

Internal Revenue Service

Program Summary by Appropriations Account and Budget Activity

Dollars in Thousands

Budget Activity	FY 2015	FY 2016	FY 2017	FY 2016 TO FY 2017	
	Actuals	Enacted ¹	Request	\$ Change	% Change
Taxpayer Services	\$2,173,684	\$2,333,376	\$2,406,318	\$72,942	3.13%
Pre-filing Taxpayer Assistance and Education	609,196	629,920	643,197	13,277	2.11%
Filing and Account Services	1,564,488	1,703,456	1,763,121	59,665	3.50%
Enforcement	\$4,767,563	\$4,864,936	\$5,216,263	\$351,327	7.22%
Investigations	601,665	604,620	714,208	109,588	18.13%
Exam and Collections	4,018,292	4,108,566	4,347,684	239,118	5.82%
Regulatory	147,606	151,750	154,371	2,621	1.73%
Operations Support	\$3,601,436	\$3,746,688	\$4,314,099	\$567,411	15.14%
Infrastructure	833,846	832,543	895,094	62,551	7.51%
Shared Services and Support	1,126,230	1,141,485	1,197,954	56,469	4.95%
Information Services	1,641,360	1,772,660	2,221,051	448,391	25.29%
Business Systems Modernization	\$107,745	\$290,000	\$343,415	\$53,415	18.42%
Subtotal Internal Revenue Service	\$10,650,428	\$11,235,000	\$12,280,095	\$1,045,095	9.30%
Reimbursables	103,474	133,987	140,686	6,699	5.00%
Offsetting Collections - Non Reimbursables	10,314	42,797	44,937	2,140	5.00%
User Fees	438,557	509,309	399,730	(109,579)	-21.52%
Recovery from Prior Years	1,908				
Unobligated Balances from Prior Years	294,625	453,357	384,544	(68,813)	-15.18%
Transfers In/Out ²	7		(5,000)	(5,000)	
Total Program Operating Level	\$11,499,313	\$12,374,450	\$13,244,992	\$870,542	7.03%
Direct FTE	78,107	81,572	84,803	3,231	3.96%
Reimbursable FTE	612	643	675	32	4.98%
Offsetting Collections - Non Reimbursables	11	12	12		
User Fee FTE	1,344	876	1,530	654	74.66%
Unobligated Balances from Prior Years	428				
Resources from Other Accounts ³	290	2	2		
Total FTE	80,792	83,105	87,022	3,917	4.71%

¹FY 2016 Enacted includes \$290 million in Section 113 Administrative Provision funding in the following amounts: \$176.8 million in Taxpayer Services, \$4.9 million in Enforcement, and \$108.2 million in Operations Support.

¹Resources from Transfers In/Out include a FY 2015 transfers between IRS and the Office of National Drug Control Policy (ONDCP) High Intensity Drug Trafficking Area (HIDTA) Program (obligations \$7K), and a 2017 transfer out to the Alcohol and Tobacco Tax and Trade Bureau (TTB) (\$5M).

²Resources from Other Accounts include Other Direct FTE funded by the Department of Health and Human Services (287 FTE in FY 2015) and the Federal Highway Administration (3 FTE projected for FY 2015, and 2 FTE projected for FY 2016 and FY 2017).

Summary

The Internal Revenue Service (IRS) collects the revenue to fund the government and administer the nation's tax laws. In fiscal year (FY) 2015, the IRS processed over 244 million tax returns and other forms, and collected \$3.3 trillion in taxes (gross tax receipts before tax refunds of \$403 billion), equating to 93 percent of total federal government receipts. The IRS is focusing on a series of improvements to the tax administration system: a more integrated and secure delivery of taxpayer services, a movement to administer taxes through more efficient customer-focused channels, a more streamlined compliance program that identifies issues sooner and resolves them more efficiently, and a stronger set of foundational capabilities to support those efforts.

The IRS is committed to making the tax law easier to access and understand through taxpayer service and enforcement programs that protect the flow of revenue to the government; to improving voluntary compliance in order to reduce the tax gap (the difference between taxes owed and taxes paid on time); and to pursuing those who evade or misrepresent their tax responsibility.

While the IRS continues to respond to new requirements and rapid changes, many of its innovative and far-reaching programs risk delay or cancellation without adequate funding. Over the last several years, the IRS has experienced significant budget reductions that are creating serious obstacles to its ability to fulfill its mission. Fortunately, the IRS has been able to execute successful filing seasons despite these cuts, but this success is often at the expense of other important but less visible activities including service to taxpayers and enforcement activities. These reductions put voluntary compliance, the foundation of our tax system, at risk.

Total resources requested to support IRS activities for FY 2017 are \$13,244,992,000. This includes \$12,280,095,000 from direct appropriations, of which \$514,748,000 is provided via a program integrity cap adjustment intended to improve the integrity of the tax system, and includes a \$5,000,000 transfer to the Alcohol and Tobacco Tax and Trade Bureau (TTB) for high return on investment enforcement activities. Resources also include an estimated \$140,686,000 from reimbursable programs, an estimated \$44,937,000 from offsetting collections, an estimated \$399,730,000 from user fees, and an estimated \$384,544,000 from prior year unobligated balances. The direct appropriations before the cap adjustment represent an increase of \$530,347,000 from the FY 2016 Enacted level of \$11,235,000,000. The total Budget request including the program integrity cap adjustment is \$12,280,095 and 84,803 full time equivalents (FTEs).

The *IRS Strategic Plan* guides program and budget decisions and supports Goal 3 of the *Department of the Treasury FY 2014 to 2017 Strategic Plan* to “Fairly and effectively reform and modernize federal financial management, accounting, and tax systems.”

IRS senior leaders recognize the need to focus its investment process on elements that support increased digital service delivery while preserving its core mission functions. Additionally, IRS recognizes the importance of improving enforcement processes through early issue detection and resolution while ensuring minimal taxpayer burden, and simultaneously maximizing revenue by prioritizing the highest value work. The IRS has established a new investment process and created six strategic themes and one focus area to guide its investment strategy and resource allocation. These themes align with existing Strategic Goals and Objectives and clearly

articulate the strategic outcomes which the IRS seeks to achieve.

The FY 2017 Budget request balances IRS priorities with resource availability and provides funding to support:

Theme 1: Facilitate voluntary compliance by empowering taxpayers with secure innovative tools and support – Drives the IRS towards better delivery of tax administration by developing a more taxpayer-centric service and compliance model with a variety of self-service options, early error detection, and resolution tools that will reduce taxpayer burden and facilitate voluntary compliance. Investments will also support the implementation of necessary technology enhancements related to legislative mandates, including the Affordable Care Act (ACA).

Theme 2: Understand non-compliant taxpayer behavior and develop approaches to deter and change it – Leverages data and behavioral analytics to target the most effective non-compliance work in collection and enforcement while delivering a compressed, efficient enforcement cycle with early, upfront error detection and resolution.

These investments will fund the use of network analysis to investigate abusive tax schemes, the enforcement and deterrence of non-compliance abroad through the implementation of the Foreign Account Tax Compliance Act (FATCA), and appropriate, balanced coverage by improving audit and collection coverage rates.

Theme 3: Leverage and collaborate with external stakeholders - While the IRS is not requesting new investments in this theme, the IRS is continuing existing efforts to improve partnerships with all its stakeholders.

Theme 4: Cultivate a well-equipped, diverse, skilled workforce – Although no new investments are being requested for this theme, the IRS will continue to advance it using available resources. Deliberate workforce planning and knowledge management are cornerstones to the IRS's ability to execute a new era of tax administration. Knowledge management and a diverse, skilled workforce will be achieved through active corporate workforce planning that identifies and closes skill gaps across the organization.

Theme 5: Select highest value work using data analytics and a robust feedback loop – The IRS is not requesting new investments for this theme. With the next generation of analytics, the IRS will continuously improve tax administration and the taxpayer experience by evaluating the effectiveness of data-driven approaches for identifying and resolving taxpayer issues accurately and early. This theme focuses on harnessing data to inform work streams and enhance case selection capabilities and also includes an internal and external feedback loop to avert or address compliance issues quickly.

Theme 6: Drive more agility, efficiency, and effectiveness in IRS Operations – Ensures compliance with Federal Records Act of 1950 as amended (44 U.S.C. Chapter 31), which requires all systems to implement an electronic retention policy and the Managing Government Records Directive (M-12-18) which instructs agencies to manage electronic records more efficiently and effectively. Investments in this area enable faster responses to customers. Investments include: A robust electronic records management program, new software for processing information returns from third parties; improvements to the IRS's revenue financial accounting systems; and funds to keep Information Technology (IT) infrastructure current for existing and newly deployed systems.

These investments will increase organizational performance by reducing and eliminating manual processes and improving the reliability of enterprise infrastructure to support new and changing requirements from legislation, presidential orders, Government Accountability Office (GAO) recommendations, and demands from taxpayers.

Focus Area: Strengthen Cybersecurity and Eliminate Identity Theft – Provides investments that combat Stolen Identity Refund Fraud and includes detection and

prevention, assistance to victims, and law enforcement. In addition, the IRS plans to institute multiple layers of electronic security, including multi-factor authentication for access to taxpayer-facing systems and authentication at the time of filing. The IRS will enhance the security of its networks via the use of a cyber-threat forensics, implementation of a comprehensive patch management system, and the adoption of government-wide information security continuous monitoring tools as parts of a layered defense.

IRS FY 2017 Budget Highlights

Internal Revenue Service	Taxpayer Services		Enforcement		Operations Support		BSM		TOTAL	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
FY 2016 Enacted (before Administrative Provision 113)	\$2,156,554	27,887	\$4,860,000	38,840	\$3,638,446	11,752	\$290,000	440	\$10,945,000	78,919
FY 2016 Administrative Provision 113	\$176,822	2,483	\$4,936		\$108,242	170			\$290,000	2,653
Improve Taxpayer Service	176,622	2,483			1,800				178,422	2,483
Cyber Security					95,442	170			95,442	170
Strengthening the Prevention of Identity Theft	200		4,936		11,000				16,136	
FY 2016 Enacted	\$2,333,376	30,370	\$4,864,936	38,840	\$3,746,688	11,922	\$290,000	440	\$11,235,000	81,572
Changes to Base:										
Maintaining Current Levels (MCLs):	\$33,446		\$75,008		\$60,994		\$900		\$170,348	
Pay Annualization	6,440		14,952		5,392		191		26,975	
Pay Raise	23,856		55,386		19,975		709		99,926	
Non-Pay	3,150		4,670		35,627				43,447	
Efficiencies/Savings:	(\$3,708)	(72)			(\$58)				(\$3,766)	(72)
Increase e-File Savings	(3,708)	(72)			(58)				(3,766)	(72)
Subtotal FY 2017 Changes to Base	\$29,738	(72)	\$75,008		\$60,936		\$900		\$166,582	(72)
FY 2017 Current Services (Base)	\$2,363,114	30,298	\$4,939,944	38,840	\$3,807,624	11,922	\$290,900	440	\$11,401,582	81,500
Program Increases:										
Budget Request Program Increases:										
<i>Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support</i>										
Implement Changes to Deliver Tax Credits and Other Requirements for the Affordable Care Act					153,240				153,240	
Leverage New Technologies to Advance the IRS Mission					973		52,515	29	53,488	29
Improve Taxpayer Service	33,503	604			14,952	9			48,455	613
Subtotal	\$33,503	604			\$169,165	9	\$52,515	29	\$255,183	642
<i>Drive More Agility and Efficiency in IRS Operations</i>										
Enterprise Electronic Records Management Solution					18,543	46			18,543	46
Subtotal					\$18,543	46			\$18,543	46
<i>Strategic Focus: Strengthen Cybersecurity and Eliminate Identity Theft</i>										
Prevent Identity Theft and Refund Fraud and Reduce Improper Payments	9,701	154	44,975	301	35,363	36			90,039	491
Subtotal	\$9,701	154	\$44,975	301	\$35,363	36			\$90,039	491
Subtotal FY 2017 Budget Request Program Increases	\$43,204	758	\$44,975	301	\$223,071	91	\$52,515	29	\$363,765	1,179
Total FY 2017 Total Budget Request	\$2,406,318	31,056	\$4,984,919	39,141	\$4,030,695	12,013	\$343,415	469	\$11,765,347	82,679
Cap Adjustment Program Increases:										
<i>Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support</i>										
Enterprise Case Management			7,369	22	598				7,967	22
Subtotal			\$7,369	22	\$598				\$7,967	22
<i>Understand Non-Compliant Taxpayer Behavior and Develop Approaches to Deter and Change It</i>										
Increase Collection Coverage			58,213	678	32,254	21			90,467	699
Increase Audit Coverage			74,161	816	54,274	40			128,435	856
Digitizing Form 990			80	1	2,298	6			2,378	7
FATCA: Implement, Expand Filing Coverage, and Combat Criminal Non-compliance			49,889	203	76,850	70			126,739	273
Pursue Employment Tax and Abusive Tax Schemes			7,210	37	8,576				15,786	37
Increase Investigations of Transnational Organized Crime (TOC)			29,422	130	6,142				35,564	130
Subtotal			\$218,975	1,865	\$180,394	137			\$399,369	2,002
<i>Drive More Agility and Efficiency in IRS Operations</i>										
Operations and Maintenance for Deployed Business Systems Modernization (BSM) Projects					92,174	73			92,174	73
Maintain Integrity of Revenue Financial Systems					10,238	27			10,238	27
Subtotal					\$102,412	100			\$102,412	100
<i>Alcohol and Tobacco Tax and Trade Bureau Transfer:</i>										
Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities			5,000						5,000	
Subtotal			\$5,000						\$5,000	
Subtotal FY 2017 Cap Adjustment Program Increases			\$231,344	1,887	\$283,404	237			\$514,748	2,124
Subtotal FY 2017 Total Program Increases Including Cap Adjustment	\$43,204	758	\$276,319	2,188	\$506,475	328	\$52,515	29	\$878,513	3,303
Total FY 2017 Total Budget Request Including Cap Adjustment	\$2,406,318	31,056	\$5,216,263	41,028	\$4,314,099	12,250	\$343,415	469	\$12,280,095	84,803

IRS Budget Adjustments

FY 2016 Administrative Provision 113

(Public Law 114-113)

+\$290,000,000 / +2,653 FTE

Section 113 of the Department of the Treasury Appropriations Act of 2016 provided \$290,000,000 to: measurably improve the customer service representative level of service (LOS) rate (the percentage of callers to the IRS who receive service from an assistor or automated system), improve the identification and prevention of refund fraud and identity theft, and enhance cybersecurity to safeguard taxpayer data.

These resources, supplemented with user fees, will allow the IRS to achieve a 65 percent LOS during the filing season and 47 percent for FY 2016; this is a substantial improvement over FY 2015 levels. These resources will also increase staff and support technology innovation efforts in relation to cybersecurity; and improve methods of detecting and

preventing identity theft/refund fraud patterns and schemes.

Maintaining Current Level (MCLs)

Pay Annualization +\$26,975,000 / +0 FTE

Funds are requested for annualization of the January 2016 pay-raise.

Pay-Raise +\$99,926,000 / +0 FTE

Funds are requested for the proposed January 2017 pay raise.

Non-Pay +\$43,447,000 / +0 FTE

Funds are requested for inflation adjustments in non-labor costs such as travel, contracts, rent, supplies, and equipment.

Efficiency Savings

-\$3,766,000 / -72 FTE

These e-file savings are a result of reduced paper returns. The IRS projects 1,026,100 fewer returns filed on paper in FY 2017 (525,100 individual and 501,000 business returns).

FY 2017 Budget Request Program Increases by Theme and Investment

Investments (dollars in thousands)	Theme 1 Facilitate Voluntary Compliance by Empowering Taxpayers with Secure Innovative Tools and Support		Theme 2 Understand Non-Compliant Taxpayer Behavior and Develop Approaches to Deter and Change It		Theme 6 Drive More Agility, Efficiency, and Effectiveness in IRS Operations		Focus Area Strengthen Cybersecurity and Eliminate Identity Theft		TTB Transfer to TTB High-Return on Investment (ROI) Tax Enforcement Activities		Total	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
FY 2017 Budget Request Program Increase	\$255,183	642			\$18,543	46	\$90,039	491			\$363,765	1,179
Implement Changes for the ACA	153,240										153,240	
Improve Taxpayer Service	48,455	613									48,455	613
Leverage New Tech to Adv the IRS Mission	53,488	29									53,488	29
Enterprise eRecords Management					18,543	46					18,543	46
Identity Theft/Refund Fraud							90,039	491			90,039	491
Cap Adjustment	\$7,967	22	\$399,369	2,002	\$102,412	100			\$5,000		\$514,748	2,124
Enterprise Case Management (PMO)	7,967	22									7,967	22
Increase Collection Coverage			90,467	699							90,467	699
Increase Audit Coverage			128,435	856							128,435	856
Digitizing Form 990			2,378	7							2,378	7
FAT CA			126,739	273							126,739	273
Emplmnt Tax & Abusive Schemes			15,786	37							15,786	37
Transnatl Organized Crime (TOC)			35,564	130							35,564	130
O & M for Deployed BSM Projects					92,174	73					92,174	73
Maintain Integrity of Rev Fin Sys					10,238	27					10,238	27
Transfer to TTB									5,000		5,000	
FY 2017 Budget Request Program Increase including Cap	\$263,150	664	\$399,369	2,002	\$120,955	146	\$90,039	491	\$5,000		\$878,513	3,303

The table reflects four of our seven strategic themes or focus areas that were the primary emphasis of our FY 2017 request. The remaining themes (Leverage and collaborate with External stakeholders; Cultivate a well-equipped, diverse, skilled and flexible workforce; and Select highest value work using data analytics and robust feedback loop) are also key to advancing our strategic vision, but were not the subject of specific investments in the FY 2017

Program Increases
FY 2017 Budget Request
+\$363,765,000 / +1,179 FTE

Implement Changes to Deliver Tax Credits and Other Requirements for the Affordable Care Act (ACA) +\$153,240,000 / +0 FTE

This investment will support established ACA systems capabilities by validating tax credits claimed on individual tax returns; assessing and collecting penalties, taxes, and fees; providing federal tax information to non-IRS entities in the insurance marketplaces; and reconciling reported income, tax credits, and individual shared responsibility payments with information returns. While the Department of Health and Human Services is responsible for health care policy and insurance provisions in the legislation, the IRS administers more than 45 specific tax provisions and numerous cross-agency sections related to tax administration. This funding will also improve technology infrastructure and applications support and provide necessary, major modifications to existing IRS tax administration systems.

This investment supports the *Implement Legislative Mandates* component of Theme 1, Facilitate voluntary compliance by empowering taxpayers with secure innovative tools and support.

Leverage New Technologies to Advance the IRS Mission +\$53,488,000 / +29 FTE

This investment supports voluntary compliance through technology projects that will enable better tax administration and simple, consistent taxpayer interactions through the following three investments: Event Driven Architecture (EDA), which reduces return processing time; Enterprise Case Management (ECM), which consolidates and improves multiple case management systems; and a Business Systems Modernization (BSM) expansion to improve core IRS systems and develop systems needed to support the IRS's

taxpayer service programs by migrating services from expensive, traditional channels to the internet through the development of additional web applications.

This investment will support the *Development of Innovative Technology and Tools* component of Theme 1, Facilitate voluntary compliance by empowering taxpayers with secure innovative tools and support.

Improve Taxpayer Service
\$48,455,000 / +613 FTE

- This investment, along with an estimated \$100 million provided from user fees, will allow the IRS to increase full year LOS in FY 2017 to 70 percent, up from 47 percent in FY 2016, and handle additional workload from the expansion of enforcement programs. Taxpayers' expectations are evolving as they continue to shift to completing more day-to-day tasks and responsibilities online. The IRS will invest in delivering high quality and timely service to reduce taxpayer burden and effectively facilitate voluntary compliance. The IRS will also: Invest \$5.1 million and 9 FTE for online accounts to modernize and improve self-service options for individual taxpayers, and ultimately business and international taxpayers, by creating an integrated and easy-to-use source for timely, accurate, and consolidated tax filing and tax account information. It will provide the ability to correct returns online, which will reduce the time and money spent on processing amended returns.
- Invest \$1.9 million and 14 FTE to support both IRS's Taxpayer Service and Enforcement programs by handling the downstream impact in the Taxpayer Advocate Service (TAS) from increased collection and audit coverage. The additional TAS specialists will ensure the IRS does not create unnecessary burdens

or compromise taxpayers' rights. This investment will support the *Facilitate Voluntary Compliance through Taxpayer Service* component of Theme 1, Facilitate voluntary compliance by empowering taxpayers with secure innovative tools and support.

Enterprise Electronic Records Management Solution +\$18,543,000 / +46 FTE

This investment will allow the IRS to manage official records more effectively by implementing new systems to maintain unified records of IRS policy, program, and project development and to create a unified, searchable archive of IRS e-mails to avoid redundant archiving.

This investment will support the *Implement New Capabilities and Systems* component of Theme 6, Drive more agility, efficiency, and effectiveness in IRS operations.

Prevent Identity Theft and Refund Fraud and Reduce Improper Payments +\$90,039,000 / +491 FTE

This investment will support a variety of capabilities and activities that address cybercrime, identity theft, and refund fraud. The IRS's investments to combat stolen identity refund fraud include detection and prevention, assistance to victims, and law enforcement. The IRS will protect taxpayer data, successfully combat cyber threats, and support taxpayer, partner, and IRS business needs using innovative, secure technology.

This investment supports the *Address the Increased Workload Associated with Identity Theft, Refund Fraud, and Improper Payments*, and *Strengthen Technology to Improve the Prevention of Refund Fraud and Improper Payments* components of the IRS's Focus Area.

FY 2017 Budget Request Cap Adjustment Program Increases
+\$514,748,000 / +2,124 FTE

Enterprise Case Management
+\$7,967,000 / +22 FTE

This investment will fund the ECM Project Management Office (PMO) to integrate ECM implementation throughout the agency and ensure alignment with goals and business plans. The PMO will manage collaboration and alignment with all aspects of case management.

This investment will support the *Facilitate Voluntary Compliance through Taxpayer Service* component of Theme 1, Facilitate voluntary compliance by empowering taxpayers with secure innovative tools and support.

Increase Collection Coverage
+\$90,467,000 / +699 FTE

This investment provides nearly 400 additional field collection staff to handle more than 30,000 additional collection cases. Resources will support more than 350 additional Automated Collection System (ACS) staff to address an additional 302,000 ACS cases, and expand several Compliance Services Collection Operations (CSCO) programs that address non-filing and underpayment of taxes in the notice process by more than 320,000 notice dispositions.

This investment will also increase collection coverage through the Withholding Compliance (WHC) program by bringing taxpayers who have serious under-withholding problems into compliance with tax withholding requirements. This program will provide a single-entry system to populate multiple databases, generate WHC correspondence letters, and increase efficiency of WHC employees and the accuracy of the data.

This investment supports the *Strengthen Core Enforcement Programs* and *Develop Innovative Technology* components of Theme 2, Understand non-compliant taxpayer behavior and develop approaches to deter and change it.

Increase Audit Coverage
+\$128,435,000 / +856 FTE

This investment will improve the audit coverage rate and close over 32,000 additional individual examination cases. Resources will also expand the Automated Underreporter (AUR) program to process more than 400,000 additional cases. The IRS will implement a quality review program for penalty and interest computations.

Audit Coverage investments will provide resources for the following projects:

- Correspondence Imaging for Compliance - creates a central repository for imaged correspondence and allows IRS employees to collaborate and resolve compliance cases more efficiently.
- QuickBooks accounting software - provides license for QuickBooks software to all revenue agents enabling them to accept electronic accounting records and reducing taxpayer burden.
- Innocent Spouse Application (ISA) in Accounts Management System - enhances letter generation, post-case closing transactions, assigns inventory, and create reports that can be queried.
- Corporate Data Initiative (CDI) - establishes an enterprise service model for developing, operating, and maintaining small corporate databases and spreadsheets originally developed in Microsoft Access or Excel.
- 2D Barcoding for Paper Forms 1040, 1040X - allows paper returns using 2D barcodes to be processed electronically.

This investment will support the *Strengthen Core Enforcement Programs* and *Develop Innovative Technology* components of Theme 2, Understand non-compliant taxpayer behavior and develop approaches to deter and change it.

Digitizing Form 990 +\$2,378,000 / +7 FTE

This investment will electronically capture data from paper-filed Form 990, *Return of Organization Exempt from Income Tax*, and implement 2D barcodes on these returns. This will increase audit effectiveness and return processing speed, reduce transcription errors, and reduce the incidence of inadvertent disclosure of information resulting from manual redaction errors when posting Forms 990 to public sources.

This investment will support the *Develop Innovative Technology* components of Theme 2, Understand non-compliant taxpayer behavior and develop approaches to deter and change it.

FATCA: Implement, Expand Filing Coverage, and Combat Criminal Non-compliance +\$126,739,000 / +273 FTE

This investment will provide staff to identify and address high priority international issues that will ensure that financial institutions and other entities comply with FATCA requirements. Resources will support the build-out of FATCA systems requirements. It will fund updates to the legacy electronic filing system to modify and process FATCA forms, add additional capabilities in the web-based registration system, and enhance functionality in the systems that facilitate the exchange and processing of FATCA data to and from withholding agents, Foreign Financial Institutions (FFIs) and Host Country Tax Authorities and the United States.

This investment will support the *Strengthen Core Enforcement Programs* and *Develop Innovative Technology* components of Theme 2, Understand non-compliant taxpayer behavior and develop approaches to deter and change it.

Pursue Employment Tax and Abusive Tax Schemes +\$15,786,000 / +37 FTE

This investment will fund a network analysis tool that will enable the IRS to link multiple potentially abusive returns or information items, facilitating identification of any central figure behind a scheme.

This investment will support the *Strengthen Core Enforcement Programs* and *Develop Innovative Technology* components of Theme 2, Understand non-compliant taxpayer behavior and develop approaches to deter and change it.

Increase Investigations of Transnational Organized Crime (TOC) +\$35,564,000 / +130 FTE

This investment will allow IRS employees to work with the Office of National Drug Control Policy (ONDCP) as well as several multiple-agency task forces to support investigations of illegal drug trafficking and money laundering perpetrated by organizations involved in TOC. This investment will allow the IRS to complete an additional 360 investigations annually once new hires reach full potential in FY 2019.

This investment will support the *Strengthen Core Enforcement Programs* component of Theme 2, Understand non-compliant taxpayer behavior and develop approaches to deter and change it.

Operations and Maintenance for Deployed Business Systems Modernization (BSM) +\$92,174,000 / +73 FTE

This investment increases IRS IT operations funding for BSM projects. Once systems which are developed and modernized using funds from the BSM appropriation are deployed into regular operation, they must be operated and maintained using funds from the Operations Support appropriation. This investment partially restores the operations support base (FTE, hardware, software, and contractual services).

This investment will support the *Implement New Capabilities and Systems* component of Theme 6, Drive more agility, efficiency, and effectiveness in IRS Operations.

Maintain Integrity of Revenue Financial Systems +\$10,238,000 / +27 FTE

This investment will support and improve the IRS's revenue financial accounting systems to ensure timely and accurate reporting of tax data.

This investment will support the *Provide Support for Existing Systems* component of Theme 6, Drive more agility, efficiency, and effectiveness in IRS Operations.

Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities +\$5,000,000

The IRS will transfer \$5 million to the Alcohol and Tobacco Tax and Trade Bureau (TTB) for high-ROI tax enforcement activities. More detailed information can be found in the TTB chapter of this volume.

Return on Investment (ROI) for IRS FY 2017 Enforcement Initiatives

Dollars in Millions

	First Year (FY 2017)			Full Performance (FY 2019)		
	Cost	Revenue	ROI	Cost	Revenue	ROI
FY 2017 Revenue Producing Enforcement Initiatives	\$388.1	\$397.5	1.0	\$475.1	\$2,643.1	5.6
Cap Adjustment Enforcement Initiatives	\$388.1	\$397.5	1.0	\$475.1	\$2,643.1	5.6
Immediate and Directly Measurable Revenue-Producing Initiatives	\$207.6	\$397.5	1.9	\$282.6	\$2,643.1	9.4
Increase Collection Coverage	90.5	160.5	1.8	127.3	1,216.4	9.6
Increase Audit Coverage	117.1	237.0	2.0	155.3	1,426.7	9.2
Strategic Revenue-Producing Initiatives (which do not have immediately measurable ROI, but clear long-term revenue effects)	\$180.5	\$0.0	0.0	\$192.5	\$0.0	0.0
Digitizing Form 990	2.4	0.0	0.0	3.1	0.0	0.0
FATCA: Implement, Expand Filing Coverage, and Combat Criminal Non-compliance	126.7	0.0	0.0	141.6	0.0	0.0
Pursue Employment Tax and Abusive Tax Schemes	15.8	0.0	0.0	10.1	0.0	0.0
Increase Investigations of Transnational Organized Crime (TOC)	35.6	0.0	0.0	37.7	0.0	0.0

FY 2017 Revenue-Protecting Enforcement Initiatives

Dollars in Millions

	First Year (FY 2017)			Full Performance (FY 2019)		
	Cost	Revenue	ROI	Cost	Revenue	ROI
Revenue Protecting Initiatives (which protect taxpayer information, prevents identity theft, and results in long-term revenue protection)	\$101.3	\$676.0	6.7	\$124.3	\$1,526.0	12.3
Before Cap Adjustment Revenue Protecting Initiative	\$90.0	\$612.0	6.8	\$107.6	\$1,146.0	10.7
Prevent Identity Theft and Refund Fraud and Reduce Improper Payments	90.0	612.0	6.8	107.6	1,146.0	10.7
Cap Adjustment Revenue Protecting Initiative	\$11.3	\$64.0	5.7	\$16.7	\$380.0	22.8
Increase Audit Coverage (revenue-protecting portion)	11.3	64.0	5.7	16.7	380.0	22.8

Explanation of Budget Activities

Taxpayer Services

The FY 2017 President's Budget request is \$2,406,318,000 in direct appropriations, an estimated \$36,465,000 from reimbursable programs, an estimated \$116,841,000 from user fees, and an estimated \$12,000,000 from unobligated balances from prior years for a total operating level of \$2,571,624,000. This appropriation funds the following budget activities.

Pre-filing Taxpayer Assistance & Education (\$643,197,000 from direct appropriations, an estimated +\$83,000 from reimbursable resources, and an estimated \$3,386,000 from user fees)

This budget activity funds services to assist taxpayers with understanding and meeting their tax obligations, including tax law interpretation, publication, production, and advocate services.

Filing & Account Services (\$1,763,121,000 from direct appropriations, an estimated \$36,382,000 from reimbursable resources, and an estimated \$113,455,000 from user fees)

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

Enforcement

The FY 2017 President's Budget request is \$4,984,919,000 in direct appropriations, an estimated \$47,222,000 from reimbursable programs, an estimated \$44,937,000 from non-reimbursable offsetting collections, an estimated \$14,594,000 from user fees, an estimated \$30,147,000 from unobligated balances from prior years, \$231,344,000 as part of a program integrity cap adjustment, and

a negative \$5,000,000 transfer from the cap adjustment request to the TTB. The total FY 2017 operating level is \$5,348,163,000.

In conjunction with specified funds provided in the IRS Operations Support account, the program integrity cap adjustment of \$514,748,000 will support tax compliance investments expected to generate high returns on investment in the form of increased tax revenues. This appropriation funds the following budget activities.

Investigations (\$714,208,000 from direct appropriations, and an estimated \$45,789 from reimbursable resources)

This budget activity funds the Criminal Investigation (CI) programs that explore potential criminal and civil violations of tax laws, enforce criminal statutes relating to violations of tax laws and other financial crimes, and recommend prosecution as warranted. These programs identify and document the movement of legal and illegal sources of income and instances of suspected intent to defraud. This budget activity also provides resources for international investigations involving U.S. citizens residing abroad, non-resident aliens, and expatriates, and includes investigation and prosecution of tax and money laundering violations associated with narcotics organizations.

Exam & Collections (\$4,347,684,000 from direct appropriations, an estimated \$606,000 from reimbursable resources, and an estimated \$574,000 from user fees)

This budget activity funds programs that enforce the tax laws and increase compliance through examination and collection and ensure proper payment and tax reporting. It also includes campus support of the Questionable Refund program and appeals and litigation activities associated with exam and collection.

Regulatory (\$154,371,000 from direct appropriations, an estimated \$827,000 from reimbursable resources, and an estimated \$14,020,000 from user fees)

This budget activity funds the development and printing of published IRS guidance materials; interpretation of tax laws; internal advice to the IRS on general non-tax legal issues such as procurement, personnel, and labor relations; enforcement of regulatory rules, laws, and approved business practices; and support of taxpayers in the areas of pre-filing agreements, determination letters, and advance pricing agreements. The Return Preparer Program is funded within this activity as well as the Office of Professional Responsibility, which identifies, communicates, and enforces Treasury Circular 230 standards of competence, integrity, and conduct of professionals representing taxpayers before the IRS.

Operations Support

The FY 2017 President's Budget request is \$4,030,695,000 in direct appropriations, an estimated \$56,999,000 from reimbursable programs, an estimated \$268,295,000 from user fees, an estimated \$66,200,000 from unobligated balances from prior years, and \$283,404,000 as part of a program integrity cap adjustment, for a total operating level of \$4,705,593,000.

In conjunction with specified funds provided to the IRS Enforcement account, the program integrity cap adjustment of \$514,748,000 will support new tax compliance investments that are expected to generate high returns on investment in the form of increased tax revenues. This appropriation funds the following budget activities.

Infrastructure (\$895,094,000 from direct appropriations, and an estimated \$772,000 from reimbursable resources)

This budget activity funds administrative services related to space and housing, rent and

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

Shared Services & Support (\$1,197,954,000 from direct appropriations, an estimated \$23,152,000 from reimbursable resources, and an estimated \$19,574,000 from user fees)

This budget activity funds policy management, IRS-wide support for research, strategic planning, communications and liaison, protection of sensitive information and the privacy of taxpayers and employees, finance, human resources, and equity, diversity, and inclusion programs. It also funds printing and postage, business systems planning, physical security, corporate training, legal services, procurement, and employee benefits programs.

Information Services (\$2,221,051,000 from direct appropriations, an estimated \$33,075,000 from reimbursable resources, and an estimated \$248,721,000 from user fees)

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

Business Systems Modernization

The FY 2017 President's Budget request is \$343,415,000 in direct appropriations, and an estimate of \$276,197,000 from unobligated balances from prior years for a total operating level of \$619,612,000. This appropriation funds the following budget activity.

Business Systems Modernization

This budget activity funds the planning and capital asset acquisition of IT to modernize IRS business systems, including labor and related contractual costs. It funds investments in systems which enhance the IRS's capability to detect, resolve, and prevent tax noncompliance, simplify the taxpayer's online experience, provide secure digital communications, and add more interactive capabilities to existing web self-service products.

Legislative Proposals

The FY 2017 President's Budget request includes a number of legislative proposals intended to reduce the tax gap and improve tax compliance with minimal taxpayer burden. The Treasury Office of Tax Analysis (OTA) estimates these new tax gap proposals will increase revenue by \$82.2 billion over the next ten years, which includes \$63.6 billion generated by program integrity cap adjustments. The IRS estimates the implementation costs for the FY 2017 President's Budget tax gap proposals to be \$57.2 million (excluding the program integrity cap adjustments ten-year cost) over three years, including the initial startup, processing, and compliance operational costs. Note that in a few cases estimates are not yet available. The Administration proposes to expand information reporting and sharing, improve compliance by businesses, and strengthen tax administration. The Budget also proposes to amend the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended, to provide 10-years (FYs 2017-2026) of discretionary caps to permit program integrity cap adjustments, which cost about \$18 billion while generating approximately \$64 billion, for a net savings of \$46 billion over the 10-year budget window.

The IRS requests Streamlined Critical Pay (SCP) authority through September 30, 2020.

This authority expired September 30, 2013. Currently there are 14 senior employees under SCP appointments, down from a peak of 30. If the SCP is not renewed, the IRS will face challenges recruiting and retaining top-level talent through FY 2017 as the remaining SCP term appointments expire, especially IT professionals who can help protect taxpayer data from cyber-attacks and who are working to modernize the IRS's IT infrastructure. According to Treasury Inspector General for Tax Administration report 2015-IE-R001, *The Internal Revenue Service's Use of Its Streamlined Critical Pay Authority*, "Private sector expertise had been crucial to introducing new leadership to supplement in-house expertise, and the IRS had taken

advantage of the private sector expertise by retaining the critical pay appointees whenever feasible."

The IRS requests that the Commissioner position be permanently added to 31 U.S.C § 1344(b)(6) as one of the government officials authorized home-to-work transportation. The IRS Criminal Investigations unit completed an extensive assessment of the Commissioner's threat environment and has classified the threat as high. The Treasury Inspector General for Tax Administration (TIGTA) has also recommended that precautions continue to be taken regarding the Commissioner's safety due to the elevated threat environment.

IRS Performance by Program

Programs	Performance Measure	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2015 Target	FY 2016 Target	FY 2017 Target
Taxpayer Service	Customer Contacts Resolved Per Staff Year (E)	20,767	21,018	26,245	21,000	28,000	25,700
Taxpayer Service	Customer Service Representative (CSR) Level of Service (%) (Oe)	60.5	64.4	38.1	38.0	47.0	70.0
Taxpayer Service	Percent of Individual Returns Processed Electronically (%) (Oe)	82.5	84.1	85.3	84.6	86.0	86.0
Enforcement	Automated Collection System (ACS) Accuracy (%) (Oe)	94.4	95.2	95.3	94.0	95.0	95.0
Enforcement	Automated Underreporter (AUR) Coverage (%) (E)	2.8	2.6	2.3	2.6	2.2	2.3
Enforcement	Examination Efficiency - Individual (Form 1040) (E)	142	138	148	135	122	122

Key: DISC – Discontinued

Description of Performance

In FY 2015, the IRS continued to provide quality service to taxpayers and enforce the laws with integrity and fairness, but was unable to maintain some of its performance levels due to resource constraints. Nevertheless, the IRS continued to deliver in

key areas, including international, tax exempt, and refund fraud, including identity theft.

Taxpayer Services

Providing taxpayers top-quality service and helping them understand and meet their tax obligations remain top priorities for the IRS. The IRS strives to deliver high quality and timely service to taxpayers and stakeholders. Although the IRS had significant accomplishments serving taxpayers in FY 2015, budget constraints forced the IRS to focus on its top priorities and reduce funding in many areas. The IRS achieved the following results through September 2015:

- Published more than 90 percent of the 700 revised or newly created individual and business tax products prior to the start of the filing season;
- Received more than 139 million individual returns, of which 87 percent were filed electronically
- Provided a 38.1 percent LOS;
- Answered more than 9.7 million assistor calls; and
- Achieved accuracy rates of 95.0 percent for tax law questions and 95.5 percent of account questions received via the telephone.

In FY 2015, the IRS provided valuable services to millions of taxpayers while making it easier for them to participate in the tax system. The IRS:

- Assisted over 217,000 customers with return preparation at VITA sites through Facilitated Self-Assistance (FSA) and 30,000 using Virtual VITA;
- Launched the Free File campaign at the beginning of the 2015 filing season and received more than 650,000 visits to the Free File website in the first week;
- Completed evaluations and onsite visits for several countries that have signed or agreed-in-substance intergovernmental agreements (IGAs) to determine a country's ability to safeguard taxpayer information, in accordance with FATCA guidelines;

- Produced 117 Tax Tips (110 with Spanish translations) reaching more than 632,000 e-mail subscribers; and
- Issued 102.6 million refunds to individuals totaling \$276.9 billion.

The IRS is building an environment of multiple digital service options. In FY 2015, the IRS launched or enhanced an array of services:

- **IRS2Go Mobile, Version 5.** IRS2Go Mobile enables taxpayers to make electronic payments, find the nearest location offering free volunteer tax help, and uses responsive design to update the app for screen sizes of multiple devices. In FY 2015, IRS2Go was downloaded more than 2.3 million times and had over 3.8 million active users
- **Third Party Data Services Pilot.** Enables the IRS to share refund status data with third parties (tax preparation firms, tax preparation software, and state and federal agencies) that require individual taxpayer information.
- **Online Payment Agreement (OPA).** New updates improved the user experience for a number of functions including log-in and authentication, setting up direct debit, and providing better access for business users. Since its launch, more than 200,000 OPA agreements were completed representing more than \$650 million in revenue from web transactions.
- **IRS Direct Pay, Release 3.** Adds responsive design and enhancements; email confirmations of payments, cancellations, or reversals, and a Spanish language version. Since the November 2013 launch, the IRS has collected \$17 billion through this application, of which \$14.9 billion was collected in FY 2015.
- **Directory of Federal Preparers with Credentials and Select Qualifications.** Provides a lookup tool to find return

preparers by location. Since its launch in January 2015, customers performed more than 200,000 searches.

- **Payment Mix Comparison Tool.** Enables preparers, on behalf of the business taxpayer community, to compare the portion of gross receipts from credit card receipts to the business plans of similar businesses from prior years. This tool is intended to encourage accurate reporting by payment recipients and help close the tax gap.
- **Optimized Virtual Service Technology Delivery (VSD).** Allows taxpayers to have face-to-face interactions with an IRS assistor who is working in a remote location by using video monitors stationed at non-IRS owned taxpayer support sites. So far, IRS has deployed this technology at five sites.

These new services improved existing in-person assistance and phone service to help the IRS collect \$3.3 trillion in revenue for FY 2015 and process 244 million tax returns and other forms.

The IRS continues to improve and expand its outreach and educational services through partnerships with state taxing authorities, volunteer groups, and other organizations. Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites provided free tax assistance for the elderly, disabled, and limited English proficient individuals and families. More than 3.6 million tax returns were filed at Volunteer Income Tax Assistance/Tax Counseling for the Elderly volunteer sites.

Enforcement

In FY 2015, the IRS collected more than \$54.2 billion, a 9 percent decrease from FY 2014. This is the sixth consecutive year the IRS exceeded \$50 billion in enforcement revenue for a total IRS-wide ROI of \$5.0 to \$1. It is important to note, however, that a

variety of factors beyond the IRS's control impact enforcement revenue collections, including changes in tax policy and the health of the macroeconomy. Thus, the relatively stable revenues should not be interpreted to suggest that budget cuts have not reduced IRS's enforcement capabilities. In fact, the individual examination coverage rate has steadily declined from 1.1 percent in FY 2010 to 0.8 percent in FY 2015. If IRS enforcement funding had remained at FY 2010 levels, FY 2015 collections would have been higher.

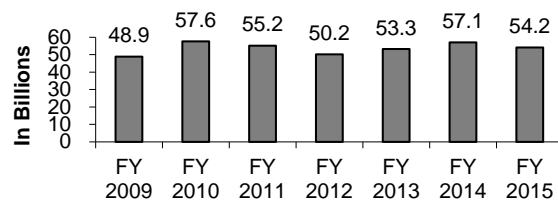


Figure 1: IRS Enforcement Revenue

The ROI estimate does not include the revenue effect of the indirect deterrence value of these investments and other IRS enforcement programs, which is conservatively estimated to be at least three times the direct revenue impact.

The IRS CI program investigates potential criminal violations of the Internal Revenue Code and related financial crimes such as money laundering, currency violations, tax-related identity theft fraud, and terrorist financing that adversely affect tax administration. Highlights of IRS CI's Enforcement performance through FY 2015 include:

- Completed 4,486 criminal investigations and obtained 2,879 convictions;
- Identified 1,281 questionable refund schemes reflecting \$1.2 billion in potentially fraudulent refunds claims and also imposed limits on the number of refunds that can be deposited in a single bank account. As a result, 205,019 refunds totaling \$863 million were converted to paper.

- Received 28,635 taxpayer applications from the Offshore Voluntary Compliance Disclosure Program, which permits taxpayers to voluntarily disclose that they failed to report income in offshore bank accounts.

Congress passed FATCA in 2010 to improve tax compliance for foreign accounts and cross-border transactions. FATCA aims to ensure that offshore investment activities are properly captured for tax administration purposes by instituting reporting requirements for foreign financial institutions. In FY 2015, the IRS:

- Added additional capabilities to the FATCA registration website and released second-generation software for FATCA registration.
- Released the International Data Exchange Service – which consists of testing with foreign partners to enable them to conduct FATCA reporting; and
- Initiated and deployed the International Compliance Management Model (ICMM), a new system that receives processes, manages, and stores FATCA data and modernizes communications with foreign governments that have Intergovernmental Agreements (IGAs) and Competent Authority Arrangements (CAAs). ICMM processes FATCA reports filed electronically or on paper.

The IRS also implemented an initiative to improve the Fraud Referral Program and examinations of 501(c) tax exempt entities allowing the IRS to identify 19 entities involved in illicit terrorist financing schemes. During FY 2015, the IRS continued its implementation of the ACA and outreach activities to ensure that taxpayers were aware of the new tax provisions under the ACA. The IRS successfully implemented two major provisions: the Refundable Premium Tax Credit; and individual shared responsibility for

both individual taxpayer returns and information returns from employers and insurers.

During the 2015 filing season, new technology allowed taxpayers to report health insurance coverage, claim health coverage exemptions, report a shared responsibility payment, and claim the Premium Tax Credit.

The IRS also built the ACA Verification Service (AVS), to enable at-filing checks of tax returns for reporting the Premium Tax Credit, leveraging third-party data from the Insurance Marketplaces and validating ACA-related tax forms. This system, which processed millions of tax returns, helped identify fraudulent and erroneous returns at the initial processing stage, thereby reducing the number of erroneous refunds.

Business Systems Modernization

IRS modernization efforts continued in FY 2015:

- **Return Review Program (RRP)** Initiated the RRP pilot project, which successfully loaded and scored over 98 million electronic refund returns. Of those returns, nearly 800,000 were identified as potential ID theft fraud, representing potentially more than \$4.7 billion in government revenues protected. By identifying suspicious cases earlier in the process, RRP was able to reduce the amount of manual analysis work by 20 percent. In its inaugural filing season, RRP operated without interruption.
- **CADE 2** Received Executive Steering Committee approval of the Customer Account Data Engine (CADE) 2 Transition State 2 (TS2) five-year release plan. In addition to continued support of the IRS's current tax processing needs, the plan includes expansion of CADE 2 capabilities. The TS2 five-year release plan will address the Unpaid Assessment Financial Material Weakness, leverage the

CADE 2 database as the Authoritative Source for Financial Statement Audit and Reporting, and begin the migration of core Individual Master File (IMF) functions from Assembly Language Code (ALC) to a modern computer language. Notably, an

update in FY 2015 prevented issuance of erroneous notices for limited Failure to Pay Penalties and another enabled capturing historic financial data expected to be useful in audit processes.

Summary of IRS FY 2017 ACA Budget Request

Affordable Care Act (ACA)	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT		TOTAL	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
FY 2016 Enacted	\$71,793	935	\$19,984	185	\$112,840	724	\$204,617	1,844
Changes to Base:								
Maintaining Current Levels (MCLs):	\$1,108 ✓		\$310		\$1,719		\$3,137	
Pay Annualization	233		66		344		643	
Pay Raise	865		243		1,273		2,381	
Non-Pay	10		2		102		114	
Subtotal FY 2017 Changes to Base	\$1,108		\$310		\$1,719		\$3,137	
FY 2017 Current Services (Base)	\$72,901	935	\$20,294	185	\$114,559	724 ✓	\$207,754	1,844
Program Increases:								
Budget Request Program Increases:								
Implement Changes to Deliver Tax Credits and Other Requirements for the ACA					153,240		153,240	
Improve Taxpayer Service	32,021	590			9,399		41,420	590
Subtotal FY 2017 Budget Request Program Incre:	\$32,021	590			\$162,639		\$194,660	590
Total FY 2017 Total Budget Request	\$104,922	1,525	\$20,294	185	\$277,198	724	\$402,414	2,434

