online services developed for the tax practitioner community is contrary to the strategic initiatives. In

⁴³ IRS, *NTA 2013 Annual to Report Congress*, p. 188.

⁴⁴ *Letter to Principal Deputy Commissioner Werfel* (July 15, 2013), Jeffrey A. Porter, CPA, American Institute of Certified Public Accounts, and *Letter to Commissioner Koskinen* (September 18, 2014), Lonnie Gary, Enrolled Agent, National Association of Enrolled Agents.



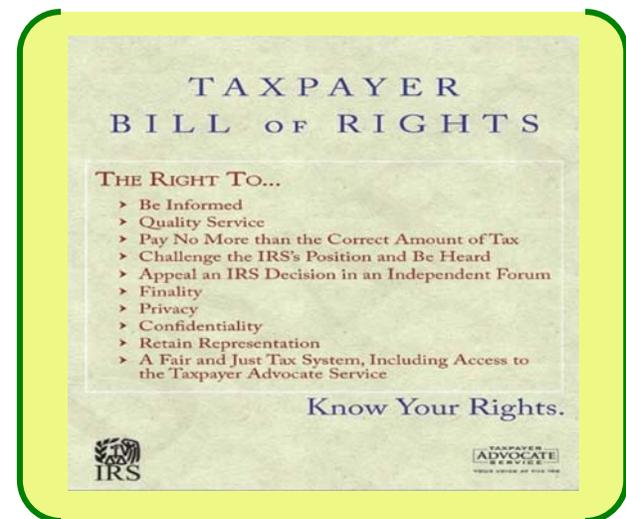
Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

summary, the IRS still has not provided taxpayers with the online self-service account features made available by modern financial institutions and some revenue departments.

Taxpayer Rights Awareness Has Substantially Improved Since the RRA 1998

The Commission found that the IRS needed to focus more attention on taxpayer rights. Previous legislation provided by the Omnibus Taxpayer Bill of Rights⁴⁵ together with the Taxpayer Bill of Rights II⁴⁶ introduced important changes for taxpayers' engagements with the IRS. The RRA 98 expanded several important taxpayer protections. Additional protections included strengthening the role of the NTA, providing innocent spouse relief,⁴⁷ streamlining the installment agreement⁴⁸ (IA) application process, and expanding criteria for offers in compromise (OIC).⁴⁹ In addition, the RRA 98 added new taxpayer rights related to enforcement actions such as liens, levies and seizures. In total, the IRS implemented 71 RRA 98 taxpayer protections and rights into practice.

We previously concluded that the IRS substantially implemented the taxpayer rights provisions.⁵⁰ However, in CY 2013 the NTA determined that many taxpayer rights were difficult to find and not presented in a succinct, easy to understand format.⁵¹ In June 2014, the IRS introduced the Taxpayer Bill of Rights document. While the document does not create new protections, it concisely highlights and clearly states taxpayer rights. The IRS updated Publication 1, *Your Rights As a Taxpayer*, to include the new language. A more detailed analysis of trends in taxpayers' rights is included in Appendix VII.



⁴⁵ Pub. L. No. 100-647, 102 Stat. 3730 (1988) (codified as amended in scattered sections of 5 U.S.C. and 26 U.S.C.).

⁴⁶ Pub. L. No. 104-168, 110 Stat. 1452 (1996) (codified as amended in scattered sections of 26 U.S.C.).

⁴⁷ A taxpayer can be relieved of responsibility for paying tax, interest, and penalties if his or her spouse (or former spouse) improperly reported items or omitted items on their joint tax return.

⁴⁸ An arrangement in which a taxpayer agrees to pay his/her tax liability over time.

⁴⁹ An agreement between a taxpayer and the IRS that settles a tax liability for payment of less than the full amount owed.

⁵⁰ TIGTA, Ref. No. 2010-IE-R002, *The Internal Revenue Service Restructuring and Reform Act of 1998 Was Substantially Implemented but Challenges Remain* (March 2010).

⁵¹ IRS, *NTA 2013 Annual Report to Congress*, p. 5.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Evaluation and conclusion:

The IRS substantially implemented taxpayer rights and protections into practices and procedures. Further actions were taken to better communicate the rights by creating the Taxpayer Bill of Rights document.

Human Capital Is a Continuing and Growing Challenge

The Commission identified many concerns with the IRS workforce and culture. Some concerns related to budget and salary structure constraints are outside of the control of the IRS. Other concerns focused on employees lacking basic tools like office equipment, not having research materials available, and not receiving training. The Commission also identified concerns with the ability to recruit and attract skilled employees,⁵² a risk-adverse culture, and stovepipe operations. Finally, the Commission found employee frustration with the internal measures and the criteria for performance evaluations. In summary, virtually all aspects of human capital management required change.

Training continues to be postponed or cancelled due to budget constraints

The Commission concluded that taxpayers should engage with well-trained IRS employees who possess the tools and skills to perform their jobs effectively. When budget shortfalls occurred, the IRS often postponed or cancelled employee training. For instance, during the 1990s, training dollars for examination employees were diverted to meet other budget requirements. The Commission determined that these short-term solutions resulted in long-term irreparable damage to tax administration. Instead, the Commission stated that employee training should be equal to the priority and attention afforded to the filing season.

Subsequently, the IRS trained about 50,000 employees within the first year of the RRA 98 implementation. The IRS continued the training focus in the *IRS Strategic Plan 2005–2009*. However, between FY 2010 and FY 2013, the total training budget decreased nine fold from \$181.4 million⁵³ to \$21 million. Within the enforcement functions, the reduction was 95 percent. Out of concern, the NTA's 2013 *Annual Report to Congress* rated employee training as one of

⁵² The RRA 98 gave the IRS Streamlined Critical Pay Authority for additional personnel flexibilities. The authority was for 10 years and extended for two occasions that expired September 30, 2013. For more information, please see TIGTA, Ref. No. 2015-IE-R001, *The Internal Revenue Service's Use of Its Streamlined Critical Pay Authority* (Dec. 2014).

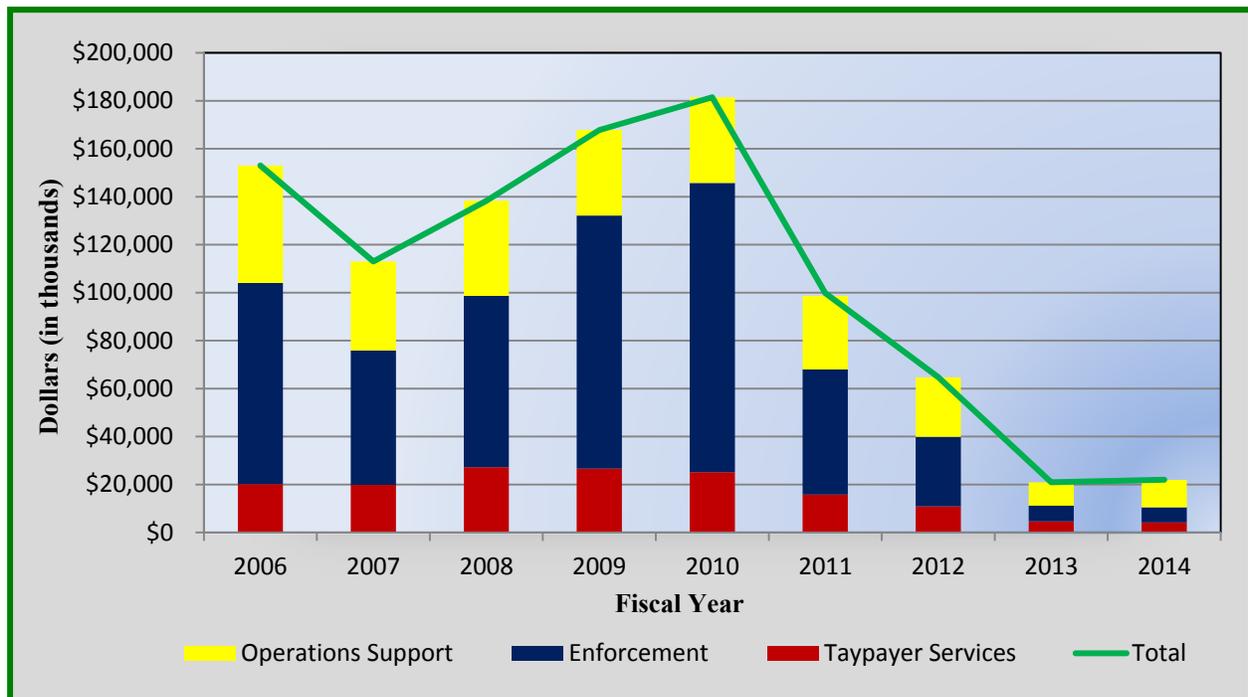
⁵³ Problems identified by Inspectors General related to Federal conference spending caused reductions in overall training expenditures. TIGTA, Ref. No. 2013-10-037, *Review of the August 2010 Small Business/Self-Employed Division Conference in Anaheim, California* (May 2013). Office of Management and Budget Memorandum 11-35, *Eliminating Excess Conference Spending and Promoting Efficiency in Government* (Sept. 2011), and Office of Management and Budget Memorandum 12-12, *Promoting Efficient Spending to Support Agency Operations* (May 2012), along with Government discretionary budget reductions have contributed to reduced training budgets.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

“the most significant issues facing taxpayers and the IRS today.”⁵⁴ The NTA found that Small Business/Self-Employed Division revenue officers⁵⁵ experienced the largest cuts. Between FY 2009 and FY 2013, annual revenue officers’ training hours decreased from 700,000 to 76,000.

Figure 10: IRS Training Budget



Source: IRS Chief Financial Officer (data through July 2014). Adjusted for inflation.

Substantial reductions in training are contrary to actions taken by the private sector. Training provided to private sector employees increased the past four years to over \$70 billion in FY 2013, a 15 percent increase since FY 2012.⁵⁶ Conversely, the IRS increased its reliance on self-administered virtual training as a lower-cost alternative. However, the NTA stated that IRS employees are better suited for instructor-based training in a classroom environment.

⁵⁴ IRS, *NTA 2013 Annual Report to Congress*, p. 40.

⁵⁵ Revenue officers are employees in the Collection Field function who attempt to contact taxpayers and resolve collection matters that have not been resolved through notices sent by the IRS campuses or the Automated Collection System.

⁵⁶ Forbes, *Spending on Corporate Training Soars: Employee Capabilities Now A Priority*, <http://www.forbes.com/sites/joshbersin/2014/02/04/the-recovery-arrives-corporate-training-spend-skyrockets/2/> (last visited February 4, 2014)



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

An aging and shrinking workforce has longer term implications for tax administration

The Commission was concerned as to whether the IRS could recruit and attract a skilled workforce that is able to work with taxpayers to solve problems. Presently, there is concern as to whether the IRS workforce will be sufficiently capable of carrying out its tax administration responsibilities. In April 2015, the IRS Commissioner stated⁵⁷ that the combinations of an aging workforce with extremely limited opportunities to recruit, hire, and train employees is a concern to several stakeholder groups. The Commissioner stated:

The current composition of the IRS workforce also presents a challenge. The problem is simple. Our workforce is maturing at a rapid rate. In fact, the portion of our workforce over 50 years of age has been growing steadily during the last several years...

Today more than half of our employees are in that age group. And we estimate that by next year, more than 25 percent of the IRS workforce will be eligible to retire. By 2019, that number will be over 40 percent. Meanwhile, the number of IRS employees under 30 has been steadily declining, and is now less than 3 percent of our workforce.

IRS budget reductions have reduced funding to FY 1997 levels

Beginning in FY 1996, the IRS experienced budget uncertainty after years of steady increases. Much of this uncertainty was a result of Congress losing confidence in the IRS's ability to accomplish strategic initiatives. The Commission recommended that Congress provide more budget stability to the IRS. This recommendation depended on the IRS's ability to demonstrate fiscal accountability. Further, the Commission stated that if the IRS could regain the confidence of Congress and taxpayers, then budget increases should be considered.

After the RRA 98, the IRS budget consistently increased until FY 2010. Between FYs 2010 and 2015, the IRS budget decreased from \$12.1 billion to \$10.9 billion (10 percent).⁵⁸ The FY 2015 budget is equivalent to FY 1997 levels when adjusted for inflation. Consequently, enforcement actions and taxpayer service levels have declined. Appendix VIII contains further analysis of selected business performance measures and budget trends.

⁵⁷ IRS, *Prepared Remarks of Commissioner John A. Koskinen Before the Tax Policy Center* (April 8, 2015).

⁵⁸ Adjusting for inflation, the budget has decreased 17 percent since the FY 2010 peak.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

As a result, stakeholders are concerned about the IRS's ability to fulfill its mission. In its *2013 Annual Report to Congress*, the NTA considered the IRS budget to be one of "the most significant issues facing taxpayers and the IRS today."⁵⁹ Additionally, the IRS Oversight Board expressed concern about the effect of a reduced budget on the IRS's ability to meet long-term strategic goals and initiatives.⁶⁰

Budget reductions resulted in several important changes to IRS operations. First, the IRS has relied on employee attrition⁶¹ and furloughs to accomplish budget reductions because labor costs represent 75 percent of the budget. Between FY 1998 and FY 2014, the number of employee positions decreased by nearly 14,000 (14 percent), with the majority of the reductions (approximately 10,500) occurring since FY 2010. Unfortunately, attrition was unrelated to a particular function's strategic importance. Second, despite reductions in staff and furloughs, the IRS needed additional cuts and used other short-term solutions. This included the elimination of taxpayer service options and reductions in training, travel, and office space. Finally, the IRS delayed work on information technology projects.

These solutions, however, may have long-term consequences to operations given recent workload increases. For example, legislative mandates⁶² and emerging issues such as identity theft created new workloads. Between FY 2011 and FY 2014, there was a 307 percent increase in full-time equivalents⁶³ working refund fraud cases resulting from identity theft. In FY 2014, the IRS assigned 9 percent of its full-time equivalents to work cases resulting from legislative mandates and emerging issues.

In this context, the budget reductions potentially affect Federal revenue collections. To determine the potential effect that the budget reductions had on enforcement revenue,⁶⁴ we used FY 2010 as a baseline. We assumed a budget increase by the yearly inflation rate between FYs 2011 and 2014. Then, we applied a multiplier of 4.6 times⁶⁵ to the hypothetical total budget to compute the hypothetical enforcement revenue. Our analysis indicates that an additional \$22 billion in revenue could have been collected. Accounting for the offsetting increase in the

⁵⁹ IRS, *NTA 2013 Annual Report to Congress*, p. 20.

⁶⁰ IRS Oversight Board, *FY 2015 IRS Budget Recommendation Special Report*, p. 5.

⁶¹ Attrition is a reduction in the number of employees that occurs when people leave because they resign, retire, *etc.*, and are not replaced.

⁶² The Patient Protection and Affordable Care Act, Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered sections of the U.S. Code), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029, and the Hiring Incentives to Restore Employment Act, Pub. L. No. 111-147, Title V, 124 Stat. 71, 97-117 (March 2010).

⁶³ A measure of labor hours in which one full-time equivalent is equal to eight hours multiplied by the number of compensable days in a particular fiscal year.

⁶⁴ Any tax, penalty, or interest received from a taxpayer as a result of an IRS enforcement action (usually an examination or a collection action).

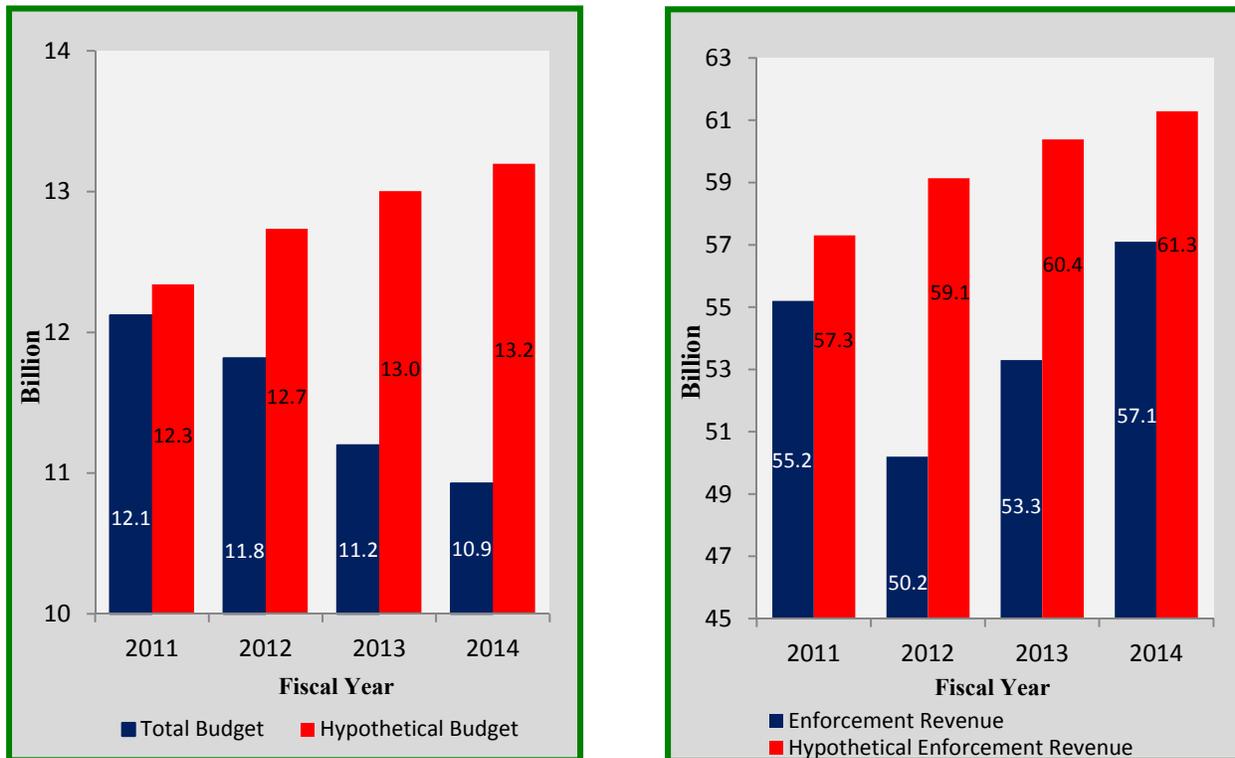
⁶⁵ The 4.6 multiplier is the average return on investment from enforcement actions between FYs 2003 and 2014.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

IRS budget, the net revenue to the Department of the Treasury would have been approximately \$17 billion.

Figure 11: IRS Budget Reductions' Potential Effect on Enforcement Revenue



Source: TIGTA analysis of IRS data.

Evaluation and conclusion:

The IRS challenges with human capital issues are of major concern to stakeholders. The concerns expressed by the Commission are amplified by the constraints placed on recruiting, hiring, and training a workforce to effectively serve tax professionals and taxpayers in the next several years.

Budget Reductions Have Led to Declines in Taxpayer Services

The Commission identified several areas in which the IRS needed to improve service to taxpayers. These areas included communicating through notices and correspondence, telephone calls, and electronic communications and increasing the commitment to training and education. The Commission stated that taxpayer service must become paramount at the IRS and that the IRS should only initiate contact with a taxpayer if it is prepared to devote the resources necessary for a proper and timely resolution of the matter.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

The correspondence over-age inventory can burden taxpayers and add to IRS costs

The Commission identified IRS notices as an area requiring improvements. The IRS had longstanding problems with the effectiveness of its written communications with taxpayers. The RRA 98 required that notices inform taxpayers in new ways, such as notifying taxpayers prior to the issuance of a lien or levy. In CY 2013, the IRS reported that it added 56 new and redesigned notices into production. As of August 2013, 181 notices were redesigned, representing 70 percent of the total volume. In fact, the IRS received a 2013 ClearMark Award of Distinction from the Center for Plain Language for the redesigned Computer Paragraph 2000 notice.⁶⁶ The Center credited the winning notice for its use of easy-to-find instructions, active voice, and clear, concise language.

Despite these accomplishments, there is concern as to whether taxpayers are effectively served when corresponding with the IRS. Annually, the IRS sends taxpayers over 200 million notices and letters. In return, the IRS receives approximately 20 million pieces of correspondence.⁶⁷ The volume is significant because the IRS does not have a workforce dedicated solely to processing correspondence. Instead, customer service representatives handle telephone calls and process correspondence. At the end of FY 2014, 51 percent of correspondence was over-aged.⁶⁸

Only 2 percent of correspondence was over-aged at the end of FY 2005. The timely processing of correspondence is important to overall customer service. Over-aged correspondence may result in the taxpayer resending correspondence or calling the toll-free lines for answers. More importantly, untimely taxpayer service can adversely affect taxpayer relations. For example, delays in account resolution can result in unnecessary enforcement actions such as automated liens and levies or delayed refunds to taxpayers.

The toll-free telephone level of service has degraded substantially

The Commission emphasized that the IRS must provide better telephone access for taxpayers. In most instances, telephones are the taxpayer's preferred contact method. Consequently, the IRS made technological modernization improvements such as using state-of-the-art workload scheduling, dynamic call routing, and establishing a call management center.

The IRS uses the Level of Service⁶⁹ to measure the relative success rate of taxpayers requesting to speak with a customer service representative. Subsequent to the RRA 98, the IRS improved overall telephone service to taxpayers. In FY 2004, 87 percent of taxpayers who called the IRS received assistance. For perspective, the Oversight Board considers a Level of Service of

⁶⁶ *Request for Verification of Unreported Income, Payments, or Credits.*

⁶⁷ Taxpayer correspondence includes written communication from a taxpayer or his or her representative and work internally generated by IRS employees.

⁶⁸ In general, the IRS considers correspondence "over-age" if the issue has not been resolved within 45 days.

⁶⁹ The Level of Service is defined as the percentage of callers seeking live assistance who receive it.

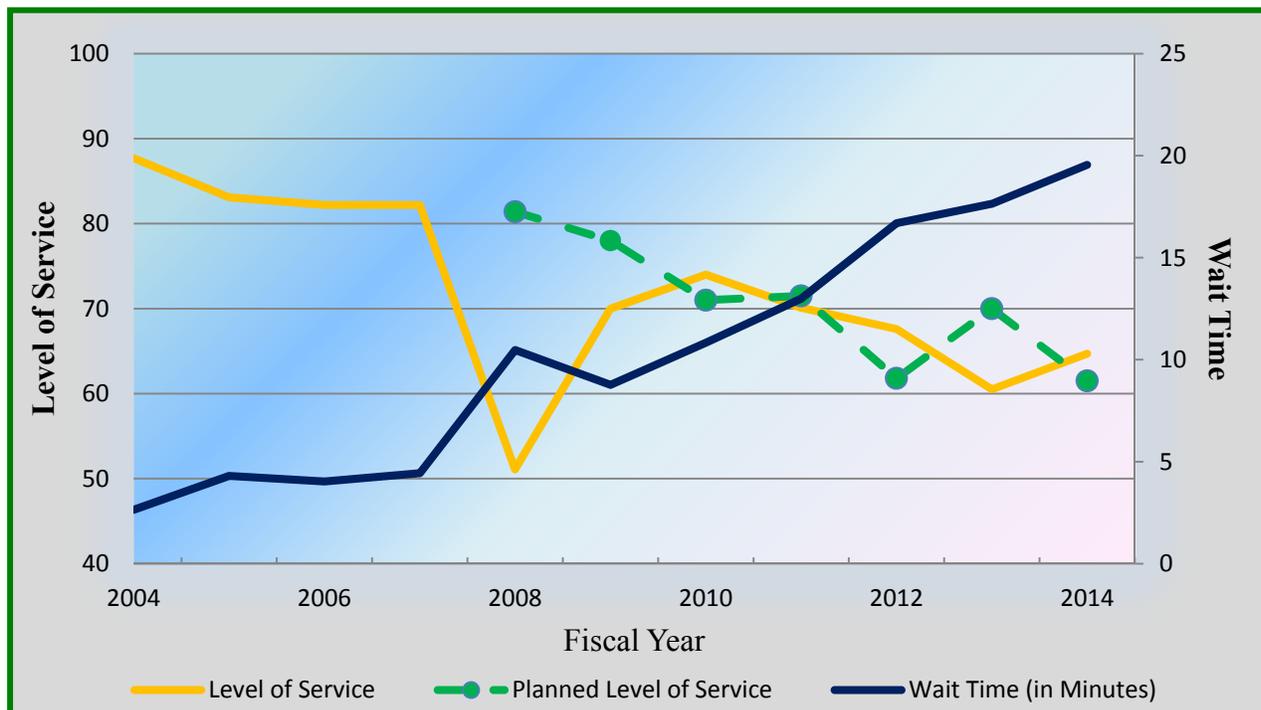


Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

80 percent acceptable. Because of budget constraints and increased demand, the IRS has averaged a Level of Service of 68 percent since FY 2009.⁷⁰ In turn, the average wait times for taxpayers calling the toll-free telephone lines have substantially increased.

In FY 2014, taxpayers experienced an average wait time of nearly 20 minutes, an increase of about 17 minutes (641 percent) since FY 2004 (see Figure 12). During the same period, the IRS experienced a 43 percent increase in toll-free call attempts. To meet this demand, the IRS increasingly relied on automated answering systems. As a result, total phone calls answered by customer service representatives fell 35 percent while calls answered by automation increased 90 percent.

Figure 12: IRS Telephone Service to Taxpayers



Source: TIGTA analysis of IRS data, *Joint Operations Center Executive Level Summary Report, FYs 2004–2014*.

To save resources, the IRS curtailed toll-free services by limiting the scope of the tax law questions answered by customer service representatives. During the filing season (January through mid-April), according to the IRS, it only answered questions considered “basic.” This includes questions pertaining to Forms 1040A, *U.S. Individual Income Tax Return*, 1040 EZ, *Income Tax Return for Single and Joint Filers With No Dependents*, and related items on

⁷⁰ The decrease in level of service during FY 2008 is primarily the result of the passage of the Economic Stimulus Act of 2008. The passage of this law resulted in an increase of approximately 113 million (135 percent) total dialed attempts over FY 2007.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Form 1040, *U.S. Individual Income Tax Return*, such as filing status, dependents, exemptions and taxable income. For complex tax law questions and questions occurring outside the filing season, the IRS refers taxpayers to resources available via the IRS website, publications, and tax software packages.

Taxpayer Assistance Centers (TAC) have curtailed service offerings

TACs are an important service option for some taxpayer groups. The TACs assist taxpayers by answering tax law questions, providing forms and publications, resolving inquiries on tax accounts, and accepting payments. Between FY 2003 and FY 2014, the number of TACs decreased from 421 to 383 (9 percent). In FY 2014, a number of services were eliminated or transitioned to the IRS website. For example, tax return preparation is no longer available at the TACs,⁷¹ and taxpayers requesting transcripts are referred to the online *Get Transcript* application.⁷²

To augment the services offered at TACs, in CY 2012 the IRS piloted the Virtual Service Delivery model with goals to enhance the use of IRS resources, optimize staffing, and balance workload. As of February 2014, Virtual Service Delivery capability is available at 22 TACs and eight Volunteer Program sites. Virtual Service Delivery lets taxpayers telecommunicate with customer service representatives when a location is understaffed or without available services. IRS surveys indicate that 87 percent of taxpayers were satisfied with the experience.

The Service on Demand initiative could potentially transform taxpayers' interactions with the IRS

Subsequent to the RRA 98, Congress requested that the IRS provide detailed plans for customer service. In response, the IRS developed the Taxpayer Assistance Blueprint. The Taxpayer Assistance Blueprint was a two-phased approach. Phase 1 included a study of the overall needs and preferences of individual taxpayers. Phase 2 included a five-year strategic plan to meet these needs and preferences based on Phase 1 findings. The Phase 2 strategy focused on a much broader use of the Internet for electronic interactions with taxpayers and practitioners. This is similar to what customers of large financial institutions expected.

The Taxpayer Assistance Blueprint ended in CY 2012. However, the IRS recognized a need to make further transformative improvements in tax administration. In November 2013, the IRS began developing a modernized customer service strategy. The Service on Demand initiative created a cross-functional group of executives to develop a five-year vision for customer service. Under the leadership of the Office of Online Services, the primary objective is to improve the taxpayer experience by delivering customer service in a more efficient manner.

⁷¹ Taxpayers continue to have the option of using a Volunteer Income Tax Assistance site to prepare tax returns.

⁷² In May 2015, the IRS shut down the *Get Transcript* application indefinitely because of security issues.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

The Office of Online Services designed the initiative to expand self-service capabilities for conducting transactions that currently occur through correspondence, toll-free phone services, or face-to-face interactions at TACs. According to an Office of Online Services study, these services account for an estimated 736 million transactions costing approximately \$3.9 billion. As part of the effort, a working team identified seven opportunity areas representing the greatest potential for improved efficiency. The seven opportunity areas and resulting efficiencies are in Appendix IX.

There remains a large degree of uncertainty surrounding the future of self-service. This includes a considerable amount of planning and analysis before the IRS can allocate budget resources. However, the Service on Demand initiative has the potential to make transformational changes in the way the IRS serves taxpayers. When fully implemented, the Office of Online Services estimates that the new self-service delivery model will handle an increase of approximately 140 million annual transactions saving between \$200 and \$500 million in future costs.

Evaluation and conclusion:

The IRS has not sustained the goal of providing prompt taxpayer service. Budget reductions have included cuts to taxpayer service staffing levels. Taxpayers have difficulty when corresponding with, calling, or visiting the IRS. The lower staffing allocation levels are not sufficient to meet the demands for service. In addition, the inability to provide a personal online account could make self-service more difficult for some taxpayers. While the Service on Demand initiative shows promise, it is not planned to provide immediate results.

The IRS Does Not Comply With the Annual Requirement to Report on Tax Complexity

The RRA 98 requires the Commissioner to perform an annual analysis of the sources of complexity in tax administration. The Commission viewed the analysis as a way for management to emphasize simplification including common errors made by taxpayers, areas of tax law that result in frequent disagreements between the IRS and taxpayers, and the time it takes taxpayers to review and complete forms. The analysis is due each year before March 1 and is required to make recommendations for reducing complexity, including provisions that should be repealed or modified.

The IRS issued two annual tax complexity analyses⁷³ since the RRA 98, with the last issued in September 2002. Management eliminated the complexity analysis due to the time and costs involved. Further, management indicated that much of the information was available through complexity reports provided on pending legislation and the NTA's Annual Report to Congress.

⁷³ IRS; Office of Research, Analysis, and Statistics; Pub. 4105, *Annual Report from the Commissioner of Internal Revenue on Tax Law Complexity* (June 5, 2000). IRS; Office of Research, Analysis, and Statistics; Pub. 4105, *Annual Report from the Commissioner of Internal Revenue on Tax Law Complexity* (Sept. 20, 2002).



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Still, the NTA's 2014 *Annual Report to Congress* lists the absence of tax complexity analyses as the ninth most serious problem facing the IRS.⁷⁴ The NTA report concluded that the past analyses were relatively successful because Congress subsequently enacted solutions reducing complexity in areas such as capital gains and the definition of a qualifying child. Consequently, the decision to discontinue the complexity analyses runs contrary to the statutory requirement as well as to the Commission's goal and the IRS's efforts to reduce tax complexity.

Recommendation

Recommendation 2: The Chief, Communications and Liaison, should contact the congressional tax-writing committees and determine whether the IRS should provide the required tax complexity report.

Management's Response: Management agreed with this recommendation. The Chief, Communications and Liaison, will contact the congressional tax-writing committees and determine whether there is interest in having IRS dedicate resources to preparing an annual tax complexity report.

Increasing Voluntary Compliance Through Compliance Research and Planning Remains a Challenge

The Commission reported that good customer service and taxpayer education, which assists taxpayers in meeting their tax obligations to the Government, leads to increased compliance. Two initiatives, Compliance 2000 and the Compliance Research and Planning approach, embodied IRS efforts to move from high-cost enforcement solutions for noncompliance to lower-cost, nonenforcement solutions. The traditional enforcement approach to compliance focused on one-by-one examination of individual taxpayers. This approach was not only expensive but also ineffective in identifying patterns of noncompliance. The new approach shifted the emphasis to preventing noncompliance.

The IRS initiated Compliance 2000 in the late 1980s by performing focused examination research projects in each district office. By the early 1990s, the IRS found that these types of projects needed additional research skills because estimated voluntary compliance rates⁷⁵ (VCR) had not substantially changed from approximately 83 percent. Concerns about these trends prompted the IRS to create the Compliance Research and Planning approach in CY 1993. The approach attempted to merge the Compliance 2000 market segmentation approach with applied research methods. By using the merged approach, the IRS hoped to identify nonenforcement and

⁷⁴ IRS, *NTA 2014 Annual Report to Congress*, p. 102.

⁷⁵ The voluntary compliance rate is the percentage of total tax revenues paid on a timely basis.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

enforcement efforts to help improve the VCR to 90 percent by CY 2001. The approach required the establishment of new research methods, organizations, and tools.⁷⁶

The IRS derives the VCR from the Tax Gap estimates. The Tax Gap is defined as the difference between the true tax liability in any year and the amount of tax that is paid voluntarily and on time. The IRS's most recent Tax Gap estimate was \$450 billion for Tax Year 2006. In FY 2013, the IRS estimated the VCR at 83.1 percent, with a goal to increase the VCR to 86 percent by September 2013.

In FY 2013, TIGTA expressed concerns with the overall Tax Gap estimation methodologies.⁷⁷ The IRS methods for measuring the Tax Gap vary considerably depending on the type of tax. In addition, the Office of Research, Analysis, and Statistics does not segregate the individual Tax Gap estimate into separate estimates for the informal economy or international tax evasion. However, the overall estimated VCR conforms to the historical 83 percent. If the estimated VCR rate remains at 83 percent, then the IRS Compliance Research and Planning approach has not improved the overall VCR since the early 1990s.

Evaluation and conclusion:

In the 1990s, the IRS developed a concept to merge compliance research with applied research methods to increase the VCR. Despite the extended time frame, the estimated VCR has not had any measurable improvements. While maintaining the 83 percent VCR may be considered an accomplishment, there is no evidence that the Compliance Research and Planning model has achieved its overall compliance objectives.

⁷⁶ With the RRA 98, the IRS was reorganized in CY 2000 into four major operating divisions and other additional functions. The District Office Research and Analysis functions were assigned to the various operating divisions, and the National Office Research and Analysis function reverted to the National Headquarters Office of Research as part of the Office of Research, Analysis, and Statistics.

⁷⁷ TIGTA, Ref. No. 2013-IE-R008, *The Internal Revenue Service Needs to Improve the Comprehensiveness, Accuracy, Reliability, and Timeliness of the Tax Gap Estimate* (Aug. 2013).



*Several Changes Sought by the Internal Revenue Service
Restructuring and Reform Act of 1998 Remain a Challenge*

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine if the selected goals of the RRA 98¹ have been substantially achieved by the IRS. We previously evaluated compliance with the RRA 98 in March 2010² and concluded that the IRS substantially implemented the law's provisions. However, we reported that some challenges remained. More recently, the IRS encountered several challenging events that caused congressional concerns. Accordingly, we assessed the impact of these events on the IRS's ability to achieve and sustain certain provisions of the RRA 98.

- I. Our evaluation focused on the following goals of the RRA 98:
 - A. The organizational design, governance, mission, and performance measurements;
 - B. The 80 percent electronic filing participation rate goal;
 - C. Online personal accounts;
 - D. Taxpayer rights;
 - E. Human capital;
 - F. Taxpayer service;
 - G. Tax law complexity analysis studies; and
 - F. Voluntary compliance improvements through research.
- II. To evaluate these goals, TIGTA:
 - A. Identified the major provisions of the RRA 98 and the reasoning for the provision based on the Restructuring Commission's report.
 - B. Obtained and reviewed prior Government Accountability Office reports, TIGTA reports, National Taxpayer Advocate annual reports, IRS Oversight Board studies, and other authoritative reports specific to the RRA 98 provisions and their implementation.

¹ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app, 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

² TIGTA, Ref. No. 2010-IE-R002, *The Internal Revenue Service Restructuring and Reform Act of 1998 Was Substantially Implemented but Challenges Remain* (March 2010).



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

- C. Performed a historical trends analysis for selected program areas to determine whether improvements are being achieved. Incorporated pertinent budget, employee, and revenue data to augment the analysis. For historical analyses of the IRS customer service and enforcement budgets, we made general assumptions regarding the budget categories because they changed in FYs³ 1998, 2001, and 2005.
- D. Interviewed senior IRS management and IRS Oversight Board staff to obtain perspective on efforts towards implementing programs and products to achieve RRA 98 goals.
- E. Determined the potential effect of IRS budget reductions on enforcement revenue collections.
1. Obtained the actual FY 2010 IRS budget (\$12.1 billion) and used this figure as a baseline. For FYs 2011 through 2014, we applied the prior year inflation increase (Consumer Price Index) to project a hypothetical budget to maintain the current level.
 2. For FYs 2003 through 2014, we divided total enforcement revenue by the total IRS budget to obtain an average ratio of return (4.64:1).
 3. Multiplied the computed ratio of return (Step II.E.2) with the projected budgets (Step II.E.1) and determined the hypothetical enforcement revenue for FYs 2011 through 2014.
 4. For FYs 2011 through 2014, subtracted the hypothetical enforcement revenue from the actual enforcement revenue. This calculation enabled us to determine the potential increase in enforcement revenue associated with the hypothetical IRS budgets identified in Step II.E.1.
- F. Reviewed the Business Return Transaction File⁴ from the TIGTA Data Center Warehouse⁵ and analyzed potential strategies to increase electronic tax return filing among business taxpayers. We assessed the reliability of the Business Return Transaction File by reviewing existing information about the data and the system that produced them.
1. For Form 941, *Employer's QUARTERLY Federal Tax Return*, filers, obtained Processing Years⁶ 2013 and 2014 data to determine if the return was filed by

³ Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

⁴ A computer file of transcribed line items from all business returns and the accompanying forms and schedules.

⁵ A collection of IRS databases containing various types of taxpayer account information that is maintained by TIGTA for the purpose of analyzing data for ongoing audits and investigations.

⁶ The calendar year in which the tax return or document is processed by the IRS.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

- paper or electronically. Stratified the filing characteristics by total tax settlement amount. To reduce the potential of duplicate returns distorting a business's total tax liability, the analysis was limited to entities filing one Form 941 for each quarter during CY 2013.
2. For Form 944, *Employer's ANNUAL Federal Tax Return*, filers, obtained Processing Year 2014 data to determine if the return was filed by paper or electronically. Stratified the filing characteristics by total taxes paid. To reduce the potential of duplicate returns distorting a business's total tax liability, the analysis was limited to entities filing one Form 944 for CY 2013.
 3. For Form 941 filers with a total tax liability of \$2,500 or less, projected a hypothetical shift to Form 944 as the preferred filing method.
- G. Evaluated organizational charts and strategic and operational plans and identified the organizational design components (governance, organization structure, policy/practices/processes, and systems) used to modernize the IRS.
1. Researched major IRS reorganizations that occurred since the RRA 98. Identified their purpose and organizational placement.
 2. Requested copies of business cases for major reorganizations identified in Step II.G.1 from IRS management to determine whether the organizational structure intended by the RRA 98 was maintained.
 3. Evaluated the IRS governance structure by reviewing IRS Oversight Board meeting minutes, annual reports, involvement in major reorganizations, historical membership, and congressional impact.
- H. Determined the potential causes for any of the law's provisions not being achieved.
- I. Identified the strategies, plans, and initiatives the IRS has planned to address making progress towards achieving the goals of RRA 98.
1. Summarized the IRS Fresh Start Initiative's impact on liens, installment agreements, and Offers in Compromise.
 2. Evaluated the IRS Service on Demand plan and determined the status of online taxpayer account access and other self-service options.



*Several Changes Sought by the Internal Revenue Service
Restructuring and Reform Act of 1998 Remain a Challenge*

Appendix II

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*Several Changes Sought by the Internal Revenue Service
Restructuring and Reform Act of 1998 Remain a Challenge*

Appendix III

Report Distribution List

Office of the Commissioner – Attn: Chief of Staff
Deputy Commissioner for Operations Support
Deputy Commissioner for Services and Enforcement
Commissioner, Large Business and International Division
Commissioner, Small Business/Self-Employed Division
Commissioner, Tax Exempt and Government Entities Division
Commissioner, Wage and Investment Division
Chief, Appeals
Chief, Risk Officer
Chief, Agency-Wide Shared Services
Chief, Criminal Investigation
Chief Technology Officer
IRS Human Capital Officer
Director, Office of Compliance Analytics
Director, Office of Research, Analysis, and Statistics
Director, Affordable Care Act Office
Director, Office of Online Services
Director, Office of Professional Responsibility
Director, Return Preparer Office
Director, Office of Audit Coordination



*Several Changes Sought by the Internal Revenue Service
Restructuring and Reform Act of 1998 Remain a Challenge*

Appendix IV

Major Governance Changes in the RRA 1998

The IRS RRA 98¹ created new governance and oversight organizations. Conceptually, the changes were designed to improve organizational continuity and accountability.

Appointed the IRS Commissioner to Five-Year Terms – The IRS Commissioner is nominated by the President and confirmed by the Senate to a five-year term. The Commissioner is required to have demonstrated management experience. The Commissioner’s duties and powers are prescribed by the Secretary of the Treasury and include the power to administer, manage, direct, and supervise the execution and application of the Internal Revenue laws. The Commissioner also exercises the IRS’s final authority concerning the interpretation of the tax laws.

Created the IRS Oversight Board – The Oversight Board is a nine-member independent body that oversees the IRS in its administration, management, conduct, direction, and supervision of the execution and application of tax laws. While IRS management is responsible for day-to-day operations, the Board ensures that decisions around operations, personnel, budget, and technology support an approved long-term plan. The Board suspended its operations in April 2015.

Established the National Taxpayer Advocate – The NTA reports directly to the Commissioner but is appointed by the Secretary of the Treasury. To achieve independence, Taxpayer Advocate Service employees report directly to the NTA. The NTA must provide an annual report to Congress that includes a summary of 20 of the most serious problems encountered by taxpayers with corresponding recommendations. The RRA 98 also expanded the NTA’s authority for issuing Taxpayer Assistance Orders.²

Since FY 2000, the NTA testified before Congress 42 times, received nearly 3.61 million cases from taxpayers (an average of nearly 241,000 cases annually), and closed over 3.65 million cases (an average of nearly 244,000 cases annually). In FY 2013, the Taxpayer Advocate Service provided relief to taxpayers in 78.5 percent of cases closed, the highest relief rate achieved since the RRA 98.

¹ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app, 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

² A Taxpayer Assistance Order may be issued to 1) direct the operating division/function to take a specific action, cease a specific action, or refrain from taking a specific action or 2) direct the IRS to review at a higher level, expedite consideration of, or reconsider a taxpayer’s case.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Established the Treasury Inspector General for Tax Administration – TIGTA is an independent Inspector General office in the Department of the Treasury devoted to oversight of the IRS, replacing the Office of the Chief Inspector. TIGTA conducts audits, investigations, inspections, and evaluations of IRS programs and operations. In addition, TIGTA is responsible for protecting the IRS against external attempts to corrupt or threaten its employees.

Since CY 2000, the TIGTA Office of Audit has issued over 1,600 reports resulting in over 3,700 recommendations.³ Since FY 2001, the TIGTA Office of Investigations has opened 52,600 investigations, closed 53,049 investigations, and processed over 120,000 complaints.

³ Figures are through September 30, 2014.



*Several Changes Sought by the Internal Revenue Service
Restructuring and Reform Act of 1998 Remain a Challenge*

Appendix V

*Comparison of the IRS Advisory
Council and the IRS Oversight Board*

The IRS Oversight Board was given the authority to control actions taken within the IRS. While there are existing advisory groups, the Oversight Board was given explicit authority to provide input to the IRS Strategic Plans, budget formulation, and reorganizations. Another role of the Board was to make sure that taxpayers are properly treated by IRS employees.

The Advisory Council and the Oversight Board share organizational design similarities. For example, each entity has a membership that either wholly or primarily consists of private sector individuals with a diverse background in tax policy and administration. Additionally, each is structured into committees or working groups to oversee specific program areas.

In contrast, clear differences exist between Advisory Council and the Oversight Board's responsibilities. The RRA 98¹ distinctly granted the Oversight Board *approval* authority for strategic plans, major reorganizations, and the annual budget request. The RRA 98 intended to strike a balance between giving the Oversight Board sufficient authority without undermining the authority of the Commissioner. However, the Commissioner is subordinate when the Board has approval authority.

The following table compares the long established Advisory Council with the Oversight Board.

	Internal Revenue Service Advisory Council	Internal Revenue Service Oversight Board
Year Established	1953	1998
Statutory Authority	5 U.S.C. Appendix — Federal Advisory Committee Act; 86 Stat. 770, as amended.	IRS Restructuring and Reform Act of 1998, Pub. L. No. 105-206, 26 U.S.C. §7802.
Member Size	35 (maximum)	9
<i>Current Size</i>	19	<i>Suspended operations in April 2015.</i>
Member Composition	Selected through an application process that identifies individuals in Federal tax administration with substantial experience and diverse backgrounds.	Seven members are private sector individuals appointed by the President with the advice and consent of the Senate. The remaining members are the Secretary of the Treasury and the IRS Commissioner.
Terms	Three-year appointment with the possibility of a one-year renewal.	The Chairperson serves a two-year term. Other members serve five-year terms.

¹ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app, 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

	Internal Revenue Service Advisory Council	Internal Revenue Service Oversight Board
Mission Statement	Provide a public forum for IRS officials and the public to discuss tax administration issues. Recommend policies regarding both existing and emerging tax administration issues. In addition, suggests operational improvements.	An independent body charged to oversee the IRS in its administration, management, conduct, direction, and supervision of the execution and application of the Internal Revenue laws and to provide experience, independence, and stability to the IRS so that it may move forward in a focused direction.
Background	Authorized under Pub. L. No. 92-463, the first Advisory Group to the Commissioner was established in 1953 as a “national policy and/or issue advisory committee.” Renamed in 1998 to reflect its focus as an advisory body, it is designed to focus on broad policy matters.	The IRS Restructuring Commission noted there was no body accountable for bringing a long-term perspective to tax administration. The Commission recommended that a Board of Directors with private sector expertise was necessary to develop, implement, and monitor long-term strategies and priorities at the IRS.
Organization	Divided into four subgroups: <ul style="list-style-type: none"> • Wage and Investment • Small Business/Self-Employed • Large Business and International • Office of Professional Responsibility 	Divided into three committees: <ul style="list-style-type: none"> • Operations Committee • Operations Support Committee • Executive Committee
Reporting Official	Reports directly to the IRS Commissioner.	An independent body within the Department of the Treasury.
Frequency of Meetings	Two public meetings and up to five two-day working sessions.	The full Board meets at least quarterly and conducts an annual public forum. The committees meet four times a year with responsible IRS executives, with the exception of the Executive Committee, which meets on an ad hoc basis.
Reporting Requirements	Annual report.	Annual report to Congress and an annual report assessing the IRS’s progress in meeting the electronic filing mandate. Also, publish an annual taxpayer attitude survey (not required).
IRS Operational and Management Authority	Recommends and discusses: <ul style="list-style-type: none"> • Operational improvements • Policies to address emerging tax administration issues • Strategies to reduce taxpayer burden, improve compliance, and promote processing efficiencies 	Review and approve: <ul style="list-style-type: none"> • Strategic plans • Major reorganization plans • Budget requests
Agency Executive Authority	None.	Can recommend appointment and removal of IRS Commissioners. Review the selection, evaluation, and compensation of IRS senior executives who have responsibility over significant functions of the IRS.

Source: TIGTA analysis of IRS documents.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Appendix VI

Service on Demand Foundational Projects

The Service on Demand initiative is a modernization strategy designed to transfer IRS customer service from the traditional walk-in, toll free, and correspondence channels to Internet-based services.

<p>Online Account</p>	<p>Release 1</p> <p>Creates the initial online account providing the framework for future expansion.</p> <p>Release 2</p> <p>Establishes basic online account features including balance due, payment status/history, existing transcripts, and a link to make a payment.</p>
<p>eAuthentication</p>	<p>The eAuthentication project will provide enhanced identity proofing of individual users, tax professionals, and designees. The project will support IRS applications hosted externally to the IRS network and improve the user interface for mobile browsers and applications.</p>
<p>Taxpayer Digital Communications</p>	<p>Pilots</p> <ul style="list-style-type: none"> ▪ Creates a secure online portal enabling the IRS and taxpayers to communicate by sending both one-way and two-way secure messages. ▪ Enables the IRS and taxpayers the ability to send digital documents under the following circumstances: <ul style="list-style-type: none"> ▪ Monthly installment agreement notices. ▪ Documents related to correspondence examinations with Schedule A, <i>Itemized Deductions</i>. ▪ Taxpayer Advocate Service levy and Earned Income Tax Credit cases. ▪ Affordable Care Act branded prescription drug. <p>Release 1</p> <ul style="list-style-type: none"> ▪ Creates a basic inbox for taxpayers who opt to receive notices electronically. <p>Release 2</p> <ul style="list-style-type: none"> ▪ Creates an inbox for online account holders enabling the delivery of all electronic notifications including notices and secure messages sent from the IRS.

Source: TIGTA Analysis of IRS documents.



*Several Changes Sought by the Internal Revenue Service
Restructuring and Reform Act of 1998 Remain a Challenge*

Appendix VII

Trends in Taxpayers Rights and the Fresh Start Initiatives

The Commission determined that it was difficult for taxpayers to obtain an OIC or an IA. Congress believed that the ability to settle tax liabilities and to make payments by installment enhances taxpayer compliance. Therefore, the IRS should be flexible in finding ways to work with taxpayers who are sincerely trying to meet their obligations and remain in the tax system. Consequently, Congress believed that the IRS should make it easier for taxpayers to enter into OICs or IAs and should do more to educate the public about the availability of such agreements.

In the TIGTA March 2010 evaluation¹ of the RRA 98² implementation, TIGTA concluded that the IRS had substantially implemented the taxpayer rights provisions. Since then, the IRS introduced the Fresh Start Initiatives (hereinafter referred to as the Fresh Start). While the purpose of the initiative was to allow taxpayers a “fresh start” in resolving their tax liabilities following the Great Recession, it built upon many of the objectives implemented by the RRA 98. These initiatives focus on the expansion in availability of OICs and IAs, reducing the burden of liens, and failure to pay penalty relief.

Taxpayer rights have expanded under the Fresh Start Initiatives

The IRS established the Fresh Start to help financially distressed taxpayers quickly resolve tax problems and reduce the number of tax liens issued. The Fresh Start follows the precepts of the RRA 98 to help taxpayers resolve compliance problems. The Fresh Start has improved the number of opportunities for taxpayers to address compliance problems by expanding the criteria used to qualify for relief. A December 2014 TIGTA³ report details the Fresh Start’s overall changes to IRS collection methods with respect to:

- Installment agreements;
- Offers in compromise; and
- Notices of Federal tax liens.

¹ TIGTA, Ref. No. 2010-IE-R002, *The Internal Revenue Service Restructuring and Reform Act of 1998 Was Substantially Implemented but Challenges Remain* (March 2010).

² Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app, 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

³ TIGTA, Ref No. 2015-30-005, *The Fresh Start Initiatives Have Benefited Many Taxpayers, but Additional Monitoring and Evaluation Is Needed* (Dec. 2014).



*Several Changes Sought by the Internal Revenue Service
Restructuring and Reform Act of 1998 Remain a Challenge*

Installment Agreements:⁴

- In March 2011, the IRS increased the dollar threshold for taxpayers to qualify for streamlined In-Business Trust Fund⁵ (IBTF) Express IAs so that more struggling small business taxpayers would qualify. The threshold in unpaid tax liabilities increased from \$10,000 to \$25,000, and the taxpayer is required to pay off the agreement within 24 months. The taxpayer must also enter into a Direct Debit IA. IBTF Express IAs reduce taxpayer burden because full financial reviews are not required to qualify.
- In January 2012, the IRS increased the dollar threshold for taxpayers to qualify for Streamlined IAs so that more struggling individual taxpayers would qualify. The threshold in unpaid tax liabilities increased from \$25,000 to \$50,000, and the time to pay the tax debt also increased from 60 months to 72 months. Streamlined IAs reduce taxpayer burden because they require less documentation from the taxpayer than traditional IAs.

Offers in Compromise:⁶

- In February 2011, the IRS expanded the Streamlined OIC program to include taxpayers with less than \$50,000 in tax liabilities and less than \$100,000 in annual income. Previously, the maximum amounts were \$25,000 and \$50,000, respectively. Streamlined OICs reduce taxpayer burden because less documentation is required from the taxpayer.
- In May 2012, the IRS further expanded the Streamlined OIC program to cover all taxpayers requesting an OIC (with no dollar limitations).

Notices of Federal Tax Lien (NFTL):⁷

- In March 2011, the IRS doubled the dollar threshold of the delinquent tax amount for which an NFTL is generally issued⁸ from \$5,000 to \$10,000. This change reduced taxpayer burden because many taxpayers were not issued an NFTL, which can adversely affect their credit rating.

⁴ I.R.C. § 6159 allows the IRS to enter into installment agreements to allow a taxpayer with a balance due to pay the taxes over time.

⁵ IBTF Express IAs enable businesses to apply for payment plans with balances of \$25,000 or less and payment terms of 24 months or before the Collection Statute Expiration Date, whichever is earlier. The Collection Statute Expiration Date ends the Government's right to pursue collection of a liability 10 years after a liability is assessed.

⁶ I.R.C. § 7122 allows the IRS to accept from a taxpayer with a balance due less than the amount due as settlement of the outstanding debt under certain situations.

⁷ I.R.C. § 6323 allows the IRS to file an NFTL Lien to reflect the tax debt owed by taxpayers and protect the Government's interest in collection of the debt.

⁸ An NFTL filing determination (decision to file or not to file an NFTL) is required on taxpayers owing \$10,000 or more of assessed liabilities. Generally, NFTLs will not be filed when the taxpayer owes less than \$10,000, but they may be filed if they will protect the Government's interest, such as pending bankruptcy or other urgent circumstances.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

- In April 2011, the IRS began withdrawing NFTLs when requested by taxpayers who either entered into a new Direct Debit IA or converted a traditional IA to a Direct Debit IA. NFTLs were also withdrawn for taxpayers who had existing Direct Debit IAs with unpaid assessments of \$25,000 or less. Unlike an NFTL release, a withdrawal removes the mention of the NFTL from the taxpayer's credit report or the credit agency updates the NFTL status to show that it was withdrawn.
- In June 2011, the IRS began approving taxpayers' NFTL withdrawal requests after taxpayers received an NFTL release (generally for taxpayers who fully paid their delinquent tax).

Trends in Taxpayer Rights

Installment Agreements:

The RRA 98 requires guaranteed acceptance of IAs for individual taxpayers who owe \$10,000 or less if the taxpayer was compliant and had not entered into any IA in the prior five years. The taxpayer must pay the liability through periodic payments within three years and agree to remain compliant. Further, the RRA 98 required taxpayers to receive annual statements detailing their account status.

Streamlined and IBTF Express IAs expanded options for individual and business taxpayers that do not qualify for guaranteed acceptance. The Fresh Start increased the tax threshold for eligibility and payment terms for taxpayers. Overall, initiated IAs decreased 9 percent since FY 2010. However, between FY 2010 and FY 2013, IAs for taxpayers with balances greater than \$25,000 and less than or equal to \$50,000 increased 50 percent. The majority of this increase coincided with changes announced in January 2012 increasing the limit for Streamlined IAs to \$50,000. Further, TIGTA reported that IBTF Express IAs established after the Fresh Start were more likely to remain compliant with future tax obligations compared to the pre-Fresh Start IBTF Express IAs.⁹ TIGTA attributes the increase to the requirement for the taxpayer to establish a Direct Debit IA.

⁹ TIGTA, Ref. No. 2015-30-005, *The Fresh Start Initiatives Have Benefited Many Taxpayers, but Additional Monitoring and Evaluation Is Needed* (Dec. 2014).



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Figure 1: Historical Perspective of Installment Agreements



Source: IRS Collection Activity Report No-5000-6 (FYs 1998–2014).

Offer in Compromise:

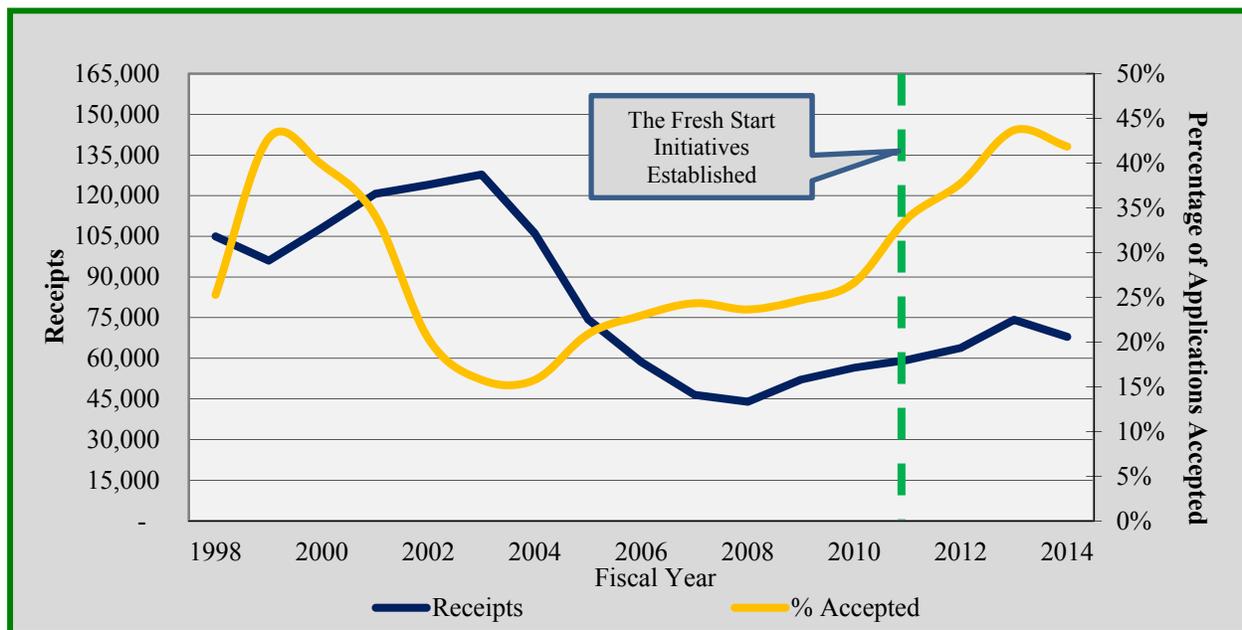
An OIC is an agreement between a taxpayer and the IRS that settles a tax liability for payment of less than the full amount owed. The application form requires taxpayers to provide extensive amounts of financial information to the IRS, including cost-of-living expenses. The RRA 98 required the IRS to develop and publish schedules of national and local expense standards. Employees are required to consider whether the standards are adequate when reviewing the facts of a case. The RRA 98 also limited opportunities for the IRS to reject or terminate an OIC.

IRS data indicates that the Fresh Start is influencing OIC activity. Prior to the Fresh Start, the OIC acceptance rate in the previous five years was 24 percent. After implementation, the acceptance rate gradually increased to 44 percent in FY 2013. Total case receipts also showed increases. Between FY 2006 and FY 2010, the IRS averaged approximately 52,000 OIC receipts annually. Subsequently, receipts averaged approximately 66,000 annually.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Figure 2: Historical Perspective of Offers in Compromise



Source: IRS Collection Activity Report No-5000-108 (FYs 1998–2013).

Liens and Levies:

The Commission believed that taxpayers are entitled to the same protections from the IRS as from any creditor. The RRA 98 required the IRS to give adequate notice and a meaningful hearing before any collection actions. The IRS must notify taxpayers within five business days of filing an NFTL. Further, the IRS is required to notify taxpayers of their appeal rights at least 30 calendar days prior to issuance of a levy.

In FY 2014, TIGTA determined that the IRS timely and correctly mailed taxpayers the notice of lien filing and appeal rights, as required by Internal Revenue Code Section 6320(a).¹⁰ Separately, TIGTA determined that the IRS is protecting taxpayer rights for most levies.¹¹ However, for levies with additional assessments, TIGTA found that taxpayers did not always receive a new notice after an additional assessment posted to the account. Consequently, the IRS made computer programming changes and agreed to retrain revenue officers to correct the problem.

¹⁰ TIGTA, Ref. No. 2014-30-061, *Fiscal Year 2014 Statutory Review of Compliance With Notice of Federal Tax Lien Due Process Procedures* (Sept. 2014).

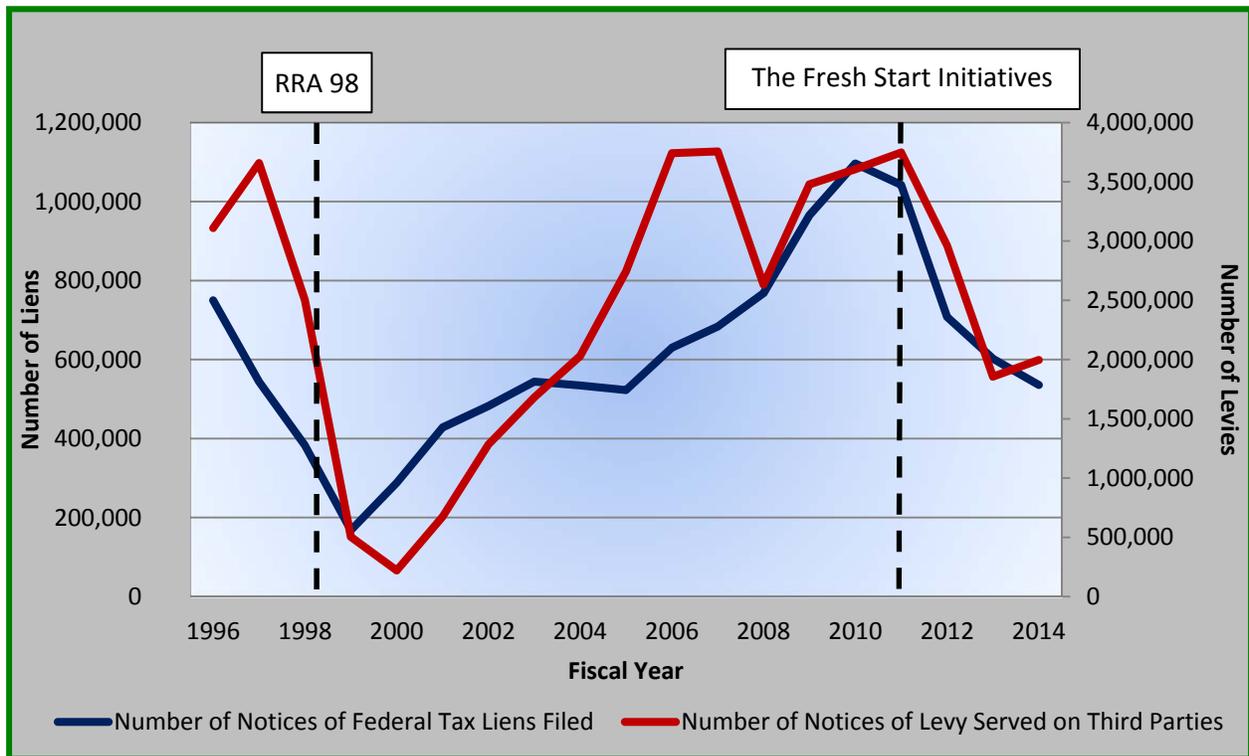
¹¹ TIGTA, Ref. No. 2014-30-078, *Fiscal Year 2014 Statutory Review of Compliance With Legal Guidelines When Issuing Levies* (Sept. 2014).



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Since FY 2010, lien and levy actions have shown declines similar to those that occurred surrounding the passage of the RRA 98. Since the Fresh Start, TIGTA reported that the number of liens below \$10,000 decreased 60 percent.¹² The report also concluded that withdrawals for existing liens tripled since FY 2010. Overall, lien filings fell to about 600,000, a decrease of about 45 percent since the FY 2010 high of 1.1 million. IRS management indicated that they will scale back levy notices to reduce related incoming calls to understaffed Automated Collection System call sites. Consequently, the number of levies issued decreased from 3.6 million in FY 2010 to 1.9 million in FY 2013.

Figure 3: Historical Perspective of Liens and Levies



Source: IRS Data Book, Table 16 (FYs 1996–2014).

¹² TIGTA, Ref. No. 2015-30-005, *The Fresh Start Initiatives Have Benefited Many Taxpayers, but Additional Monitoring and Evaluation Is Needed* (Dec. 2014).



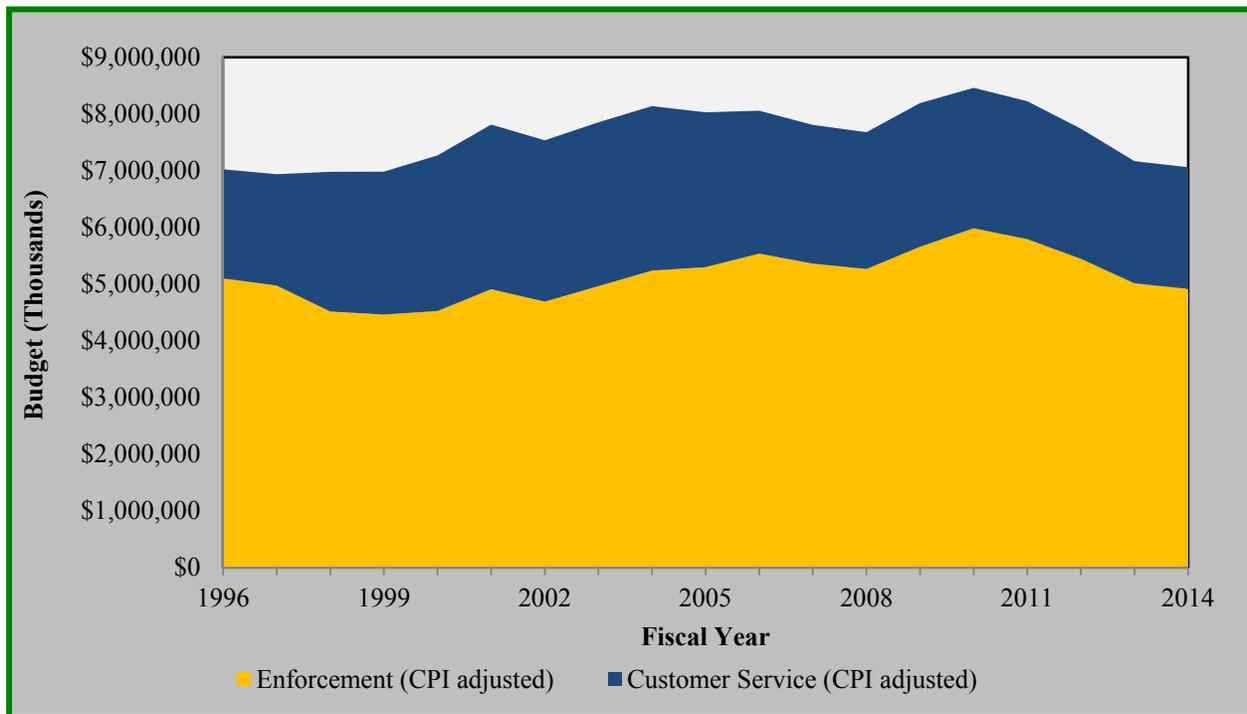
Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Appendix VIII

Trends in Selected IRS Business Performance Measures and Budgets

The Commission believed good service and education to taxpayers' increased voluntary compliance. Prior to RRA 98, there was an imbalance in resources between customer service and enforcement. After the law's implementation, the IRS more evenly balanced the customer service and enforcement budgets.

Figure 1: IRS Customer Service and Enforcement Budgets (inflation adjusted)



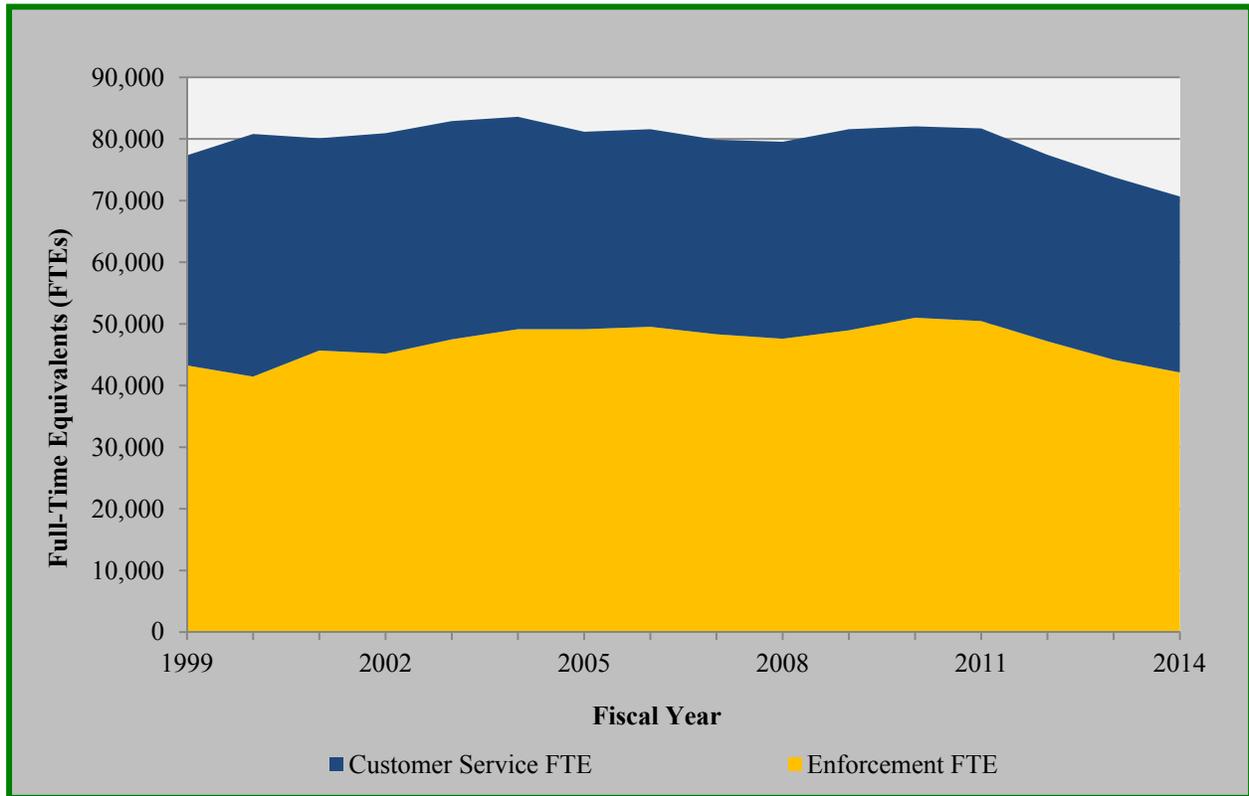
Source: TIGTA analysis of IRS budget submissions to Congress. Note: CPI = Consumer Price Index.

In FY 1996, the ratio between the total enforcement and customer service budgets was 73 percent to 27 percent, respectively. In FY 2001, after the RRA 98 was passed, the ratio between the enforcement and customer service budgets was 63 percent to 37 percent, respectively. Recently, the ratio between the budgets has returned to pre-RRA 98 levels.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Figure 2: IRS Customer Service and Enforcement Staffing Trends



Source: TIGTA analysis of IRS budget submissions to the Congress. Note: FTE = Full-Time Equivalent.

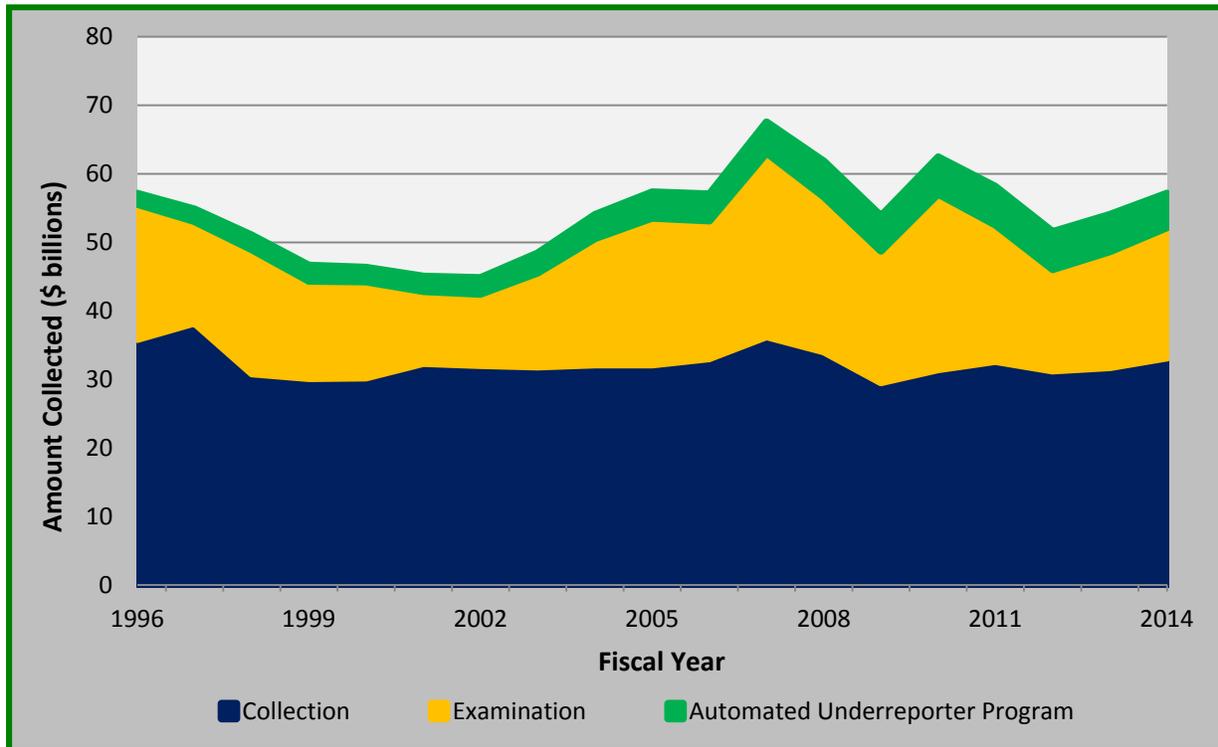
The ratio of IRS enforcement and customer service employees following the passage of the RRA 98 in FY 1999 was approximately 56 percent to 44 percent, respectively. In FY 2014, enforcement employees represented 60 percent of full-time equivalents,¹ while customer service employees represented 40 percent. The difference between the budget and full-time equivalent ratios exist primarily due to the disparity in average pay. For example, the average enforcement full-time equivalent costs the IRS approximately \$120,000 a year. This compares to \$76,000 a year for a customer service full-time equivalent.

¹ A measure of labor hours in which one full-time equivalent is equal to eight hours multiplied by the number of compensable days in a particular fiscal year. For Fiscal Year 2015, one full-time equivalent was equal to 2,088 staff hours. For Fiscal Year 2016, one full-time equivalent is equal to 2,096 staff hours.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Figure 3: Enforcement Revenue by Source of Assessment (adjusted for inflation)



Source: IRS Enforcement Revenue Information System.

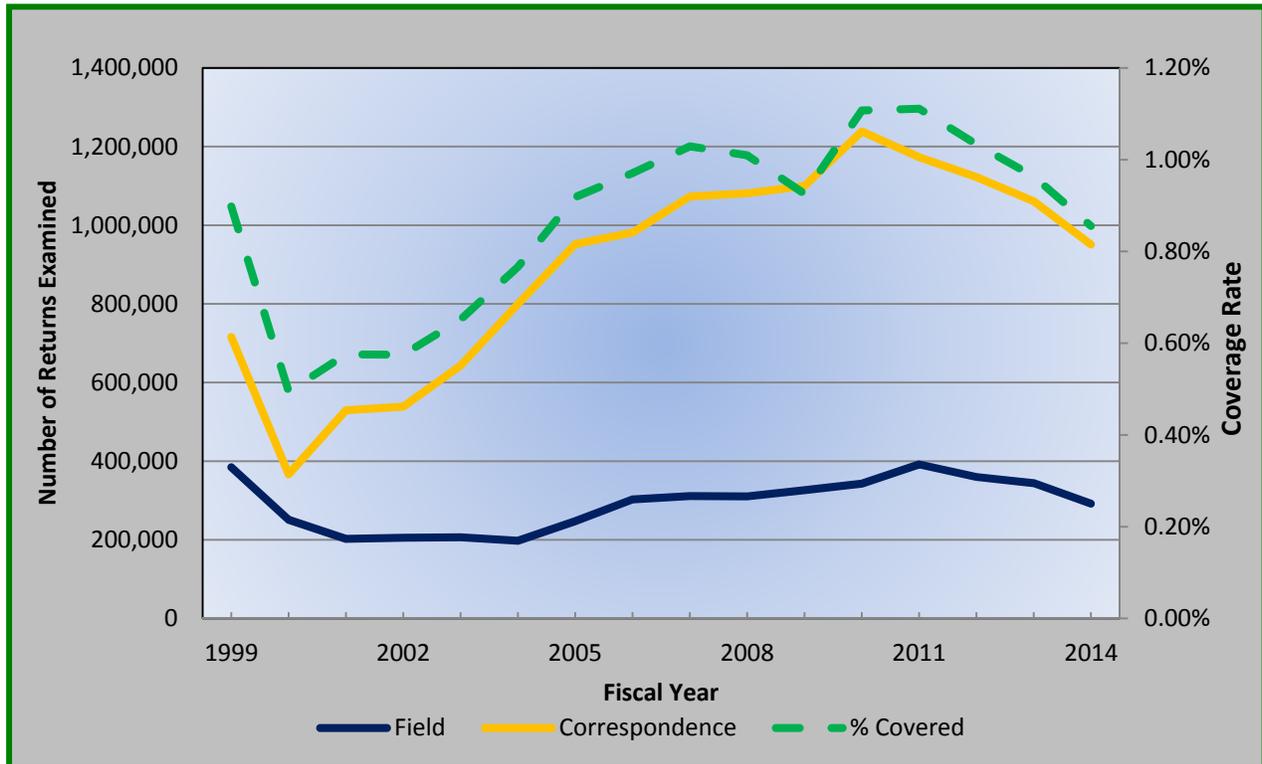
In FY 2014, the IRS received approximately \$3.1 trillion in gross tax collections. IRS enforcement actions collected \$57.1 billion, accounting for approximately 2 percent of total gross collections. However, the sources of assessments changed over time. For example, since FY 1996, the percentage of enforcement revenue attributed to the Collection and Examination functions decreased 7 percent and 3 percent, respectively. Meanwhile, the percentage of enforcement revenue attributed to the Automated Underreported Program² increased 230 percent during the same period.

² The Automated Underreporter Program matches income from third-party information returns against income reported by taxpayers to identify underreported income.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Figure 4: Total Individual Tax Returns Examined



Source: IRS Data Book, Table 9 (FYs 1999–2014).

Since the RRA 98, examination coverage rates fluctuated between 0.5 percent and 1.2 percent of total returns filed. Field examinations remained stable, averaging approximately 300,000 a year. During the same time, correspondence examinations represent a growing share of the overall coverage rate, increasing 33 percent since FY 1999.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Figure 5: Total Corporate Tax Returns Examined



Source: IRS Data Book, examination coverage tables (FYs 1999–2014).

The IRS primarily conducts examinations of corporate tax returns in the field. For example, between FY 1999 and FY 2014, the IRS averaged approximately 28,000 corporate examinations per year. Field examinations represented nearly 26,000 (92 percent) of this total. Since FY 1999, coverage rates fluctuated between 0.7 percent and 1.6 percent.



Several Changes Sought by the Internal Revenue Service Restructuring and Reform Act of 1998 Remain a Challenge

Appendix IX

Service on Demand Opportunity Areas

Opportunity Area	Planned Increase in Online Service Transactions	Potential Reductions
Individual Account	31 million	<ul style="list-style-type: none"> • Two million assisted phone calls • Two million inbound correspondences • Four million outbound correspondences
Billing and Payments	37 million	<ul style="list-style-type: none"> • 17 million notices • Four million assisted phone calls • One million visits to TACs
Records	21 million	<ul style="list-style-type: none"> • 12 million mailed transcripts • One million assisted phone calls • One million visits to TACs
Enforcement		<ul style="list-style-type: none"> • Two million assisted phone calls
Refunds	21 million	<ul style="list-style-type: none"> • Two million phone calls
Return Changes	16 million	<ul style="list-style-type: none"> • Two million incoming pieces of correspondence • Nine million outgoing pieces of correspondence
Personal Identification Numbers and Identity Theft		
<ul style="list-style-type: none"> • The ability to field an increase of approximately 29 million identity theft victim interactions 		

Source: IRS Office on Online Services documents.



*Several Changes Sought by the Internal Revenue Service
Restructuring and Reform Act of 1998 Remain a Challenge*

Appendix X

Management's Response to the Draft Report

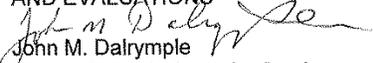


DEPUTY COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

February 17, 2016

MEMORANDUM FOR GREGORY KUTZ
ACTING DEPUTY INSPECTOR GENERAL FOR INSPECTIONS
AND EVALUATIONS

FROM: 
John M. Dalrymple
Deputy Commissioner for Services and Enforcement

SUBJECT: Draft Evaluation Report – Several Changes Sought by the
Internal Revenue Service Restructuring and Reform Act of 1998
Remain a Challenge (# IE-14-014)

Thank you for the opportunity to review and comment on the subject draft evaluation report. The IRS Restructuring and Reform Act of 1998 (RRA 98) prompted the most comprehensive reorganization and modernization of IRS since the 1950s, with an objective of transforming the IRS into a modern financial services organization. Your review examined IRS' progress with achieving the objectives and goals underlying RRA 98. We appreciate your report's acknowledgement of the areas in which the IRS has made significant progress and improvements, and your insight into those areas that continue to require additional innovation and strategies.

As part of RRA 98, the IRS reorganized to closely resemble the private sector model, organizing around customers with similar needs. The blueprint of our customer-based organizational structure, with four main operating divisions, remains the foundation of today's IRS. Your report notes that the IRS has since then had other operational changes, and that some of these changes did not have a formal documented business case. In each case, the need, impact and strategic vision for these changes was evaluated and determined prior to making the changes. And we note that none of these changes have moved us away from our core customer-based model, but rather these have been the outgrowth of tax administration needs that evolved in the nearly two decades since RRA 98's passage. These needs have ranged from establishing an office dedicated to the development of our online services capabilities, reorganizing to centralizing our identity theft work under one operating division, developing compliance analytics capabilities like many tax administrators around the world, and focusing on tax administration partners and stakeholders, such as return preparers.

Your report identifies business e-filing participation rates as an area where additional progress can be made. In recognition of the efficiency, economic, compliance and taxpayer service gains associated with electronic filing, RRA 98 established a goal to



*Several Changes Sought by the Internal Revenue Service
Restructuring and Reform Act of 1998 Remain a Challenge*

2

have 80% of all major returns electronically filed. The IRS has achieved and surpassed that rate for individual tax returns, but the e-filing participation rate for business returns has the potential for significant improvement. In this area, e-filing mandates have proven to be the most effective tool at bringing certain categories of returns into the electronic filing space, as evidenced by the e-filing mandate for return preparers who prepare 11 or more returns. The IRS has worked with the Treasury Department on a legislative proposal, which has been included in the current and prior Green Books, to enhance e-filing of returns by business taxpayers.

As noted above, the objective of RRA 98 was to transform the IRS into a modern financial services organization – offering taxpayers the option of online account access capability and other modern service options, similar to some of the best-in-business private sector services that many taxpayers are already accustomed to having at their disposal. To that end, the IRS developed the Taxpayer Assistance Blueprint (TAB), which was informed by taxpayers' preferences and behaviors, and it articulated a path to modernizing taxpayer service. This strategy evolved through Service-on Demand (SOD), which was a cross-functional team that conceptualized, developed and socialized a modernized vision for customer service to help IRS leaders reimagine the future taxpayer experience. SOD is integral to the larger enterprise Future State, which covers the complete end-to-end taxpayer experience and outlines our vision for delivery of additional taxpayer services and enforcement options moving forward. The strategic goal guiding this entire effort is to do business with taxpayers more timely and interactively through their preferred channels and means. This will also effectively reduce taxpayer burden and encourage and enhance voluntary compliance.

Offering expanded digital, online and self-service capabilities is not intended and will in no way replace our existing telephone and face-to-face taxpayer services – but rather it will allow new options for taxpayers who prefer online interaction. These new capabilities will complement our existing telephone and face-to-face service options, which will remain available for those who wish to utilize them. In that manner, they will become another step in the modernization of the IRS that Congress called for almost two decades ago in RRA 98. Of course, a Future State transformation still has to navigate obstacles presented by limited funding and finite resources for enabling information technology and human capital advances and critically needed investments across the IRS. Also, our recent Get Transcript incident, as well as other experience warding-off far more expansive intrusion attempts, illustrates the importance of our strategy being sensitive to the safety and security of our interactions with taxpayers, whether online or through any of our service and enforcement channels. These challenges and our ability to overcome them will dictate how far and fast we can go toward attaining our envisioned Future State.

We appreciate your report's coverage of the long-term impact on tax administration of the IRS' budget shortfalls and budget uncertainty, and the challenges created by that



*Several Changes Sought by the Internal Revenue Service
Restructuring and Reform Act of 1998 Remain a Challenge*

3

budget environment – from human capital challenges (such as an aging and shrinking workforce with limited opportunities to recruit, hire and train employees) to declines in taxpayer service and collected revenue. As noted in your report, you estimate that had the IRS' budget not been cut, an additional \$17 billion dollars in revenue would have been collected. Your report also notes that, as a result of the overall budget shortfalls, our employee training budget also experienced large cuts. Reductions in training and travel, as well as delaying work on critical information technology projects, were some of the ways in which the IRS absorbed the drastic cuts, which came at a time when we were facing increases in our overall workload from legislative mandates (such as FATCA and ACA) and emerging issues (such as identity theft). Shortly after taking on the role of leading the IRS, Commissioner Koskinen made a decision to restore funding for training and case-related travel, in recognition of the criticality of having a well-trained workforce serving the Nation's taxpayers. And across the IRS, we are also developing training tools and job aides– such as knowledge management tools developed by subject matter experts, to allow us to deliver just in time training for our employees as they work on new issues or topics.

We appreciate your thoughtful insight and observations about this important topic. Your RRA 98 reflections are instructive for us to consider in our Future State efforts to bring about business-like transformational change. Attached is a response to your specific recommendations. If you have any questions, please contact me, or a member of your staff may contact Dianne Grant, Senior Advisor to the Commissioner, at (202) 317-4078.



*Several Changes Sought by the Internal Revenue Service
Restructuring and Reform Act of 1998 Remain a Challenge*

Attachment

Several Changes Sought by the Internal Revenue Service Restructuring and Reform
Act of 1998 Remain a Challenge (# IE-14-014)

RECOMMENDATION 1: The Commissioner should ensure that all future organizational changes for offices reporting directly to a Deputy Commissioner have a documented business case. In addition, the Commissioner should also ensure that organizational realignments between operating divisions maintain the "taxpayer with similar characteristics" focus mandated by the RRA 98.

CORRECTIVE ACTION: Extensive organizational changes that move us away from the RRA 98 customer-centricity model will, as you recommend, have a documented business case. The RRA 98 blueprint of our customer-based organizational structure, with four main operating divisions, remains the foundation of today's IRS. None of the operational changes that have taken place since RRA 98 have moved us away from our core customer-based model, but rather these have been the outgrowth of tax administration needs that evolved in the nearly two decades since RRA 98's passage. And in each case, the need, impact and strategic vision for these changes was evaluated and determined prior to making the changes.

IMPLEMENTATION DATE: Implemented.

RESPONSIBLE OFFICIAL(S): Deputy Commissioner for Services and Enforcement.

CORRECTIVE ACTION MONITORING PLAN: N/A

RECOMMENDATION 2: The Chief, Communications and Liaison, should contact the congressional tax-writing committees and determine whether the IRS should provide the required tax complexity report.

CORRECTIVE ACTION: The previous complexity reports required considerable data extraction and verification by IRS; and the issue identification, development and recommendations in the previous reports required significant coordination and collaboration with Treasury's Office of Tax Analysis. After issuance of the 2002 report, the IRS put production of the report into abeyance because preparing and issuing the report was costly and time consuming, and much of the information is made available in other ways (e.g., IRS provides complexity analysis on pending legislation). In addition, a new program to determine the roots of taxpayer compliance, including the effects of complexity--named the National Research Program (NRP)--was instituted. Both the NRP and the taxpayer burden research program issue periodic reports that provide the information sought for by the earlier complexity report, and provide that in more focused, effective and efficient ways. Therefore, the objectives and reporting role of the complexity reports have been superseded by the taxpayer burden research program and the NRP, which exceed the scope of the RA 98 tax complexity reports, provide ongoing information on complexity, and bring best practices in research, analytics, and



*Several Changes Sought by the Internal Revenue Service
Restructuring and Reform Act of 1998 Remain a Challenge*

2

econometric modeling on complexity and taxpayer behavior to IRS operations. It should also be noted that IRS has not received any inquiries or follow-ups about the report since issuing the 2002 report. Nonetheless, we will contact the congressional tax-writing committees and determine whether there is interest in having IRS dedicate resources to preparing an annual tax complexity report.

IMPLEMENTATION DATE: March 1, 2016

RESPONSIBLE OFFICIAL(S): Chief, Communication and Liaison

CORRECTIVE ACTION MONITORING PLAN: We will monitor this corrective action as part of our internal management control system.



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Treasury Inspector General for Tax Administration
P.O. Box 589
Ben Franklin Station
Washington, D.C. 20044-0589

Information you provide is confidential and you may remain anonymous.